PRESS RELEASE

RCL FOODS MAINTAINS POSITIVE MOMENTUM TO DELIVER A STRONG INTERIM RESULT IN TOUGH CONDITIONS

KEY FEATURES

- Pleasing revenue growth despite tough operating conditions, with volumes remaining resilient in most categories
- EBITDA and underlying* EBITDA growth despite pricing pressure driven by significant input cost hikes
- Continued solid performance from Groceries
- Sugar's positive momentum largely maintained
- Baking margins challenged by high input costs
- Chicken returns to break-even
- Pleasing results from Vector Logistics

FINANCIAL HIGHLIGHTS

Revenue	R17,1 billion	⬆ 9.2%
EBITDA	R1 292,7 million	⬆ 14.4%
Underlying* EBITDA	R1 378,4 million	⬆ 2.5%
Headline earnings	R645,6 million	⬆ 21.5%
Headline earnings per share	72.7 cents	⬆ 21.6%
Underlying* headline earnings	R707,3 million	⬆ 3.1%
Underlying* headline earnings per share	79.6 cents	⬆ 3.1%
Interim dividend per share	15.0 cents	-

**The underlying view of the results excludes material once-offs and accounting adjustments related to IFRS 9 Financial Instruments (IFRS 9), the net direct cost impact of COVID-19, the direct cost impact of the civil unrest in July 2021 and the fire at our Sugar warehouse in Komatipoort in the current period.*

Durban, 28 February 2022*:* RCL FOODS has achieved a pleasing set of interim results amidst extremely tough market conditions, maintaining its positive momentum to deliver a 9.2% revenue increase to R17,1 billion for the six months to December 2021, while statutory earnings before interest, taxation, depreciation, amortisation and impairments (EBITDA) rose by 14.4% to R1 292,7 million. Groceries continued its solid performance whilst Sugar's positive momentum was largely maintained. An improved Chicken performance off a low base contributed to both revenue and EBITDA growth versus the prior period. Revenue was also boosted by the continued recovery in Vector Logistics, together with the consolidation of L&A Logistics into Vector Logistics from the second half of the 2021 financial year.

During the period the Group was materially impacted by costs associated with the current outbreak of Avian Influenza (AI) in Southern Africa, the impact of the civil unrest in July 2021 which disrupted operations at certain KwaZulu-Natal and Gauteng sites, and the fire at its Komatipoort sugar warehouse in October 2021. Of particular concern for food producers is the continued rise in agricultural commodity input costs due to escalating world prices, fuelled by lower global crop estimates and continued higher demand.

While price increases have been kept to a minimum to support customers and protect volumes, delivering relevant and accessible solutions that meet consumer needs remains vital. To enlarge the value-added component of the business, a robust innovation pipeline is being built to deliver brand extensions and new offerings over the next two years, with Nola Value Mayonnaise, a new Frozen Pies offering and a new Crumb Coating for the food service channel launched during the period. The business continues to enter private label partnerships with customers where appropriate.

"*Our response to the headwinds affecting the food industry and our own business is to focus on what we can control and to consistently excel at the basics, while actively pursuing our strategic growth agenda with the aim of creating a focused and resilient value-added business that generates sustained shareholder value*," said Chief Executive Officer Paul Cruickshank, who succeeded Miles Dally after the latter's retirement in December 2021.

The company has declared an interim gross cash dividend of 15.0 cents per share (December 2020: 15.00 cents).

STRATEGIC REVIEW UPDATE

RCL FOODS is making steady progress against key strategic initiatives with the aim of creating a focused and resilient business that generates sustained shareholder value. Arising from its recent strategic portfolio review – which confirmed that its portfolio is not optimally configured for sustainable shareholder value creation – a decision was taken at the end of the 2021 financial year to separate the value-add branded foods business (Groceries and Baking) ("FMCG") from the poultry (Chicken and grain-based feed), sugar (Sugar and molasses-based feed) and logistics (Vector Logistics) businesses to prepare them to operate in a more pureplay environment; and to scale the FMCG component through sharper strategic focus and active investment. Both initiatives are progressing simultaneously, with the focus being a responsible and well-considered transition.

The Group's executive structure and operating model have been re-engineered in recent months to support a value-added focus. The roles of CEO and Chief Operating Officer

(COO) have been consolidated under Paul Cruickshank; the RCL FOODS Group and Food Division executive teams have been merged to create a single executive structure; and a new value-added operating model with a clear growth mandate has been implemented. The Group's integrated services platform, now known and appropriately resourced as the RCL FOODS Business Services Organisation, remains key to its unique capability set and future growth.

OPERATIONAL REVIEW

RCL FOODS' Food Division – comprising the Groceries, Baking and Sugar business units – had a resilient underlying performance during the period, with demand remaining relatively strong in most categories despite the implementation of selective price increases to offset growing commodity cost pressure. Underlying EBITDA increased by 1.9% to R1 052,8 million at an underlying EBITDA margin of 10.0% (December 2020: 10.3%).

In the Groceries business unit (whose operating units are Grocery, Pies and Beverages), underlying EBITDA improved 2.4% to R308,7 million at an underlying EBITDA margin of 10.0% (December 2020: 10.9%). Grocery had a solid performance driven by driven by improving market shares across most categories, despite price increases in Mayonnaise and Pet Food to offset the steep rise in commodity input costs. Pleasingly, the Pet Food brands all increased their market share over the last six months in a highly competitive landscape. With the easing of lockdown restrictions, the Pies operating unit has experienced a positive rebound in volumes, aided by new product offerings in the forecourt and retail channels; however margins have come under pressure due to steep raw material cost increases. Beverages continued to reap the benefits of efficiency improvements, but volumes remain challenged as the category struggles to recover post the lockdown.

The Baking business unit (comprising the Baking (Bread, Buns and Rolls), Milling and Speciality operating units) had a 8.7% decline in underlying EBITDA to R245,7 million, at an underlying EBITDA margin of 8.2% (December 2020: 9.2%). Despite good volume growth in Bread, Buns and Rolls and pleasing operational improvements in Milling, Baking came under pressure due to high input costs in all operating units.

The Sugar business unit had another strong performance, reaping the benefits of continued operational efficiency, coupled with a relatively high world sugar price, favourable local industry factors and strong local market demand. Underlying EBITDA was up 7.8% to R498,4 million at an underlying EBITDA margin of 11.2% (December 2020: 10.6%). The fire which destroyed 40 000 tons of raw sugar at the Komatipoort sugar warehouse in October 2021 had a material R25 million cost impact related to the insurance excess, which is excluded from the underlying EBITDA result. The molasses-based animal feed business delivered a strong performance during the period.

The Chicken Division returned to break-even, recovering from an extremely challenging first few months to achieve a 34.2% increase in underlying EBITDA to R115,1 million, albeit still at a low margin of 2.1% (slightly up from 1.8% in the previous period). The earnings improvement was driven by better agricultural results as well as higher volumes and price realisations in an AI-impacted local market where there were also reduced levels of bone-in chicken imports. Chicken's earnings were negatively affected by high external costs related to AI and the civil unrest (R85,8 million and R34,0 million respectively). High agricultural commodity input costs and sub-optimal agricultural performance represented more fundamental challenges to profitability during the period. Pleasingly, the division's external feed business improved its performance relative to the prior period, driven by higher volumes, sound cost control and procurement focus.

"*Chicken is making progress with the various elements of its turnaround strategy, with an emphasis on addressing its agricultural performance issues, reducing costs and driving growth. The business is currently implementing a breed change and is already banking some benefits of breed improvement, with the majority to start flowing early in the 2023 calendar year*," the business said.

Vector Logistics has continued its pleasing turnaround in revenue and earnings in the first six months of the financial year, despite being impacted by store closures and the looting of its Cornubia depot in KwaZulu-Natal in July 2021. Underlying EBITDA of R183,5 million increased 9.2% versus the comparative period, albeit at a slightly lower EBITDA margin of 10.0% (December 2020:11.1%). The turnaround was driven by the good progress achieved with the integration of Imperial Logistics South Africa's former cold chain business (ICL) network, a recovery in food service volumes post the lockdown, and higher retail secondary business volumes.

PROSPECTS

Given rising levels of unemployment amidst a slow economic recovery post the COVID-19 lockdowns, consumers are expected to remain under significant pressure in the medium term. High agricultural commodity input prices present a particular risk to food companies, especially when coupled with energy cost hikes, and this could impact food prices and demand. Delivering relevant and affordable product solutions will be important for RCL FOODS in this context, as will continuing with efficiency improvements and scaling the value-add component of the business.

Groceries is expected to remain resilient, although margins and volumes are at risk should commodity input costs not moderate. Sugar is forecast to continue benefiting from operating efficiency and sustained higher demand; however the full year result is not expected to match the record results achieved in the prior financial year due to agricultural challenges.

Although the Chicken business is not yet at a sustainable level, it has made strides in implementing its turnaround strategy which is starting to yield benefits. Vector Logistics expects to finalise its consolidated, customer-focused network by the end of the financial year when capacity builds in Durban, Gqeberha (previously Port Elizabeth), Polokwane and Bloemfontein are complete, further enhancing its position from a cost and scale perspective.

“*RCL FOODS has maintained good momentum in the first half of the financial year and we are clear in our strategic priorities for the second half and beyond. At Group level our key focus will be on progressing the managed separation pathway of the Chicken, Sugar and Vector businesses in a responsible and well considered manner, while actively pursuing growth opportunities in the value-added segment*,” said Cruickshank.

Ends.

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ABOUT RCL FOODS:

RCL FOODS produces over thirty of South Africa’s much-loved brands including Rainbow chicken, Selati sugar, Supreme flour, Sunbake bread, Nola mayonnaise, Ouma rusks, Yum Yum peanut butter, Number 1 mageu, Bobtail and Catmor pet food, and Epol and Molatek animal feed. Through our more than 20 000 employees, our diverse portfolio of brands and private label products, our dedicated food service arm and our route-to-market supply chain specialist, Vector Logistics, we exist to provide “MORE FOOD TO MORE PEOPLE, MORE OFTEN”. We do this by doing “that little MORE” to make a meaningful difference every day – creating a sustainable world of MORE.

Visit our website at: www.rclfoods.com