

## TRADING UPDATE FOR THE THIRD QUARTER ENDED 31 DECEMBER 2023

### Operating Environment

The Company operated in a difficult business environment with significant inflationary pressures, exchange rate volatility, constrained Zimbabwe Dollar (ZWL) and United States Dollar (USD) liquidity. The official exchange rate to the ZWL devalued by 556% from ZWL930:US\$1 at the beginning of the year to ZWL6 105:US\$1 at the end of December 2023, negatively impacting on financial performance. Regional currencies also lost ground against the USD further driving inflation of imported inputs. The high velocity of transacting locally in foreign currency continues, spurred by the constrained Zimbabwe Dollar liquidity. Exchange rate stability was temporarily achieved following monetary policy measures which took effect at the beginning of the year, but regrettably the market is once again experiencing significant rate differentials in the interbank and alternative market. Additional fiscal policy measures were pronounced in the third quarter, with the introduction of more aggressive corporate taxes effective 1 January 2024, increasing the cost of doing business for the whole economy. Continuing conflicts in Eastern Europe and the Middle East will likely lead to further increases in logistical costs of key commodities leading to fears of global inflation. The Company continues to proactively navigate these challenges to ensure ongoing value creation and preservation.

### Operations

Total sugar produced by the Company at the end of the third quarter, which marks the end of the crushing season amounted to 194 684 tons, trailing prior year by 6% at the back of a drop in yields and unfavourable weather conditions. The yield drop was a result of reduced 'plant cane' harvested in the current period. Availability of critical spares (mainly due to cashflow constraints on account of the impact of cheap imports of sugar) resulted in unscheduled mill stoppages and (lost time available - a measure of plant reliability – increased to 17.8% from 14.6% recorded same period prior year), that affected production performance leading to carryover cane amounting to 652 ha.

However, cane quality measured as estimated recoverable crystals in sugar-cane (ERC), and cane to sugar ratio (i.e. the tons of cane required to be crushed to produce one ton of raw sugar), of 12.10% and 8.27 were both above prior year realisations of 11.64% and 8.39 respectively, resulting in improved recovery efficiencies.

### Performance Update

Zimbabwe Sugar Sales (Private) Limited (ZSS) remains the sole marketing desk for raw and brown sugar produced by the Zimbabwe sugar industry to safeguard distribution efficiencies in both the local and export markets. Hippo Valley Estates' share of the total industry sugar sales volume of 295 382 tons (2022: 318 352 tons) for the 9 months to 31 December 2023 was 52.54% (2022: 52.26%). Total industry sugar sales into the domestic market for the same period amounted to 227 855 tons (2022: 278 106 tons) and were 18% below the comparable period in prior year. The decrease was largely on account of duty-free sugar imports from the region which came into the local market following the promulgation of Statutory Instrument 80 of 2023. Coming from softer currency economies, regional exporters to Zimbabwe capitalised on the multicurrency trading regime in Zimbabwe and the removal of import duties.

The industry implemented aggressive but costly initiatives to defend market share against duty-free imports during the period under review, resulting in reduced net realisations. However, the upward revision of the foreign currency retention ratio on local USD sales to 100% helped in cushioning the local market revenue drop.

Export sales volumes increased by 68% to 67 527 tons (2022: 40 246 tons) as the displaced local market volume was redirected to the export markets in order to generate the much-needed working capital to sustain operations. Revenue realised at the end of the third quarter grew by 77% to ZWL 977.7

billion from ZWL 551.9 billion recorded during the same period last year on the back of price adjustments in response to hyperinflationary pressures. However, the increase in revenue was not sufficient to offset the increased costs of business, particularly in respect of manpower costs.

### Environment, Social & Governance Matters

No significant incidents were recorded during the third quarter, with a total of 2 Lost Time Injuries (LTIs) having been recorded for the period April 2023 to 31 December 2023 (2022:1 Fatality and 2 LTIs), resulting in a Lost Time Injury Frequency Rate of 0.024 (2022: 0.024). The operation continues to heighten employees' awareness to occupational safety risks through regular awareness and training campaigns, improvement in signage and community outreach programs. In addition, all contractors engaged for the off-crop maintenance period are being taken through thorough safety induction processes to acquaint them with the Company's Safety, Health and Environmental Management Systems.

The Company is committed to acting responsibly and to have a positive impact on the environment in order to promote sustainable agriculture, and continues to monitor emissions, environmental discharges and investments in clean renewable energy sources, sustainable waste management systems as well as actively managing its carbon footprint.

### Outlook

Notwithstanding El Nino episodes experienced in the third quarter characterised by dry spells, the major water supply dams are envisaged to provide sufficient cover for the industry's irrigation regimes for approximately two seasons, with Tugwi-Mukosi at 85.95% and Mutirikwi Dam at 94.61% as at 31 December 2023.

The Company's strategic focus remains on improving yields and ensuring plant reliability, maximising capacity utilisation and achieving sustainable operating cost efficiencies in the medium to long term. In the short term, the priority is to successfully complete the off-crop program which is well underway to ensure an efficient and reliable milling campaign in the 2024/25 season, improving quality and safety performance, reconfiguring the route to market and implementing innovative work streams to contain the cost of goods and services. The Company will also leverage on available borrowing facilities up to the end of the financial year to cushion its working capital in light of off-crop requirements.

The industry is looking forward to improved domestic sales volumes after the recent repeal of Statutory Instrument 80 of 2023, effective 1 January 2024, which previously allowed duty-free sugar imports into the country, although the benefit may not be realised immediately due to high stocks of imported sugar currently available in the market. Marketing initiatives remain focused on regaining the local market share and optimising returns from international premium markets. Whilst the local market remains pivotal to the industry, management is also prioritising the development of new markets, necessary for the generation of additional foreign currency to sustain the industry's requirements for critical imports.

The Company continues to follow positive Environmental, Social and Governance (ESG) principles, harnessing sustainable and ethical practices across the value chain.

By Order of the Board

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**Chairman**  
12 February 2024

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**Chief Executive Officer**