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

DEBT RESTRUCTURING UPDATE, TRADING STATEMENT FOR THE YEAR ENDED 31 MARCH 2022, OPERATIONAL UPDATE AND FURTHER CAUTIONARY ANNOUNCEMENT

DEBT RESTRUCTURE PLAN PROGRESS

Tongaat Hulett has to date reduced a notable portion of the debt burden carried by its South African sugar operation, property operation and corporate office ("**South African operations**") from a high of R11.7 billion, through the selected sale of assets and various cost and liquidity management initiatives. The current restructuring plan being developed by the Chief Restructuring Officer, with the support of the Restructuring Committee is aimed at dealing with excess debt in the South Africa operations currently estimated to be c.R6.3 billion, including the interest capitalised on its two payment-in-kind facilities. This initiative is essential as the debt carrying capacity of the South African operations is limited by the need for reinvestment in the South African sugar mills and the expectation of lower dividends from Zimbabwe. The South African operations are presently only able to sustainably support the borrowing base ("**Borrowing Base**") and overdraft facilities.

The debt restructuring plan is currently considering a number of options including an equity capital injection by strategic partners at various levels within the Group, and the disposal of some or all of the African operations or a combination thereof. When assessing the disposal of the African operations, a key consideration is the ability of the South African operations to operate as a listed entity on a standalone basis and to fund the necessary reinvestment in order to be sustainable in the long term.

An initial outline of the restructuring plan was presented to the board of directors ("**Board**") and subsequently to the lenders on 27 July 2022, and a draft plan was presented to lenders on 31 August 2022. As part of the conditions of the Borrowing Base facility, a Board approved restructuring plan will be tabled by 23 September 2022. Shareholders will be kept informed of progress in this regard.

Cash flows, liquidity, and debt position

In aggregate, the cash flows from the South African operations experienced significant pressure during the 2022 financial year on the back of disruptions in the sugar and property operations, lower than anticipated dividend and fee income received from Zimbabwe and no dividend or fee income received from Mozambique (due to restrictions on intergroup payments as contained in the in-country debt agreements). The Group's South African sugar operations reported an operating cash outflow for the year of c.R500 million due to the need to reinvest in the milling assets and adverse working capital movements. Specifically, there was considerable investment in sugar stocks arising from the normalisation of year-end inventory levels post the refinery loss as well as a muted 'buy-in' of sugar ahead of a price increase, with customers opting to increase inventory holdings in commodities facing higher price increases, whereas the sugar industry has committed to limit price increases in line with inflation. In addition, the amount due to be refunded to the South African Sugar Association ("**SASA**") in respect of the refinery loss was finalised and the amount settled over the course of the season through the industry's redistribution mechanism. Finance costs settled in cash by the South African operations placed further strain on liquidity towards the end of the year.

Overall, these challenges increased the South African operations' net debt by c.R800 million to R6.6 billion, of which R5.4 billion is owed to the South African lenders with the balance mostly relating to trade finance provided by SASA. The Group's total net debt (including Mozambique and Zimbabwe) increased to R7.6 billion (2021: R6.6 billion).

In the South African operation, the year-end borrowing position is the most favourable and the seasonal working capital requirements are significant given that sugar is produced over nine months and sold over twelve months resulting in a build-up of inventories. At 31 March 2022, the headroom on the South African operations' debt facilities was c.R700 million which is c.R1.5 billion less than the peak working capital requirement of the current milling season in February 2023, resulting in a shortfall in facilities during the 2023 financial year.

The South African lender group has worked closely with management to find ways to finance the additional working capital needs and a new Borrowing Base facility of R600 million was concluded on 29 July 2022 which will remain in place until 30 September 2022. An option to upsize the facility from R600 million to R750 million and extend the tenor to the end of the 2023 financial year is currently being negotiated with the South African lender group but is dependent on, *inter alia*, the Board approved restructuring plan being to their satisfaction. The Borrowing Base against which this facility is made available comprises the Group's South African sugar operations' working capital assets (namely eligible sugar inventory and eligible trade receivables). The South African lender group has to date not invoked the contractually agreed interest rate margin ratchets.

Furthermore, Tongaat Hulett is progressing the negotiations with funders outside of the South African lending group to secure a further R750 million. If both negotiations are successful, the total liquidity requirements of the South African operations will be met for the 2023 financial year. It is anticipated that these two liquidity facilities will be repaid from carry-over proceeds received from the SASA at the end of the season. In parallel, management continues to progress numerous initiatives to improve cash flows and liquidity headroom.

TRADING STATEMENT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2022

Tongaat Hulett is in the process of finalising its results for the year ended 31 March 2022 ("**FY22**"). The following trading statement is issued in terms of paragraph 3.4(b) of the JSE Limited ("**JSE**") Listings Requirements.

On 19 April 2022, shareholders were advised that earnings per share for FY22 was expected to be at least 120% below the earnings per share for the prior year ("**FY21**"). Shareholders are now advised that a reasonable degree of certainty exists that Tongaat Hulett's earnings per share and headline earnings per share for FY22 are expected to be within the ranges reflected in the table below. 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.

	FY21		**FY22**	
	As Reported	**Restated***	**Expected Range** *Lower*	*Upper*
Weighted average number of shares	134.8 million	134.8 million	134.9 million	134.9 million
Total operations				
Earnings/(loss)	R2 419 million	R2 677 million	(R1 338 million)	(R1 070 million)
% change			(150%)	(140%)
Earnings/(loss) per share	1 794 cents	1 985 cents	(992 cents)	(793 cents)
% change			(150%)	(140%)
Headline loss	(R851 million)	(R593 million)	(R912 million)	(R852 million)
% change			(54%)	(44%)
Headline loss per share	(631 cents)	(440 cents)	(676 cents)	(632 cents)
% change			(54%)	(44%)

***Restatement of prior year financial information**

As part of the transition to new auditors, the Group has revisited a number of complex technical accounting matters which has resulted in the restatement of the prior year's financial statements. In aggregate, the restatements are estimated to improve both earnings per share and headline earnings per share for FY21 by approximately 190 cents. The percentage change reflected in the table above is calculated on the restated financial information.

The adjustments below had an impact on earnings per share and headline earnings per share:

(i) an increase to the fair value of standing cane in Zimbabwe following a revision to the price used in the valuation model from the season average to the year-end;

(ii) a decrease in infrastructure obligation with ‘common costs’ such as landscaping, and security not being considered as part of the infrastructure costs necessary to convert agricultural land to developable land but rather a commitment to the customer; and

(iii) a change to the revenue recognition policy for land sales to reflect that the customer acquires an asset, in a first performance obligation (being the land and the basic infrastructure) that is recognised on the date of transfer of the property. The policy will reflect that the second performance obligation is to deliver common costs as agreed with the customer, over time.

Full details of the restatements will be disclosed in the annual financial statements.

OPERATIONAL UPDATE

Tongaat Hulett provides the following further operational update given the delay in publishing the Group’s results for FY22.

Strong local demand across all the sugar businesses and good market share gains helped to offset an 8% reduction in overall sugar production and culminated in revenue generation that was in line with the prior year. The lower sugar production stemmed mainly from poorer agricultural performance in Zimbabwe and unsatisfactory milling performance in South Africa. The Mozambique sugar operations delivered excellent results.

The subdued revenue generation amplified the vulnerability emanating from the fixed costs nature of the business, leading to decreased profitability. Profitability was also affected by higher commodity input costs, maintenance disruptions from civil unrest, higher labour costs (particularly cost-of-living adjustments in Zimbabwe), as well as the costs for the restructuring-related activities of the business. These factors, together with the various inflation and currency distortions in Zimbabwe (as set out below), contributed to a marked reduction in the adjusted earnings before interest, tax, depreciation and amortisation (“**Adjusted EBITDA**”), with more than 80% of the reduction originating from the Zimbabwe operations.

Zimbabwe sugar operations

Adjusted EBITDA of c.R440 million to c.R460 million
(2021: Adjusted EBITDA of c.R1.4 billion, restated)

The reported financial results of the Zimbabwe operations have been impacted by significant distortions caused by hyperinflation and currency dynamics. While a large portion of costs is incurred in local currency (and in effect determined with reference to the unofficial exchange rates), the foreign currency revenue is recorded at the official exchange rates (as per IFRS). The substantial difference between the two exchange rates creates an accounting contradiction of much lower revenue and much higher costs. The financial results of the Zimbabwe operations should be viewed in the context of these anomalies.

Local demand for sugar remained strong with local market sales volumes growing 10% and improving the overall sales mix. At a revenue level, this benefit was offset by lower raw sugar production and lower export sales after the 2021 financial year benefitted from an additional shipment. In addition to the currency distortions highlighted above, profit margins were further eroded by the lower yields realised at the Group's own sugarcane estates, increased cane supply from third-party estates, higher employment costs and cost-of-living allowance adjustments as well as elevated global commodity prices.

With the smaller proportion of sales concluded in US$, the quantum of foreign currency available for dividend and operational support fee payments to South Africa reduced to R203 million, relative to R323 million in the prior year. Good progress was made in securing the required 99-year leases and milling licences for the business in Zimbabwe.

South African sugar operations
Adjusted EBITDA loss of c.R45 million to c.R60 million
(2021: Adjusted EBITDA loss of R100 million, as reported)

The South African sugar operations' raw sugar production decreased by c.13.5% to 463 000 tons for the reasons described earlier. The lower raw sugar production created supply constraints in refined sugar and animal feed production, resulting in consequential lost sales opportunities which was the major reason for the operation reporting a loss for the year despite the non-repeat of the loss at the refinery. Corrective action at the refinery saw a recovery in the overall yield from 93.6% to 95.3%, which is well within the targeted range.

Local market demand for sugar was in line with the prior year, however, profit margins were affected by increased trade incentives and a lower share of the sugar industry. In particular, 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'.

Mozambique sugar operations
Adjusted EBITDA of c.R420 million to c.R440 million
(2021: Adjusted EBITDA of R392 million, as reported)

The Mozambique sugar operations delivered an excellent result, with good growth in revenue on the back of robust local and refined sugar sales, as well as an improved sales mix and better export pricing. Extensive cane root replanting with an improved mix of modern cane varieties delivered improved sugarcane yields which will continue to benefit the operations over the next two years.

Other SADC

Adjusted EBITDA of c.R30 million to c.R35 million
(2021: Adjusted EBITDA of R171 million, including contributions from the Eswatini and Namibian operations up until the date of disposal)

Revenue and profitability in the Botswana sugar packing operation were negatively impacted by aggressive pricing by competitors on the back of cheaper sugar imports entering the country. To combat aggressive competitor trade prices, a new sugar sourcing arrangement was agreed to import from Zimbabwe and Mozambique, which will result in a reduced input cost, and position the business more competitively going forward.

Property

Adjusted EBITDA loss of c.R40 million to c.R60 million
(2021: Adjusted EBITDA profit of c.R50 million, restated)

The property market in KwaZulu-Natal remains subdued with limited appetite for development property investment in the aftermath of the COVID-19 pandemic, the civil unrest and recent flood damage. This culminated in fewer and smaller transactions being finalised at a slower rate. Properties to the value of R159 million were transferred to customers during the year as compared to R275 million in the prior year. One large land sale of 32 hectares in Tinley Manor generated revenue of R30 million (2021: R126 million). Township property sales totalled the equivalent of 97 000 m^2 of new floor area (2021: 67 000 m^2), however, the mix of properties caused the revenue generation from these sales to be below the prior year. While the lower revenue was partially offset by good recoveries of debt previously written off, it was insufficient to maintain profitability.

Corporate

Adjusted EBITDA loss of c.R190 million to c.R210 million
(2021: Adjusted EBITDA loss of R141 million, as reported)

Corporate costs increased markedly due to a c.R65 million increase in once-off fees incurred which primarily relate to the planned capital raise and the restructuring of the South African operations' debt facilities.

POST-YEAR-END OPERATIONAL PROGRESS

Tongaat Hulett's business operations are continuing as normal. A strategic imperative of the Group is to increase operational efficiencies and raw sugar production. This is receiving a significant amount of management attention which is supported by increased investment and additional training. A well-executed offcrop maintenance programme was completed ahead of the 2022/23 milling season.

New leadership with significant industry and technical experience have been brought into the South African sugar operations and the changes implemented have initiated the desired turnaround and bode well for an improved 2022/23 season. Despite the flooding in KwaZulu-Natal and rain-induced lower sucrose levels, the South African sugar mills are performing well ahead of the prior year and have benefitted from the significant efforts invested in the offcrop maintenance programme and skills development. The operations are on track to crush c.5 million tons of cane, produce c.520 000 tons of raw sugar and c.460 000 tons of refined sugar. Both sugar and animal feed products are delivering a strong commercial performance.

In Mozambique, the season start-up was affected by heavy rainfall, but the sugar mills are gradually catching up on this lost milling capacity. The business continues to perform favourably.

Macroeconomic conditions within Zimbabwe remain challenging and unpredictable with the introduction of several measures to curtail inflation, including the introduction of an official ‘willing buyer willing seller’ exchange rate. At present, imported sugar is being allowed into the country on a duty-free basis which is placing pressure on local market prices.

The property operation concluded one township property sale of c.R40 million during the first quarter of the financial year. A structured sales process in respect of two sites in the Greater Umhlanga precinct has also recently commenced.

ANNUAL RESULTS AND INTEGRATED ANNUAL REPORT

Shareholders were advised in the SENS announcement dated 15 June 2022 that Tongaat Hulett would not be able to release its provisional annual financial results for FY22 (“**Annual Results**”) by the due date. Sufficient medium-term liquidity facilities are required for Tongaat Hulett’s audited annual financial statements for FY22 ("**Audited 2022 Financial Statements**”) to be finalised, and this is largely dependent on the outcome of the restructuring plan. Shareholders were further advised in the SENS announcement dated 15 July 2022 that the delayed finalisation of the Audited 2022 Financial Statements will result in a delay in the finalisation and distribution of the integrated annual report (“**Integrated Annual Report**”). Every effort is being made to publish the Annual Results and Integrated Annual Report which will be followed by a request to the JSE to lift the temporary suspension of Tongaat Hulett’s shares as soon as possible thereafter.

FURTHER CAUTIONARY ANNOUNCEMENT

Shareholders are referred to the cautionary announcement released on SENS on 19 April 2022 and subsequently renewed on 31 May 2022, 15 July 2022 and 26 August 2022.

In light of the content of this announcement and given that negotiations with lenders and other stakeholders in relation to the proposed recapitalisation of Tongaat Hulett remain ongoing, shareholders are advised to continue to exercise caution when dealing in the Company’s securities until a further announcement is made.

Tongaat
8 September 2022

Sponsor
PSG Capital