WESCOAL HOLDINGS LIMITED
Incorporated in the Republic of South Africa
(Registration number 2005/006913/06)
Share code: WSL
ISIN: ZAE000069639
("**Wescoal**" or the "**Company**" or the "**Group**")

Trading statement and voluntary operational and strategic update

1. Trading statement

Wescoal wishes to advise its Shareholders ("Shareholders") that it is in the process of finalising its interim results for the six months ended 30 September 2020. The Company expects, with reasonable certainty, that headline earnings per share ("HEPS") and earnings per share ("EPS") will vary by the amounts set out below:

- HEPS will be between 3.0 and 3.5 cents (30 September 2019: (11.9) cents loss), being an increase of between 125% and 129%; and

- EPS will be between 2.3 and 2.7 cents (30 September 2019: (11.8) cents loss), being an increase of between 119% and 123%.

The return to Group profitability was driven by an improved performance from the mining operations as reported in detail below. The Company was able to maintain a positive cash generation from operations with EBITDA expected to be between R300 million and R320 million.

2. Voluntary operational and strategic update

Wescoal wishes to voluntarily update Shareholders on its operational performance as well as production and sales figures from its operating assets for the first half of the financial year.

Eskom

Wescoal's major customer, Eskom Holdings SOC Limited ("Eskom") reduced coal off-take in response to lower electricity demand during the government-imposed lockdown in South Africa ("National Lockdown") and issued suppliers with *force majeure* notices in April 2020. Wescoal continued to operate at full capacity as an essential service provider during the National Lockdown. Although the *force majeure* notice was subsequently withdrawn in August 2020, sales to Eskom remain lower than pre-National Lockdown normalised levels due to reduced coal offtake. This has resulted in a build-up of run-of-mine ("ROM") and saleable product stockpiles across all three of Wescoal's operating mines. Total ROM and saleable product stockpiles have increased by more than 60% since the beginning of FY 2021. While offtake levels are expected to normalise in the late third, to early fourth quarter of FY 2021, there remains significant downside risk to sales volumes. Wescoal is currently exploring opportunities to supply into the domestic market, as demand for coal returns with the easing of National Lockdown measures, and if successful, this will diversify revenue streams in general, whilst offsetting lower sales volumes to Eskom.

Debt

For the first half of FY 2021 all lenders' financial covenant requirements have been met due to improved production performance in the Mining business. Wescoal is engaging its lenders in respect of a potential debt restructure in order to manage the short to medium term debt repayment commitments in light of the negative cash flow impacts on the business related to reduced coal offtake levels. The timing of the conclusion of these discussions and the total amount of repayments to be rescheduled during FY 2021 cannot be confirmed at this stage.

Trading division review/restructure

At the annual results presentation on 21 July 2020, the Company announced a strategic review of its Trading Division. This process has been completed and a restructuring programme will be implemented which is part of a Group initiative to streamline and integrate operations.

3. Projects

Moabsvelden

Wescoal announced the commencement of the box cut phase of the Moabsvelden project which will produce 2.4 million tonnes per annum ROM over the 10-year life of mine, to be supplied to Eskom in terms of a 10-year coal supply agreement ("CSA") that has been signed with the power utility. Good progress has been made in the first half of FY 2021, despite adopting a slow-ramp up approach for the project. Various early-works construction activities have been completed or are nearing completion and the first blast was successfully carried out in October 2020. Operationalising this asset is a major capital expenditure project for Wescoal, requiring an initial investment of R250 - R290 million for the first phase of the project, with *c.*R140 million already spent to date. The Company continues to closely monitor and manage cash flows, including optimisation work to reduce and/or reschedule CAPEX spend. It is anticipated that first coal from Moabsvelden will be reached in Q4 FY 2021.

Vanggatfontein (VG5)

The extension project to replace VG3 by opening of the new box-cut for an additional mining pit and coal face is nearing completion. The project is a joint development with a neighbouring mining right holder, which enables extraction of some 450 thousand tonnes boundary pillar area coal that would otherwise have been sterilised. The primary development phase is expected to be completed by Q3 FY 2021 at which point the joint project will be dissolved and mining activities will be integrated with existing Vanggatfontein operations, thus coinciding with the depletion of and replacing production from VG3.

Arnot Mine

The Arnot coal mine in Mpumalanga has stated resources of 212 million tonnes of coal and is well positioned to supply coal to Eskom's Arnot power station primarily via a conveyor belt. Coal supply discussions with Eskom are currently underway. In addition, rehabilitation cost settlement discussions with Eskom and the Department of Mineral Resources and Energy (DMRE) are well-advanced.

The underground mine restart is expected to be in calendar Q1 2021, with steady state production of 1 - 1.2mtpa by Q3 2021. The opencast mine is planned to reach steady state in Q4 2021 at 2 - 2.4mtpa. A low capital intensity approach will be adopted to operationalise the mine.

Leeuw Braakfontein Colliery ("LBC") disposal update

Various parties have expressed interest in acquiring the LBC pursuant to the cancelled disposal transaction as previously announced. The Company launched a formal disposal process and has now selected a preferred bidder for LBC. Though at an advanced stage, there is no certainty that negotiations will lead to a successful conclusion of the disposal process during the current financial year.

4. Production and sales update

	HY21	HY20	% change
	kt	kt	
Production tonnages (ROM)			
Vanggatfontein	*2,327	750	210%
Elandspruit	1,552	1,287	21%
Khanyisa	548	696	-21%
	4,427	**2,733**	62%
Sales tonnages			
Vanggatfontein	1,451	1,067	36%
Elandspruit	1,069	871	23%
Khanyisa	483	666	-27%
Moabsvelden	**728	-	100%
	3,731	**2,604**	43%

*Vanggatfontein HY 2021 production includes VG5 ROM.
**Moabsvelden sales consists of buy-ins.

Production

Group mining production for the six months ended 30 September 2020 is in total 62% higher than the comparable period of September 2019 (the "Comparable Period"). Vanggatfontein saw the biggest increase in production of more than 200% compared to the Comparable Period, with Elandspruit also achieving a significant increase, with only Khanyisa's production being down from HY 2020.

Vanggatfontein production was steady throughout HY 2021, except in August 2020 when the onboarding process of a new mining contractor affected ROM production performance. Production from VG5, an internal project brought online during the period, also contributed to the significant increase in ROM production at the Vanggatfontein complex, compared to HY 2020. The Vanggatfontein increase in production compared to the Comparable Period would have been 148% higher if VG5 production was excluded compared to the total increase of 210% that was achieved for the complex.

Elandspruit also saw strong ROM production throughout HY 2021, averaging above 250 thousand tonnes a month from the opencast operation. This translated into a 21% higher production level than the Comparable Period. The restart of the underground mining section has been deferred due to the current low demand environment brought about by COVID-19.

Khanyisa was the only operation that experienced lower production than the Comparable Period, mainly due to safety stoppages. A 21% decrease in HY 2021 production compared to HY 2020 was recorded at the operation.

Sales

Mining sales volumes relative to the Comparable Period were 43% higher. A major contributing factor to this increase was Neosho sales in terms of the Eskom rectification plan for Moabsvelden. Besides the buy-ins for the Moabsvelden contract, no coal had to be bought from third parties to supplement Wescoal's production during HY 2021. This was a significant improvement compared to HY 2020 when coal buy-ins of 549 thousand tonnes had to be bought from third parties in order to meet contractual commitments. A solid performance on the production side enabled Wescoal to sell more than 3 million tonnes of its own production in HY 2021.

Trading sales

Trading sales volumes were impacted by the National Lockdown and a significant reduction in sales to a major customer. As a result, the business saw its sales volumes decrease by 30% from 516 thousand tonnes in HY20 to 363 thousand tonnes in HY21. The business has since seen some recovery with sales currently in line with expectations and anticipated to remain stable, subject to no further increases in COVID-19 infections and its consequential impact on the South African economy.

General production guidance

An overall solid production performance was recorded by the Group in HY 2021, and at the current run-rate, ROM production will likely exceed 8 million tonnes for FY 2021. Vanggatfontein, with the VG5 extension, was a solid contributor to the Group's overall production levels, and this is expected to continue for the rest of the current financial year as a new mining contractor has been successfully onboarded. Elandspruit also continues to be a consistent performer with steady ROM production, and the 250 thousand tonne per month average is expected to be maintained for the rest of FY 2021. Although Khanyisa saw its production level drop in HY 2021 compared to HY 2020, production levels are expected to improve as the Triangle 2 pit starts to contribute to the Group's production levels. The Moabsvelden box cut development is also progressing well, and first coal is anticipated in H2 FY 2021 despite the slow ramp-up approach that has been adopted for the project. The excellent production performance recorded in the first half of the year coupled with the reduced coal offtake levels by customers over the same period has resulted in a healthy build-up of ROM stockpiles across all the operations. This will form part of the Company's strategic stock and will assist to maintain stable sales levels through the rainy season and the December festive period which have in the past been difficult periods for the Company in terms of production and sales performance.

5. Restructuring and cost-saving measures

Reduced sales driven by lower demand from key customers, a lower selling price and above inflation cost increases, coupled with the negative impact of the COVID-19 pandemic have required a reassessment of the business model and cost saving initiatives. In an effort to improve the financial performance, efficiency and sustainability of the business, management and the board have decided to implement group-wide retrenchments and commenced a section 189 process. The process is expected to be completed by mid-December 2020 with staff reductions across all operations.

6. Outlook summary

All mining operations have been producing at the required levels at all times, and the focus has now shifted to efficiency as well as cost cutting initiatives across the Company in order to offset a consistently lower domestic and export coal market demand environment that has been seen during the first half and expected to continue for a few more months of the second half of the current financial year. The impact of lower offtake from Eskom and other key Trading clients has resulted in the need to create significant financial headroom for the remainder of this financial year. Several solutions in this regard are already being pursued including cost cutting, mining production reduction, rescheduling capital expenditure and non-core asset sales. The Company remains focused on its strategy for long term sustainable growth, to be achieved in a measured and responsibly managed way.

Wescoal will release its interim financial results for the six months ended 30 September 2020 on or about 4 December 2020.

The information contained in this announcement has not been reviewed or reported on by the Company's auditors.

17 November 2020

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