Delta Corporation LIMITED

The Company hereby issues a business update for the third quarter ended 31 December 2024.

ENVIRONMENTAL OVERVIEW

The key developments in the operating environment during the third quarter under review related to fluctuations in exchange rates, disruptions in utilities supply and varied consumer spending patterns during the traditional summer peak period. Despite these challenges, demand remained relatively strong across all categories.

The ZIG had mixed fortunes since its introduction in April 2024, suffering rapid depreciation culminating in a significant devaluation at the end of September 2024. The gap between the official and alternative market exchange rates remained but narrowed due to the relative stability observed in the quarter. The exchange rate disparities contribute to pricing misalignments in the formal sectors. The tight liquidity conditions that prevailed during the quarter resulted in sub-optimal stocking patterns in key retail channels.

The Company maintained its focus on affordable pricing although there were unavoidable price adjustments in local currency in line with exchange rate developments. The introduction of the sugar content surtax in January 2024 necessitated significant increases in the prices of soft drinks and cordials. The surtax impacted the Group's price competitiveness which fuelled the influx of imports of similar products from the region, which is further compounded by rampant smuggling.

Consumer spending remained resilient, benefitting from mining activities, the expansionary effect of the government infrastructure projects and the steady flow of diaspora remittances.

In South Africa the Rand responded favourably to the Government of National Unity which came in after the general elections held in May 2024. Consumer spending in the target sectors is somewhat mixed as we drive category premiumisation.

The Zambian economy was severely impacted by the disruptions to supply of goods and services due to reduced hydro-electricity generation, which also affected water supply. There were further impacts from fuel shortages and a weaker Kwacha.

TRADING PERFORMANCE

Lager Beer

The Lager beer volume grew by 4% over prior year for the quarter and 7% for the nine months. There were some disruptions to supply arising from prolonged water and power outages. Demand remained firm resulting in some mismatches in the supply of key brands and packs. Overall product supply benefited from the recent investments in capacity and injection of additional glass.

We keep our brands active in the market, through sponsorships of sport and arts events such as the Castle Lager Braai Day, Carling Black Label DJ Clash, the Castle Lager Premier Soccer League and other brand properties.

Sorghum Beer

The domestic sorghum beer volume for Zimbabwe grew by 2% for the quarter but declined by 2% for the nine months compared to prior year. Overall volume declined by 8% and 10% for the quarter and nine months respectively primarily due to the cessation of exports. The sorghum beer category was adversely impacted by the drought, reduced disposable incomes in rural markets, changes in route to market and the inconsistent performance by retail and wholesale partners. The sector attracted new entrants and revival of established players.

The Chibuku brand flagship properties such as the Chibuku Road to Fame and the Chibuku Super Cup were held during the quarter. The Chibuku Super brand was recognised by the Marketers Association of Zimbabwe as the FMCG Sorghum Beer Sector winner for 2024 and granted the Quality Silver Award at the 63rd Monde Selection of Beers 2024 International Quality Awards.

United National Breweries (RSA) recorded a volume decline of 15% for the quarter primarily due to supply disruptions at the main brewery caused by an illegal job action and inconsistent market execution. The focus remains on increasing the penetration of Chibuku Super into new trade channels and recruiting new consumers.

At Natbrew Zambia the volume declined by 28% for the nine months, due to the disruptive power load shedding and delays in commissioning diesel generators. The focus remains on reviving the market and stabilising the supply chain. Operating margins remain under pressure from the high cost of maize, depreciation of the Kwacha and fuel cost for the diesel generators.

Sparkling Beverages

The Sparkling Beverages volume declined by 16% compared to prior year for the quarter and 1% for the nine months. The volume loss is attributed to the impact of sugar tax-induced price increases and the surge in imports from the region. The sector's competitiveness was affected by the relatively high sugar tax and cost differentials, leading to an increase in imports of similar offerings from neighbouring countries.

There are ongoing strategic interventions to support low and zero sugar offerings and availing packs at more accessible price points. Whilst there was a recovery in market shares, the overall performance is affected by pricing distortions in the formal channels arising from exchange rate disparities and the tax concessions accessed by some competitors.

The Maheu offerings were relaunched under the Shumba Maheu brand, with an expanded and improved flavour range.

Wines and Spirits

African Distillers (Afdis) recorded a volume growth of 14% compared to prior year for the quarter and 12% for the year to date. The Ready to drink (RTD) and Wine segments which grew by 12% and 47% respectively, benefitted from improved product supply and a slowdown in informal imports. It is hoped that the current blitz against illicit and smuggled alcohol will curtail unfair competition.

Schweppes Holdings Africa

Schweppes Holdings Africa Limited recorded a volume decline of 27% for the quarter and 17% for the nine months, primarily due to significant price increases, driven by the sugar tax. This resulted in a surge in imports of the flagship Mazoe Orange Crush from regional markets. Volume was also impacted by disruptions in the route to market arising from the fiscal regulations.

The reduction in the sugar tax from January 2025 is a welcome development although there are significant cost pressures such as the rising juicing fruit and sugar prices which limit the opportunity to moderate retail prices.

Nampak Zimbabwe Limited

At Nampak Zimbabwe, overall volume for the quarter to December 2024 was 25% below prior year impacted by the lower 2024 tobacco crop and the production stoppages arising from power cuts, plant breakdowns and increased competition in some segments.

The entity is trading under a cautionary regarding the pending sale of the Nampak International shareholding to TSL Limited.

FINANCIAL PERFORMANCE

Group revenue for the quarter increased by 1% compared to prior year and grew by 7% for the nine months. This reflects the mixed volume performance across business units, with part of the revenue increase in soft drinks being related to the sugar tax induced price increases. The proportion of US Dollar sales varied month to month in response to the exchange rate and changes to the route to market but remained above 70% for the year.

The total sugar tax assessed for the period February to December 2024 amounted to US$31.2 million covering both sparkling beverages and cordials.

UPDATE ON TAX MATTERS

The Company is contesting the tax assessments issued by the Zimbabwe Revenue Authority (ZIMRA) for amounts that they consider to have been payable exclusively in foreign currency. Additional assessments were received in November 2024 adding to those assessed in 2022, to bring the disputed amount to US$73 million, which covers principal tax, penalties and interest for value added tax and income tax for periods 2019 to 2022. The assessments do not consider the local currency payments made at the relevant time, which have since been debased through inflation and currency depreciation. Adverse judgements have been made by both the High Court and the Supreme Court, although there are appeals and new cases at various stages in the courts including the Constitutional Court and the Zimra appeals processes.

The Group had paid a total of US$9.2 million as at 31 December 2024 in line with the "pay now, argue later" principle and pre-existing payment plans. We believe any revisions to the payment plan will be rational, with due consideration of the financial health of the business and the fact that the principal amounts were fully paid in legal tender at the relevant periods, based on the best available interpretation of the legislation.

The Group holds a significant amount in treasury bills receivable from the Government, which could be considered in the settlement of any tax liabilities that may finally be determined.

Management continues to engage with ZIMRA while appealing some legal and factual issues of the assessments and the judgments, with guidance from tax experts and legal counsel. These assessments have a material impact on the Group's operations, if they materialise as per the extant assessments. The ambiguities in the tax legislation are pervasive, thereby creating risks of further disagreements in interpretations and application to current taxes.

At this stage, the Board cannot estimate the likely outcome or timing of the resolution of these matters. The current accounting treatment and disclosures of the assessments and the amounts paid so far are considered to be appropriate.

OUTLOOK

The operating environment in Zimbabwe remains complex, influenced by policy changes and currency instability. The beverages sector faces further challenges relating to uncompetitive retail prices arising from high input costs and taxes which attract lower priced imports from the region and policy driven changes to the route to market. The implementation of policies that promote the stability of the local currency and access to foreign currency through formal banking channels would improve the operating environment.

Despite these challenges, the business remains well positioned to seize any opportunities from increased consumer spending. Our focus remains on leveraging on activities that generate aggregate demand and positioning the business for future growth.

ADVANCING OUR SUSTAINABILITY PRIORITIES

The Group remains focused on its sustainability agenda, with increased activities in the areas of responsible alcohol consumption, reduction in waste and pollution, community involvement and optimising resource utilisation. In the current year we have amplified our communication on underage drinking under the Pledge 18 campaign, Make A Difference-Recycle executionson waste management and uprated the brand activations supporting sports and culture.

By order of the board

Ms F Musinga
Company Secretary
23 January 2025