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TongaatHulett®

Hippo Valley Estates Limited

TRADING UPDATE FOR THE THIRD QUARTER ENDED 31 DECEMBER 2020

Operating Environment

The relative stability of prices attributable to the new foreign currency auction system, improved business confidence during the last quarter of 2020, with year-on-year inflation decelerating to 349% in December 2020, compared to 521% in same period in prior year. The resurgence of COVID-19 is, however, likely to result in significant disruptions to business activity in key economic sectors, well into the foreseeable future.

COVID-19 Update

As outlined in the half year review issued to shareholders on 26 November 2020, there have been minimal interruptions to Hippo Valley Estates Limited (the Company)'s key operations resulting from the COVID-19 pandemic during the lockdown period, as the Company is classified as an essential service. In addition, the Company has a robust Business Continuity Plan in place and continues to implement established COVID-19 preventive and reactive protocols, whilst strengthening its already established internal health service delivery system, thereby mitigating the negative impacts of the second wave of the pandemic. The Company's main priority, remains the health and wellbeing of its employees, as well as its stakeholders especially those in surrounding communities. Operationally, the focus is on logistical efficiencies to market, with particular emphasis on addressing COVID-19 related procurement delays in order to ensure that the current off crop maintenance program is completed in time for the start of the next sugar production campaign (which starts mid-April 2021). The Company remains confident of achieving this target.

Operations

Cane and sugar production (tons) for the 10 months ended 31 December 2020

	2020	2019	% Change
Tons cane harvested - Company	1,043,774	1,008,870	3%
Tons cane harvested - Private farmers	592,722	687,472	-14%
Other third-party cane	55,439	-	100%
Total tons cane milled - Company	1,691,935	1,696,342	0%
Tons sugar produced - Company	204,094	212,004	-4%
Tons sugar produced - Industry total	408,260	441,416	-8%

Overall cane deliveries from the Company's plantations (miller-cum-planter) and private farmers, trailed the prior year due to the impact of irrigation power challenges as well as the dry spell experienced during the 2019/20 peak growing period of October to March. Whilst the drop in cane from traditional industry sources was compensated for by cane sourced from a third party, sugar

production reduced by 4% at the back of lower-than-expected mill efficiencies and inclement weather conditions (incessant rains) which interrupted the harvesting programme and impacted cane quality adversely. Steps are being taken during the current off crop period to rehabilitate the mill, to ensure improved performance in the 2021/22 production year, whilst solar projects to augment electricity at critical water pumping installations, have been initiated.

Marketing

The Zimbabwean sugar industry, has a single marketing desk at brown sugar level, administered by Zimbabwe Sugar Sales (ZSS). The Company's share of total industry sugar sales volume of 356 000 tons (2019: 333 000 tons) for the nine months period under review was 50.0% (2019: 48.0%). Total industry sugar sales into the domestic market for the nine months ended 31 December 2020 at 259 000 tons (2019: 266 000 tons), were 3% below prior year due to deliberate measures taken by the industry during the first quarter of the financial year to minimize speculative trade and illegal exports to neighbouring countries on account of then existing currency and pricing distortions. The measures were successful, as sugar has since been readily available on the formal market, including during the peak demand festive season. Following the return to the multi-currency regime, the Company is trading in both local and foreign currencies on the domestic market. Industry export sales recorded a 45% growth to 97 000 tons (2019: 67 000 tons) for the nine months, despite a temporary suspension of sugar imports by the Kenyan Government in June 2020.

Outlook

The above-normal rainfall season experienced to date, has significantly enhanced water security for the industry. With Tugwi-Mukosi Dam spilling for the first time since its commissioning in May 2017, and Lake Mutirikwi at over 60% of its capacity, 75% of the sugar industry's irrigated cane area, is adequately covered for at least three seasons,- (at normal water duty). With the rainfall season forecast to continue until the end of March, Lake Mutirikwi is likely to impound more water, thereby further improving industry water security.

As a consequence, total industry sugar production for the forthcoming 2021/22 production season is forecast to increase on the back of projected improvements in yields, cane quality and milling efficiencies. Efforts to maximize sugar production through yield improvement initiatives on both Company owned and Private farmer owned cane fields are on-going, with special focus on strategic partnerships to rehabilitate all derelict and low yielding Private farmer land to above the breakeven yield of 70 tons/ha.

Work on the 4 000 hectares cane development project (Project Kilimanjaro) being undertaken by the Company in partnership with Triangle Limited, Government and local banks, has seen a total of 2 700 hectares of virgin land being bush cleared and ripped, and 562 hectares planted to sugarcane in the prior year. As previously reported, project works were slowed down on account of delays in obtaining the requisite funding from financial institutions, and lack of clarity on land tenure. Whilst new funding structures for completion of the project are being finalized, some 76 hectares and 700 hectares were put to maize and sorghum respectively, in partnership with Government, as part of efforts to improve food security in the country. An additional 902 hectares of maize was planted on Company fallow cane land as a break crop, resulting in the double benefit of maximising land use, and further improving food security.

The Government has since assured the Company that it would be granted security of tenure by way of a 99 Year Lease on Hippo Valley North (23 979 hectares) whilst maintaining freehold title on Hippo Valley South (16 433 hectares). The requisite physical planning and administrative processes are currently underway and nearing completion, paving way for the issuance of the 99 Year Lease. The Company has also had its Sugar Milling License renewed for another twenty-year period ending December 2040. These positive actions from Government provide further confidence and stability to the operations.

Marketing focus remains on ensuring fulfilment of local market requirements, whilst growing export sales in regional premium markets to generate additional foreign currency for the Company and the nation. The Company, therefore, remains optimistic that notwithstanding the COVID -19 pandemic, the Zimbabwe sugar industry is well positioned to be one of the most competitive in the region.

By Order of the Board

D L Marokane
Chairman

A Mhere
Chief Executive Officer

10 February 2021

DIRECTORS: D L Marokane (Chairman), A Mhere* (Chief Executive Officer), S Harvey, R D Aitken, L R Bruce, N Kudenga, J P Maposa, O H Manasah*, C F Dube, R J Moyo, G Sweto, J G Hudson. * Executive