TONGAAT HULETT LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 1892/000610/06)
Share code: TON
ISIN ZAE000096541
("**Tongaat Hulett**" or "**the Group**")

TRADING STATEMENT AND OPERATIONAL UPDATE FOR THE YEAR ENDED 31 MARCH 2022 AND CAUTIONARY ANNOUNCEMENT

OPERATIONAL UPDATE

Tongaat Hulett provides the following operational update ahead of the publication of the Group's results for the twelve months ended 31 March 2022.

The Group expected to have to navigate difficult trading conditions in its 2022 financial year, as it recovered from the pandemic and progressed with its turnaround strategy. However, as a prominent player in the area, the unrest in July 2021 in KwaZulu-Natal had a much more severe and prolonged impact on production, while the forced stoppages aggravated the neglect through lack of maintenance of equipment that had taken place over many years, which became more evident as the season progressed. These challenges culminated in lower production, higher costs, and higher capital expenditure in the South African sugar operations.

A 9% reduction in Tongaat Hulett's overall sugar production, together with a challenging commercial environment faced by the South African sugar operation during the last quarter of the financial year ending 31 March 2022, put considerable pressure on revenue generation. The impact of lower sugar production on profits is amplified given the high proportion of fixed costs applicable to sugar production, and profitability was further impacted by higher costs for commodities, maintenance, and labour. Restructuring-related activities and the recapitalisation of the business also contributed to a notable increase in corporate office costs.

Zimbabwe sugar operations

While local market sugar sales continued to grow year-on-year, hyperinflation, and the dynamics between official and unofficial exchange rates, contributed to a higher proportion of sales being concluded in Zimbabwe Dollars rather than US Dollars. Export proceeds also declined due to lower sugar production and import restrictions into the Kenyan market. Consequently, the quantum of foreign currency available for both dividend and operational support fee payments to South Africa was below the levels of the prior financial year. Good progress was made in securing the required 99-year leases for the business in Zimbabwe.

South African sugar operations

The South African sugar operations are expected to report a loss for the financial year ending 31 March 2022. Sugar production decreased to 463 000 tons (2021: 535 000 tons) due to the impact of the civil unrest in July 2021 that caused a direct loss of milling capacity, and interrelated operational challenges thereafter. The lower sugar production created supply constraints in animal feed production, resulting in lost sales opportunities. The last quarter of the financial year saw a shift in the sales mix towards low margin bulk sugar sales to satisfy industrial demand, while cash-strapped consumers turned to "house brands" rather than the "miller brands". More recently, demand for sugar had started to pick up ahead of the Easter vacations, the substantial offcrop maintenance programme has been completed as planned, the mills have started the new season well and throughput was steadily being increased until persistent rains and widespread flooding across KwaZulu-Natal forced the mills and refinery to [close / stop production].

Mozambique sugar operations

The Mozambique sugar operations continued to deliver solid results with higher revenue arising from favourable commercial conditions including strong local demand, higher refined sugar sales and improved export realisations. The operation further benefitted from a higher share of the Mozambique sugar market. Extensive cane root replanting with an improved mix of modern cane varieties has been completed and will benefit the operations over the next two years.

Other SADC

Sales volumes in the Botswana sugar packing operation were negatively impacted by aggressive pricing by competitors on the back of cheaper sugar imports entering the country.

Property

The property market in KwaZulu-Natal remains subdued due to the impact of the July 2021 civil unrest which, together with the prolonged impact of COVID-19 on specific property sectors, has reduced the appetite for property investment for the moment. The consequential impact of lower revenue was partially offset by good recoveries of debt previously written off and lower than expected infrastructure expenditure. Whilst the trading environment over the past two years has limited this division's capacity to provide the level of liquidity support to the Group which it provided historically, a review of the portfolio was done recently which confirms that the intrinsic value of the portfolio remains intact. Through extensive engagements with potential property investors, the division has been building a sales pipeline for the 2023 financial year.

Cash flows

Cash flow generation in both the Zimbabwe and Mozambique operations was in line with expectations. However, the cash flows in the South African operations experienced significant pressure on the back of reduced profits from the sugar operation, lower than anticipated dividend income from Zimbabwe, and considerable investment in working capital, specifically inventory. The increase in sugar stocks arose from a normalisation of raw sugar stocks post the sugar loss at the South African refinery in the prior financial year, as well as the challenging commercial conditions. In particular, the historical trend of a "buy-in" ahead of the inflationary price increases was muted as customers opted to purchase additional stocks of other commodities facing above inflationary price increases rather than sugar, which, based on an industry-wide commitment, retained price increases in line with inflation.

As the majority of Group's borrowings are carried by the South African operations, finance costs settled in cash continue to significantly constrain liquidity, even though finance costs were reduced over the full year after the sizeable debt reduction concluded during the 2021 financial year. As a result of these factors, the year-end net borrowings in South Africa increased to approximately R6.8 billion (31 March 2021: R5.8 billion), of which R5.5 billion (31 March 2021: R5.0 billion) is owed to the South African lenders with the balance relating to trade finance provided by the South African Sugar Association.

South African lender engagements

The reduction of debt to an acceptable level and the improvement of operational cash flows remain urgent and ongoing strategic imperatives. The Group's South African business' cash flow performance to 31 March 2022 was considerably worse than what had been forecast when the debt refinance was concluded in December 2021. This, together with recovery efforts having a slower trajectory than anticipated, has resulted in an expected shortfall in facility headroom during the 2023 financial year which has necessitated further engagement with the South African lender group and shareholders.

To support these engagements, the lenders have granted an extension to 29 April 2022 on all key debt reduction milestones *inter alia* the date to implement the rights offer and the step-up in the applicable interest rates. The lenders have provided the extension to allow the Company to provide further information on *inter alia* the Group's additional liquidity requirements and its impact on the existing debt restructure, before agreeing to a longer extension of the timelines. Shareholders will be kept informed of progress in this regard.

Rights offer

Shareholders are referred to various related SENS announcements released in recent months. The envisaged rights offer remains a critical ongoing focus for the board and management and has been delayed beyond the financial year-end due to the investigation being undertaken by the Takeover Regulation Panel. Tongaat Hulett remains committed to pursuing a recapitalisation and is continuing its proactive engagement with its lenders, shareholders, regulators and the underwriter to bring this to fruition as soon as possible. Shareholders are advised that the quantum of the envisaged rights offer is expected to increase to between R4.0 billion and R5.0 billion as a consequence of a combination of the issues raised above, in particular relating to the South African sugar operations, the challenging property market conditions, the extended timelines to conclude the equity capital raise and the higher level of borrowings within the Group. The rights offer proceeds will be used to considerably reduce the existing and any increased debt obligations, and support liquidity requirements over the short-to-medium term.

Tongaat Hulett remains of the view that a rights offer provides a better alternative to strategic asset disposals in the current environment, where an accelerated disposal programme is unlikely to realise full value for the assets.

Update on KwaZulu-Natal floods

Although not relevant to the reporting period, the damage caused by the recent floods is a matter of keen interest for investors. Tongaat Hulett is in the process of assessing the impact of the storms and flooding on our operations but can confirm that there has been no significant damage to our sugar milling infrastructure. As a result of the rain, the sugar mills have been shut for the past 10 days and production will only resume once farmers are able to access waterlogged fields to harvest cane. The refinery site was flooded after the Umhlatuzana River burst its banks and compromised the municipal services to the site, which may delay the resumption of normal operations. An evaluation of the damage to the sugarcane supply areas is underway with some indication of damage to fields, bridges, and roads. The extent of the impact on key cane haulage and other outbound logistics is currently being determined. While many of our people are currently without access to water, thankfully none of them lost their lives due to this natural disaster.

TRADING STATEMENT

Tongaat Hulett is in the process of preparing its results for the year ending 31 March 2022. The following trading statement is issued in terms of Section 3.4(b) of the JSE Limited Listings Requirements which stipulates that a listed company is required to publish a trading statement once it is satisfied that a reasonable degree of certainty exists that financial results for the next period to be reported on will differ by at least 20% from the financial results for the prior corresponding period.

Due to the challenges described above, and the prior comparative period which included the results of the Starch, Namibian and Eswatini operations that were disposed of, shareholders are advised that a reasonable degree of certainty exists that Tongaat Hulett's earnings per share for the year ended 31 March 2022 is expected to be at least 120% below the earnings per share for the prior corresponding period (31 March 2021: 1 794 cents).

As previously reported to shareholders, Tongaat Hulett’s results are notably affected by the application of IAS 29 *Financial Reporting in Hyperinflationary Economies* and the use of the official exchange rates to translate the results of the Zimbabwe operations. It is still too early in the financial year-end process to make a full determination of its impact. With the Zimbabwe operations being a material component of Tongaat Hulett’s business, these complexities take more time to obtain the necessary level of certainty to issue a comprehensive trading statement, which will be released closer to the finalisation of the year-end results.

Shareholders are advised that the financial information contained in this announcement and on which this trading statement is based has not been audited, reviewed or otherwise reported on by Tongaat Hulett's auditors.

CAUTIONARY ANNOUNCEMENT

As a result of the various engagements with lenders and shareholders concerning the Group’s capital structure, shareholders are advised to exercise caution when dealing in Tongaat Hulett’s securities.

RESPONSIBILITY STATEMENT

The directors of Tongaat Hulett collectively and individually accept full responsibility for the accuracy of the information contained in this announcement and confirm that, to the best of their knowledge and belief, there are no facts that have been omitted that would make any statement in this announcement false or misleading and that all reasonable enquiries to ascertain such facts have been made.

ANNUAL RESULTS

The annual results for the financial year ended 31 March 2022 are provisionally scheduled for release on or about 30 June 2022 and further announcements will be made in this regard.

Tongaat
19 April 2022

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