

THUNGELA RESOURCES LIMITED

(Incorporated in the Republic of South Africa)

Registration number: 2021/303811/06

JSE Share Code: TGA

LSE Share Code: TGA

ISIN: ZAE000296554

Tax number: 9111917259

('Thungela' or the 'Company' and, together with its affiliates, the 'Group')

2023 Interim results announcement and cash dividend declaration

THUNGELA REPORTS RESILIENT PERFORMANCE FOR THE SIX MONTHS ENDED 30 JUNE 2023 (“H1 2023”) AND DECLARES R10 PER SHARE DIVIDEND, REAFFIRMING DIVIDEND POLICY

KEY FEATURES

- Total recordable case frequency rate (TRCFR) improved to 1.33, from 1.59 in June 2022
- Profit for the reporting period of R3.0 billion reflecting a significant decrease in thermal coal prices (H1 2022: R9.6 billion)
- Headline earnings of R22.46 per share (H1 2022: R67.23)
- Adjusted operating free cash flow* of R4.3 billion (H1 2022: R8.9 billion) and net cash* position of R13.6 billion (H1 2022: R14.8 billion)
- Interim ordinary cash dividend declared of R10 per share, 33% of adjusted operating free cash flow*, resulting in R1.4 billion returned to shareholders
- Sisonke Employee Empowerment Scheme and Nkulo Community Partnership Trust to receive a contribution of R156 million collectively in keeping with commitment to create shared value
- Increased life of mine by 10 years through approval of the Zibulo North Shaft project
- Ensham transaction expected to complete by 31 August 2023
- Full year guidance range for export saleable production narrowed to between 11.5Mt and 12.5Mt
- Full year guidance for FOB cost per export tonne* revised to R1,120 to R1,200 excluding royalties, or R1,170 to R1,250 per tonne including royalties. Guidance for capital expenditure, both sustaining and expansionary, reiterated

KEY FINANCIAL INFORMATION

Financial overview			
Rand million (unless otherwise stated)	H1 2023	H1 2022	% change
Revenue	14,359	26,176	(45)
Operating costs	(10,604)	(10,119)	5
Profit for the reporting period	3,005	9,630	(69)
Earnings per share (cents/share)	2,245	6,723	(67)
Headline earnings per share (cents/share)	2,246	6,723	(67)
Dividend per share (cents/share)	1,000	6,000	(83)
Alternative performance measures*			
Adjusted EBITDA	4,380	16,679	(74)
Adjusted EBITDA margin (%)	31	64	(33pp)
Adjusted operating free cash flow	4,298	8,934	(52)
Net cash	13,579	14,815	(8)
Capital expenditure	893	568	57

pp – percentage points change period on period

Message from July Ndlovu, Chief Executive Officer

Thungela continued to advance its strategic priorities, amid challenging market conditions in the first half of 2023, by investing through the cycle and focusing on what we can control:

- Continued to prioritise safety - TRCFR improved to 1.33, from 1.59 in June 2022 (1).
- Took measures to strengthen business resilience in the face of softer coal prices and persistent Transnet Freight Rail (TFR) underperformance.
- Increased life of mine profile through approval of the Zibulo North Shaft project.
- Announced the acquisition of Ensham, marking a significant step in Thungela's strategy to pursue geographical diversification.
- Maintained disciplined capital allocation and reaffirmed dividend policy: interim dividend of R10 per share - 33% of adjusted operating free cash flow*.

Safety is our first value and we remain focused on operating a fatality-free business. Tragically our colleague Mr Breeze Mahlangu passed away in February following complications after an accident in December 2022. We have continued our relentless pursuit to eliminate fatalities in our business and I am encouraged by the improvement in our safety performance, with TRCFR of 1.33 for the first six months of 2023.

We have continued to focus on 'controlling the controllables' in the face of the challenging external factors which characterised the first half of the year and, notwithstanding the softer price environment and the lack of any improvement in rail performance, Thungela recorded R3.1 billion (R22.45 per share) in earnings attributable to shareholders of the Group, and adjusted EBITDA* of R4.4 billion in the first half of 2023.

The Group generated adjusted operating free cash flow* of R4.3 billion for the reporting period. The net cash* position stood at R13.6 billion at 30 June 2023. Adjusted operating free cash flow* for the period benefited from the fact that sustaining capital spend is traditionally weighted towards the second half of the year, as well as from the unwind of working capital.

Market fundamentals remain strong despite softer short-term prices

The pricing environment in the first half of 2023 was substantially weaker compared to the first half of 2022.

Seaborne coal prices fell sharply as European buying slowed significantly on the back of record coal and gas stock levels coming out of a milder winter. This resulted in the redirection of coal volumes to Asian markets which also showed signs of weaker demand, especially from Japan and China.

Efforts to curb inflation through monetary tightening policies globally have also resulted in a growth slow down with reduced economic activity and demand for energy.

Market fundamentals however remain strong and there are reasons to remain optimistic on thermal coal prices. LNG prices are now starting to find support, which will make coal more competitive as a fuel source towards the end of the year as the European winter approaches. Coal production from Russia's western regions is also slowly being curtailed at current pricing levels.

We believe the current price headwinds have marked a pause in attractive prices, rather than heralded a sustained downturn. We expect demand for coal to remain robust in developing countries, especially in Asia which remains reliant on thermal coal, as countries such as China and India continue to build coal-fired power plants.

Underinvestment into coal supply has continued, with the exception of China and India (both focusing on domestic supply) and Indonesia, which produces lower quality coal. At the same time, we have seen an increase in new coal-fired power generation coming online, especially in China, all of which should be supportive of coal prices in the medium to longer term.

Continued underperformance on the part of TFR has again hampered our ability to operate optimally. TFR achieved an annualised run rate of 48Mtpa for the industry in the first half of 2023, a deterioration of 13% compared to the 55Mtpa run rate achieved in the first half of 2022. TFR suffered two derailments in May 2023 which cost Thungela at least 340kt in rail capacity. After a particularly poor first quarter, the rail performance stabilised in the second quarter - following the derailments TFR performance averaged 50Mtpa for the six-week period preceding its annual maintenance shut in July. The stabilisation is the result of intensive collaboration between TFR and the South African coal industry, including Thungela.

A consistently performing and well managed bulk rail infrastructure remains critical to the coal mining industry and the South African economy. TFR has stated that it will achieve 60Mt in the 2023/2024 contractual year. The recent formation of the President's National Logistics Crisis Committee and significant changes to the Transnet board are positive indications of the intent to achieve improved performance. TFR's ability to improve rail performance hinges on several important factors, critical of which is the resolution of an impasse which currently prevents TFR from procuring much needed spares and locomotives.

Resilience and readiness

While softer coal prices and poor rail performance have weighed heavily on Thungela's performance in the first half of 2023, we expect these factors to improve over time. The Group must therefore ensure that it is both resilient to weaker short-term market conditions and ready to take advantage of improved conditions as they arise. This implies a continuum of decisive actions and strategies.

Creating a resilient business requires focusing on two facets in order to optimise the business for current and future volatility.

The first is our decision to structurally resize the portfolio in response to rail constraints. Previously, we had curtailed high-cost operations such as Khwezela. We have subsequently ramped up Khwezela and reduced underground sections that are starting to face increasingly complex geological conditions.

The second is to improve our competitiveness by increasing productivity and ensuring the optimal cost base for our business. In the event that prices remain depressed for a protracted period and rail performance does not improve, we may be required to consider further revisions to our portfolio.

Thungela's ability to take these actions, to protect cash flow through resizing the portfolio and to improve our competitiveness, is underpinned by the Group's strong balance sheet and liquidity position. This allows us to weather the challenging market conditions and focus on operational excellence, while continuing to fund our capital projects.

Readiness for improved market and infrastructure conditions is premised on structuring the Group for success regardless of market cycles. While the softer prices and continued uncertainty relating to TFR performance present near-term challenges, this does not change the Group's longer-term strategic priorities: to drive our ESG aspirations, maximise the full potential of our existing assets, create future diversification options and optimise capital allocation.

Maximising value from existing assets

Investing through the cycle in projects which realise the full potential of our existing assets has been a key tenet of Thungela's strategy since listing. We are pleased to report that we continue to make good progress on the Elders production replacement project, approved by the board last year, and we expect first coal from the underground operation by the first half of 2024, in line with our original target.

In June 2023, the board also approved the Zibulo North Shaft project at a total capital cost of R2.4 billion. The project will extend the life of our flagship Zibulo operation by at least 10 years from 2025.

Both projects secure the future of the business by improving the quality and overall cost competitiveness of the portfolio.

Acquisition of Ensham Coal Mine in Australia

The proposed acquisition of the Ensham Business in Australia announced in February marks the first milestone of our geographic diversification strategy which aims to further enhance the resilience of our portfolio.

Ensham is a large, high quality asset with long life potential and provides Thungela with entry into the southern Bowen Basin in Queensland, a leading mining jurisdiction, with mature and well established infrastructure.

The transaction was structured to enable the Group to benefit from the economics of the Ensham Business (subject to a limit) between 1 January 2023 and the completion date.

Ensham will be acquired at a cost of approximately R4.1 billion and this investment is set to be earnings and cash flow accretive, with strong potential for a short payback period. The acquisition also brings increased scale and marketing capability, providing access to Japan and other Asian markets.

Thungela will assume operational control of the Ensham Business following completion of the transaction, which is expected on 31 August 2023 given that all key regulatory conditions precedent have now been met, with only a few commercial conditions (such as the transfer of material supplier contracts) yet to be concluded. A comprehensive roadmap has been prepared to ensure alignment in terms of priorities, governance and other aspects of integration.

Commitment to capital allocation framework

The board reaffirms its commitment to Thungela's dividend policy to target a minimum payout of 30% of adjusted operating free cash flow*. The board has accordingly declared an interim dividend of R10 per share. Thungela shareholders will receive R1.4 billion in total, which represents 33% of adjusted operating free cash flow* for the period ended 30 June 2023. The Sisonke Employee Empowerment Scheme and the Nkulo Community Partnership Trust will receive a further R156 million in aggregate.

The board's commitment to maximising shareholder value underscores the importance of the completion of the Elders and Zibulo North Shaft projects. Approximately R3.8 billion is yet to be spent on these projects, which will not only enhance our portfolio's quality and competitiveness but also extend the life of our business.

The board also continues to monitor the appropriate timing for the execution of a potential share buyback. The prevailing market conditions, and resultant need for balance sheet flexibility, call for a cautious approach to capital allocation until clarity emerges on the trajectory of a possible recovery in market conditions and rail performance.

Looking ahead

It is prudent to narrow our full year export saleable production guidance range for 2023 to between 11.5Mt and 12.5Mt. Achieving the lower end of this range requires an annualised TFR industry run rate of 47Mtpa in the second half of the year – the ongoing collaboration between TFR and industry should ensure that this run rate is achieved.

The long-term coal market remains structurally attractive and Thungela is building its own export marketing capabilities as the offtake agreement with Anglo American comes to an end in mid-2024.

We will continue to closely monitor the trajectory of thermal coal prices and rail performance, and the impact this will have on the future size and shape of an appropriate portfolio in terms of cost, productivity and sustaining capital.

Thungela's objectives remain clear: we must continue to focus on the factors we can control in order to safeguard performance, invest in our strategic projects and maintain disciplined capital allocation. This will ensure that we are able to continue to responsibly create value for our stakeholders.

While much of the focus will be on productivity and cost improvements, it is important to emphasise that focusing on what we are able to control goes hand in hand with operating responsibly, ensuring the safety and health of our employees, meeting our responsibilities to the environment and delivering on our social obligations. It also requires us to step up our efforts together with industry, government and Transnet to find sustainable solutions to the logistics challenges facing South Africa.

Finally, we are confident that our strategy, disciplined capital allocation approach and enhanced resilience will allow us to navigate the challenging market conditions we are currently facing; while improvements to the overall competitiveness of our portfolio will continue to create superior returns for our shareholders in the long-term.

July Ndlovu

21 August 2023

Operational Outlook

	2023 Revised	2023 Previous guidance
Export saleable production (Mt)	11.5 – 12.5	10.5 – 12.5
FOB cost per export tonne* (Rand/tonne)	1,170 – 1,250	1,131 – 1,264
FOB cost per export tonne excluding royalties* (Rand/tonne)	1,120 – 1,200	1,047 – 1,180
Capital – sustaining (Rand billion)	1.3 – 1.5	1.3 – 1.5
Capital – expansionary (Rand billion)	1.6 – 1.8	1.6 – 1.8

Looking ahead, the Group is updating its operational outlook for the 2023 year, based on operations for the first six months of the year. The range for export saleable production is accordingly narrowed to between 11.5Mt and 12.5Mt. Achieving the lower end of this range requires an annualised TFR industry run rate of 47Mtpa in the second half of the year.

Our guidance for FOB cost per export tonne* for 2023 has been revised to between R1,120 and R1,200 excluding royalties. Including royalties, the guidance range is revised to between R1,170 and R1,250 per tonne using a forecast Benchmark coal price of USD100 per tonne. This increase is primarily due to a lower domestic by-product revenue offset from Isibonelo and Mafube.

Capital expenditure guidance remains unchanged. Our sustaining capital expenditure guidance for 2023 remains between R1.3 billion and R1.5 billion. Expansionary capex is expected to be between R1.6 billion and R1.8 billion, relating primarily to R1.2 billion for the Elders project and R0.5 billion for the Zibulo North Shaft project.

The 2023 cost guidance provided reflects the impact of the reduction in underground sections already undertaken this year. We have embarked on a programme to improve productivity across our operations as well as to reduce costs where we have removed production. The outcome of this work will be reflected in our 2024 guidance which we expect to provide when we report our full year results in March 2024.

The guidance for 2023 excludes the Ensham Business and we will accordingly only provide guidance after completion of the transaction.

Interim dividend

The board has declared an interim ordinary cash dividend of R10.00 per share payable on 26 September 2023 and 9 October 2023 to shareholders on the JSE and LSE respectively. Further details regarding the dividend payable to shareholders of Thungela may be found in a separate announcement on SENS and RNS dated 21 August 2023.

Footnote

(1) TRCFR for H1 2022 was previously reported in the Interim Financial Statements for the six months ended 30 June 2022 as 1.48. This figure was subsequently updated at year end to reflect the reclassification of an injury from a first-aid case to a medical treatment case.

FORWARD-LOOKING STATEMENTS

This document includes forward-looking statements. All statements included in this document (other than statements of historical facts) are, or may be deemed to be, forward-looking statements, including, without limitation, those regarding Thungela's financial position, business, acquisition and divestment strategy, dividend policy, plans and objectives of management for future operations (including development plans and objectives relating to Thungela's products, production forecasts and resource and reserve positions). By their nature, such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Thungela, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Thungela therefore cautions that forward-looking statements are not guarantees of future performance.

Any forward-looking statement made in this document or elsewhere is applicable only at the date on which such forward-looking statement is made. New factors that could cause Thungela's business not to develop as expected may emerge from time to time and it is not possible to predict all of them. Further, the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statement are not known. Thungela has no duty to, and does not intend to, update or revise the forward-looking statements contained in this document after the date of this document, except as may be required by law. Any forward-looking statements included in this document have not been reviewed or reported on by the Group's independent external auditor.

Investors are cautioned not to rely on these forward-looking statements and are encouraged to read the Interim Financial Statements for the six months ended 30 June 2023, which are available from the Thungela website via the following web link: <https://www.thungela.com/investors/results>

ALTERNATIVE PERFORMANCE MEASURES

Throughout this results announcement a range of financial and non-financial measures are used to assess our performance, including a number of financial measures that are not defined or specified under International Financial Reporting Standards (IFRS), which are termed 'Alternative Performance Measures' (APMs). Management uses these measures to monitor the Group's financial performance alongside IFRS measures to improve the comparability of information between reporting periods. These APMs should be considered in addition to, and not as a substitute for, or as superior to, measures of financial performance, financial position or cash flows reported in accordance with IFRS. APMs are not uniformly defined by all companies, including those in the Group's industry. Accordingly, they may not be comparable with similarly titled measures and disclosures by other companies. In this results announcement, APMs are denoted with an asterisk (*).

ABOUT THIS RESULTS ANNOUNCEMENT

This results announcement is the responsibility of the board of directors of Thungela. Shareholders are advised that this results announcement is only a select extract of the information contained in the Interim Financial Statements and does not contain full or complete details. Any investment decisions by investors and/or shareholders should be based on a consideration of the Interim Financial Statements as a whole and investors and/or shareholders are encouraged to review the Interim Financial Statements which are available on the Thungela website via the following web link:

<https://www.thungela.com/investors/results> and has been published on SENS, the Johannesburg Stock Exchange News Service, at <https://senspdf.jse.co.za/documents/2023/JSE/ISSE/TGAE/Int2023.pdf>

A conference call and audio webinar relating to the details of this announcement will be held at 12:00 SAST (11:00 BST) on Monday 21 August 2023. A recording of the webinar will be made available on the Thungela website from 15:00 SAST (14:00 BST) on the same date.

Conference Call registration:

<https://services.choruscall.za.com/DiamondPassRegistration/register?confirmationNumber=4803796&linkSecurityString=c5e389d68>

Webinar registration:

https://78449.themediaframe.com/links/thungela230821_1200.html

The condensed consolidated interim financial statements for the six months ended 30 June 2023 were reviewed by PricewaterhouseCoopers Incorporated who have issued an unmodified review report. This results announcement and the operational outlook have not been audited or reviewed by the Group's independent external auditor.

Copies of the Interim Financial Statements for the six months ended 30 June 2023 may be requested by contacting Thungela Investor Relations by email at ryan.africa@thungela.com and are also available for inspection at the Company's registered office and at the offices of the Company's sponsor, to investors and/or shareholders at no charge, on any business day between the hours of 08:00 – 17:00. The Company's registered office is located at: 25 Bath Avenue, Rosebank, Johannesburg, 2196, South Africa. The Company's sponsor's office is located at: 1 Merchant Place, Cnr Rivonia Road and Fredman Drive, Sandton, 2196, South Africa.

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the market abuse regulation (EU) no. 596/2014 as amended by the market abuse (amendment) (UK mar) regulations 2019. Upon the publication of this announcement via the regulatory information service, this inside information is now considered to be in the public domain.

On behalf of the board of directors

Sango Ntsaluba, Chairperson
July Ndlovu, Chief executive officer
Johannesburg (South Africa)

Date of SENS release: 21 August 2023

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