Hippo Valley Estates Limited

TRADING UPDATE FOR THE FIRST QUARTER ENDED 30 JUNE 2025

Operating Environment Overview

The first quarter ended with relatively stable exchange rates, but input costs were elevated due to inflationary pressures and geo-political tensions as global trade policies shifted. While the ZWG currency has shown relative stability since the significant devaluation experienced at the end of September 2024, it faces significant challenges, particularly in gaining widespread acceptance.

The tight liquidity conditions that prevailed during the quarter and the currency mix dilemma when trading using the ZWG currency, resulted in episodes of excess ZWG cash balances for the Company and USD working capital challenges, with most suppliers of goods and services, particularly the informal sector, continuing to favour the USD currency due to perceived stability.

Levels in the dams supplying irrigation water are more than adequate. However, efficient water distribution remained a challenge due to infrastructure constrains and illegal water abstractions.

Due to ongoing macroeconomic challenges, several businesses that support the sugar industry have been unable to fully deliver essential services. These include rail logistics for sugar transportation, power supply, although this has recently improved, and the provision of critical spare parts and agricultural inputs. The Company is in discussions focused on securing funding and promoting win-win arrangements, including the use of mixed currencies (ZWG and USD).

Despite these complexities, the Company maintained its focus on operational efficiencies, cost reduction initiatives and revenue enhancement strategies through Project Zambuko, all in an effort to improve the bottom line and generate positive cashflows.

Business Performance

Production:

The first quarter sugar production period ended on a positive note, marked by a 15% increase in cane supply from the Company's plantations (miller-cum-planter). This growth was driven by higher milling crushing rates recognising the crushing season has been shortened to 26 weeks from 33 weeks in prior year. Resultantly, the average delivery rate of cane exceeded prior year, supported by a consistently efficient cane delivery system. This improvement was achieved through retooling the agricultural business unit with cane haulage equipment.

Additionally, cane quality improved from an Estimated Recoverable Crystal (the percentage of sucrose in sugarcane that is theoretically recoverable as sugar crystals) of 11.30% to 11.46%. Despite some minimal mill start-up challenges, the plant had impressive recoveries, after achieving a cane to sugar ratio of 8.49 against prior year of 8.50 and target of 8.75. Private farmers cane deliveries marginally dropped due to diversions to the Triangle mill after the start-up challenges referred to above.

	Area under cane (hectares)			Sugar cane yield per hectare (tons)		Cane Supply (tons)			Sugar production (tons)		Cane to Sugar ratio
	Company	Private Farmers	Total	Company	Private Farmers	Company	Private Farmers	Total	Company	Industry	
Change	1% ↑	2% ↑	2% ↑	2% ↓	2% ↑	15% ↑	1% ↓	8% ↑	8% ↑	3% ↑	0.1% ↑
Jun 25	10 858	12 414	23 272	104.84	62.63	341 655	218 153	559 808	65 918	125 990	8.49
Jun 24	10 768	12 117	22 885	106.93	61.42	297 902	221 184	519 086	61 069	122 313	8.50

*Tons of cane required to be crushed to produce one ton of sugar.

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Sales and Marketing Performance:

	Industry Sugar Sales (tons)			
	Local	Export	Total	Company's share
Jun-25	84 917	15 711	100 628	**52.32%**
Jun-24	81 626	3 385	85 011	**49.93%**
Change	**4%** ↑	**364%** ↑	**18%** ↑	

- **Local Market**
  Overall local sales performance improved by 4% from prior year with the SunSweet brand registering a 19% increase above prior year. However, raw sugar performance dampened overall sales growth, falling 32% below the first quarter target and 31% below prior year. The decline was primarily due to reduced demand from key off-takers in the beverages manufacturing sector following the introduction of sugar tax. Further, some industrial customers continued to import, impacting sales even more. However, as most beverage manufacturers turn to local producers for their refined sugar requirements, raw sugar volumes are expected to recover going forward.

- **Export Market**
  Export volumes performed better than prior year on the back of improved opening stock position compared to prior year. With better production runs currently being experienced and hence more stocks, more exports will be realised in the balance of the year.

Safety, Health and Environment (SHE)

No significant work-related injuries were recorded during the first quarter, same as prior year same period. Resultantly, Lost Time Injury Frequency Rate (LTIFR) on record at the end of June 2025 was 0.00 (2024: 0.00).

Financial Results

Revenue realised at the end of the first quarter grew by 16% from prior year same period, driven by an 18% increase in sales volumes. Contribution to the growth in sales largely came from regained local market share, which had been lost to imports. Additionally, the business started the current year with adequate sugar stocks, 67% above prior year, following an impressive production season in the previous year.

However, the Company continued to battle with the high cost of production mainly relating to:

- Cane purchases which are currently procured at uncompetitive Division of Proceeds (DOP) arrangements and cane prices.
- An exorbitantly high minimum wage, outside the range of regional benchmarks and other local agricultural entities.
- Inflationary pressures on key inputs which include fertilizers, chemicals and major spares.

In response to these complexities, the business continued to trust that the initiatives coming through Project Zambuko will put the business at the right margin levels and promote the generation of positive cashflows.

Outlook

Looking ahead, the business remains hopeful that, as the year progresses, current stability of the local currency experienced in the first quarter will be sustained, and that access to foreign currency through formal banking channels will improve, enabling the Company to procure critical inputs.

The DOP court case remains unresolved after it was heard in the Supreme Court on 12 June 2025 and referred back to the High Court. Further updates will be provided as the matter progresses.

With good levels of water available in the supplying dams, the business has adequate irrigation water for the current and next season. Focus will remain on ensuring adequate water conveyancing capacity is maintained or improved.

The Company remains focused to deliver set targets in Agriculture, Milling, Sales and Distribution and Supporting functions, aligning with its sustainability goals. The business also remains leveraged on its Environmental, Social and Governance (ESG) agenda to ensure the Company is positioned for future growth.

By Order of the Board

CF Dube
Chairman

RT Masawi
Chief Executive Officer

14 August 2025

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