HIGHLIGHTS OF THE PRESENTATION[1)] TO THE GENERAL MEETING OF SAMPRO ON 26 MARCH 2026 REGARDING KEY MARKET SIGNALS FOR THE DAIRY INDUSTRY

Conditions in the World

1. In the first two months of 2026, the high level of uncertainty in the world about future economic growth and developments in respect of international military and other conflicts, that existed in 2025, continued.

2. In January 2026, the International Monitory Fund (IMF) stated:

   - *"A significant escalation in geopolitical tensions, particularly in the Middle East or Ukraine but possibly also in Asia and Latin America, could trigger substantial negative supply shocks. Disruption to major shipping routes, critical supply chains, and air travel could occur, leading to delays and increased costs. If key infrastructure were damaged, resulting supply constraints could drive commodity prices higher".*

3. The uncertainty increased dramatically on 28 February 2026, when Iran was attacked following which, the military conflict expanded to different countries in the Middle East. Also, the predictability of future developments decreased dramatically.

4. The January 2026 statement of the IMF, as quoted in paragraph 2, is a description of the reality in March 2026.

5. If the conflict in the Middle East is not resolved in the coming weeks, economic growth in the world will decrease sharply and new political and economic disputes, in important countries and internationally, will appear.

6. Every day, that the Middle East conflict continues, diminishes the possibility that it will come to an end soon enough, to rescue some of the economic growth rates, as expected in the first two months of 2026.

7. In March 2026, the IMF stated that:

   - *"The IMF emphasises that this conflict adds to a "new normal" of high uncertainty, urging policymakers to prepare for, "unthinkable scenarios".*

   This statement of the IMF emphasised the extreme seriousness of the situation and the extreme level of uncertainty about future developments.

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1) *The presentation includes 31 tables and 17 Graphs. Copies of the tables and graphs can be obtained from Anneke Roux – anneke@sampro.co.za and Sonja van Jaarsveldt – sonja@sampro.co.za*

The International Dairy Industry

8. The price index of dairy products of the Food and Agriculture Organisation (FAO) is based on the prices of butter, cheese, whole milk powder and skimmed milk powder achieved in the international market.

9. The FAO price index of dairy products is an important indicator of the supply and demand conditions in the international dairy market. The index increased from September 2023 to June 2025 but from June 2025 to February 2026, it decreased by 23.2 percent, to a level 19.22 percent lower than in February 2025 and 1.15 percent lower than in February 2024.

10. The prices of dairy products in the international market are volatile and the average difference between the highest and lowest price index of the FAO per year, in the 26 years from 2000 to 2025, was 25.4 percent. In 2025 the difference was 21.3 percent.

11. The direction of the movements in the international market of the prices of butter, cheese, whole milk powder and skimmed milk powder, is often the same, but the magnitudes of the price movements of the different dairy products, differ.

12. The price of butter reached a record high level in the middle of 2025, following which it decreased sharply. The prices of whole milk powder and cheese decreased from the middle of 2025, while that of skimmed milk powder, moved fairly sideways.

13. The future prices achieved at the Global Dairy Trade Auction on 3 March 2026, indicated that prices for delivery in July 2026, are from 1.8 percent lower to 5.2 percent higher, than the prices in April 2026.

14. The uncertainty about future developments, created especially by the conflict in the Middle East, is extremely high. Further developments in respect of the conflict, will impact on economic growth in the world and thus on the international trade of dairy products.

15. The price of unprocessed milk in the European Union in 2025, decreased by 10.4 percent and the price in January 2026, was 11.9 percent lower than in January 2025.

16. In the USA the price of unprocessed milk decreased sharply from the second half of 2024 and in January 2026, it was lower than in 2025 and 2024. The price of unprocessed milk in the USA, is much more volatile than in the EU and South Africa.

Conditions in South Africa

17. At the end of 2025 and the beginning of 2026, optimism in South Africa was higher, due to issues such as lower inflation and interest rates, as well the expected higher economic growth rate in 2026, but uncertainty about political stability, policies, economic growth and improvement of service delivery by the public sector in South Africa, remained very high. Without significant improvement of service delivery by the public sector and policy certainty, economic growth in South Africa will remain unsatisfactory.

18. The changes of the growth rate of the Gross Domestic Product (GDP) of South Africa in 2024 and 2025, during each of the years, are indicative of the very high level of uncertainty. The expected growth rates in respect of 2024, as published by the Reserve Bank, were from 69.8 percent to 145.2 percent higher than the actual rate of 0.53 percent, while the expected growth rates in respect of 2025, were from 18.1 percent lower and 54.5 percent higher than the actual rate of 1.1 percent.

19. The expected economic growth rate in 2026, stated before 28 February 2026 is as follows:

- International Monetary Fund (IMF) 1.4 %
- Minister of Finance 1.6 %

20. The expected GDP growth rates in 2026, as indicated in the previous paragraph, are higher than 2024 and 2025, but still low and will most likely be adjusted downward due to disruptions created by especially the conflict in the Middle East and the downward adjustment can be drastic.

21. The extent of the impact of the conflict in the Middle East on the South African economy, is highly dependent on the duration of the conflict and it will be through especially:

- Petrol and diesel prices and availability;
- Plastic prices and availability;
- Fertilizer and other chemical prices and availability; and
- Logistic disruptions in respect of import and export.

The impact will flow through the economy and it will push the growth rate of the economy downwards. Most likely, inflation will increase, interest rates will not decrease and investor confidence will decrease.

22. <u>In the third week of March 2026, it is reasonable to expect that the impact in 2026 of the Middle East conflict on South Africa, will be significant and continuation of the conflict will open the door for what the IMF described as "*unthinkable scenarios*"</u>.

<u>**The South African Dairy Industry**</u>

23. In 2025, South Africa was, in terms of mass, a net exporter of five of the six types of dairy products. This position is in contrast, with the position in especially the years before 2023, when South Africa was a nett exporter of only two of the six types of dairy products.

24. The import and export situation described in the previous paragraph, is the result of a set of factors, which can change fairly quickly in the future. As a result, it cannot be assumed that the situation in 2025, will continue unchanged in the coming years.

25. In 2025:

- The retail sales quantities of eight of the nine dairy products, of which the retail sales performance is measured, increased by 0.4 percent to 5.9 percent relative to 2024 and the retail sales quantities of one dairy product decreased by 0.1 percent; and
- The retail sales prices of:
  - Five of the nine dairy products, increased by 0.6 percent to 5.2 percent; and
  - Four of the nine dairy products, decreased by 0.2 percent to 1.5 percent.

26. The information captured in the previous paragraph, justifies the conclusion that the higher retail sales quantities were at the expense of retail prices. This conclusion is also supported by the fact that the retail sale prices of important dairy products (fresh milk, UHT or long-life milk, maas and pre-packaged cheese) in December 2025, were lower than two years ago, namely December 2023, as well as by the low increases in 2024 and 2025, of the indices of unprocessed milk and dairy products.

27. Regarding consumer demand in the rest of 2026, it is reasonable to accept that the past and expected increases in administered prices and the high exposure of consumers to credit, will limit the buying power of consumers. Also, the consequences of the Middle East conflict, can create additional downward pressure on the buying power of consumers.

28. In the last two years, the producer price indices of unprocessed milk and dairy products increased at rates lower than the inflation rate, which is indicative of supply side pressure amidst slow economic growth.

29. The production of unprocessed milk increased in 2024 by 3.56 percent and in 2025, by 0.74 percent. The production in the first two months of 2026 was 2.56 percent lower than in the same months of 2025, 0.62 percent lower than in the same months of 2024 and 3.11 percent higher than in the same months of 2023.

30. The seasonality of the production of unprocessed milk (difference between the highest production per day and the lowest production per day) increased in the last fifteen years. The average difference in the five years 2011 to 2015, was 30.8 percent, in the years 2016 to 2020, it was 35.8 percent and in the years 2021 to 2025, it was 41.3 percent.

31. The prices of yellow maize and soybeans, which are important ingredients of concentrated feed for dairy animals, decreased from the beginning of 2025 significantly relative to the price of unprocessed milk. To the opposite, the cost of the production of unprocessed milk will be pushed upwards due to increases in the recent past and expected increases of the prices of electricity, water and fuel, the expected increases in respect of fertilizer and the cost related to foot and mouth disease.

32. Similarly, the cost of the production and distribution of dairy products, will increase due to the increases in the past and expected increases of administered prices, as well as increases of the prices of other inputs, resulting from the Middle East conflict.

33. <u>In conclusion</u>:

(a) The high level of uncertainty about the future performance of the South African economy and the South African dairy industry, which existed at the beginning of 2026, increased sharply due to the outbreak of the military conflict in the Middle East on 28 February 2026;

(b) Due to (a), the predictability of the future performance of the South African economy and the South African dairy industry, is very low. In the third week of March 2026, the likely scenario includes:

- Low economic growth;
- Higher production and distribution cost due to higher administered prices and higher prices of important inputs of the dairy industry; and
- The buying power of the consumer undermined by increased administered prices and high exposure to credit;

(c) Even if the conflict in the Middle East comes to an end soon, the negative consequences of it, will take time to disappear;

(d) If the Middle East conflict continues or expand, the negative impact of it on the world and South Africa will increase drastically; and

(e) In light of (a) to (d), future developments should continually be monitored, interpreted and reacted to.

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