

Chief Financial Officer's Pre-Close and Trading Statement for the financial year ending 31 December 2021

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

('Thungela' or 'the Group' or 'the Company')

Chief Financial Officer's Pre-Close and Trading Statement  
for the financial year ending 31 December 2021

Robust cash generation driven by supportive prices and narrower discounts resulting from an optimised sales mix in response to continued rail infrastructure constraints

Dear Stakeholder

As 2021 draws to a close, we remember with sadness the loss of Moeketsi Mabatla, our colleague who passed away on 23 June at Goedehoop Colliery, and those who have been affected by the COVID-19 pandemic. We continue to work tirelessly in our efforts to ensure that all our people return home safe and healthy every day, as we continue to focus on eliminating fatalities and mounting an effective response to the ongoing pandemic.

Looking back on the first months since the demerger and Thungela's listing on 7 June, we are proud that in a short period of time we have been able to achieve solid results notwithstanding a number of challenges, most notably rail infrastructure constraints. Here are key insights into our performance for the year to date(1) and our expectations for the financial year ending 31 December 2021 (FY2021).

- Demand for energy, including thermal coal, has continued to improve as global economic activity recovers from the COVID-19 pandemic. International coal supply from the major supply

basins was disrupted by logistical constraints in China, Russia and Indonesia, community unrest in Colombia, and on-going geopolitical tensions between China and Australia. Demand for high-quality

South African coal has remained firm.

- The Benchmark(2) export coal price averaged \$123/t for the year to date, with the month of October seeing the official settlement price at \$210/t. By the end of November the price had moderated to \$141/t.

- Discount to the Benchmark price has narrowed substantially to ~17% for the year to date, compared to 26% for FY2020 and 23% for H1 2021. The improvement in realised prices was driven

primarily by an optimisation of the Group's export equity sales mix in order to prioritise the railing of

higher margin products in the face of on-going rail challenges. The improved realised price was also

supported by market conditions which resulted in premiums on benchmark coal products (6 000 kcal/kg) as well as the new marketing agreement with Anglo American, effective from 1 June.

- Export saleable production for FY2021 is expected to be 14.9 Mt, subject to no further deterioration in Transnet Freight Rail (TFR) performance or more stringent COVID-19 restrictions in

December. At Khwezela, higher cost production at the Bokgoni pit was placed on care and maintenance in Q1 of 2021, but these volumes were partially offset by the ramp-up of the Navigation

pit also within the Khwezela complex. Production at Navigation has however been slowed down in

recent weeks due to full stockpiles caused by on-going poor rail performance. Production at other

operations had been steady until October but is only expected to return to optimal performance once

on-mine stockpiles have been reduced.

- Export equity sales for FY2021 are expected to be 13.7 Mt. Export equity sales have been significantly impacted by TFR's persistent underperformance which stems from a combination of

security-related issues and locomotive unavailability. As communicated in the market announcement

released on 18 October 2021, while Thungela continues to engage TFR at all levels in order to seek

a sustainable solution, we have also implemented a number of actions to mitigate the

operational

and financial impacts on our business, including the prioritisation of export equity volumes, as well as

optimisation of the sales mix.

- At the release of our interim results earlier this year we referred to the need to reconsider capital

spend through a “Thungela lens”. We are pleased to confirm that we have been able to achieve early

improvements with regard to reducing capital intensity. Accordingly, we confirm that FY2021 capex

will come in slightly below R2.6bn.

- Cash flow generation has been robust on the back of strong Benchmark export coal prices and

narrower discounts, albeit in a context of lower export sales volumes. Thungela had a cash position

of approximately R8bn on 30 November 2021.

As set out in the Pre-listing Statement(3), Thungela’s first dividend will be a final dividend for the six-month

period ending 31 December 2021 and will be declared at the time of the Group’s 2021 full year annual

results announcement.

Given that Thungela is a single commodity and single geography thermal coal business, coupled with limited

access to debt markets, an appropriate level of balance sheet flexibility is important in order to manage the

business through periods of coal price volatility. Thungela’s board of directors (Board) believes it is

appropriate to maintain a liquidity buffer of between R5bn and R6bn during and following periods of stronger

market conditions, and all else being equal, between R2bn and R3bn following weaker market conditions.

The Board remains committed to delivering attractive shareholder returns, while maintaining disciplined

capital allocation. Accordingly, the Company may declare additional returns above the targeted minimum

pay-out ratio of 30% of Adjusted operating free cash flow(4), subject to the Board being satisfied that,

subsequent to the dividend declaration, the Company will have adequate balance sheet flexibility and sufficient funding available to withstand market and coal price volatility.

Whilst this year has seen a strong price recovery, we have also seen coal prices recede from their highs reached in October 2021 with continued price volatility. It is therefore important that the Group maintains an adequate level of liquidity in order to continue to operate confidently in lower price environments without compromising returns to shareholders, and to enable funding for key life extension projects. The Board accordingly considers the upper end of the liquidity buffer range set out above to be appropriate in the current market conditions.

We are in a sound financial position and the Group has adequate resources to deliver on our strategic capital allocation objectives. With this in mind, the Group expects to progress the studies of our key life extension projects, including Elders and the Zibulo North shaft, over the coming months and to be in a position to provide more detailed feedback at the Group's full year annual results presentation.

Thungela also continues to evaluate opportunities to enhance our business and optimise resource extraction, whether through value accretive acquisitions or through strategic partnerships. We have accordingly concluded a strategic partnership agreement with Nasonti(5), a partner that we have had a long and successful working relationship with, to establish a company through which we will enable increased saleable production. Through the agreement, a beneficiation plant will be re-established at Goedehoop South in order to commercially exploit the mineral residue material at the site. The attributable capital cost for Thungela will be approximately R200m and it is estimated that our effective share of steady-state production will be up to 1 Mt of low-cost saleable product per annum for the next four years. First coal is planned for

March 2022.

Given the strong price environment and performance, Thungela is likely to return to profitability in respect of Earnings per share and Headline earnings per share for the 2021 financial year, following a loss in the 2020 financial year.

Since listing, Thungela has delivered on its purpose of responsibly creating value together for a shared future. Strong cash generation since listing means that we enter FY2022 in a position of strength and we are excited about the opportunities to create value for our shareholders, our host communities as well as our employees. We look forward to presenting the FY2021 financial results, as well as an update on our priorities, in March 2022.

Deon Smith  
Chief Financial Officer

#### Annexure A: Operational Performance

In order to enhance stakeholders' understanding of the Group's performance, tables 1 and 2 below contain Pro Forma information. For a detailed description of the asset perimeters over the current and comparative periods refer to page 4 of the Condensed consolidated interim financial statements for the six months ended 30 June 2021(6).

#### Table 1: Export saleable production by operation

Export saleable production 2020 Actual 2021 Forecast(7) % change  
Mt Pro Forma Pro Forma

Underground	11.0	11.2	2%
Zibulo	5.2	5.5	6%
Greenside	3.6	3.5	-3%
Goedehoop	2.2	2.2	0%

Opencast 5.5 3.7 -33%  
Khwezela\* 3.7 1.9 -49%  
Mafube 1.8 1.8 0%

TOTAL 16.5 14.9 -10%

\*Note: Excluding Khwezela from the analysis above, the total Export saleable production for 2021 would be 13.0 Mt, an increase of 1.6% compared to 12.8 Mt in 2020 (Pro Forma basis). Khwezela is the Group's lowest margin operation and production at this operation was deliberately curtailed in response to the ongoing rail constrained environment.

#### Table 2: Export sales by segment

Export sales 2020 Actual 2021 Forecast(7) % change  
Mt Pro Forma Pro Forma

Equity sales 16.6 13.7 -17%  
Underground 10.9 10.0 -8%  
Opencast 5.7 3.7 -35%

Third party sales 1.6 0.9 -44%

TOTAL 18.2 14.6 -20%

#### Footnotes

- 1) All references in this document to "year to date" refer to the period from 1 January 2021 to 30 November 2021
- 2) Benchmark price reference for 6,000kcal/kg thermal coal exported from the Richards Bay Coal Terminal.  
The average Benchmark price in 2020 was \$65/t, and is \$123/t for the year to date in 2021
- 3) The Combined Prospectus and Pre-listing Statement, published on 8 April 2021 and available on [www.thungela.com](http://www.thungela.com)
- 4) Adjusted operating free cash flow is net cash flows from operating activities less sustaining capex
- 5) Nasonti Coal Proprietary Limited and Nasonti Technical Services Proprietary Limited
- 6) Available on [www.thugela.com](http://www.thugela.com)

7) Based on the latest available management forecasts. Final figures may differ by  $\pm 5\%$

#### Review of Pre-Close and Trading Statement

The information in this Pre-Close and Trading Statement is the responsibility of the directors of Thungela

Resources Limited and has not been reviewed or reported on by the Group's independent auditors.

#### Investor Call Details

A conference call and audio webinar relating to the details of this announcement will be held at 12:00 SAST

on Monday 6 December 2021. A recording of the webinar will be made available on the Thungela website

from 15:00 on Monday 6 December 2021.

Conference Call registration: [www.diamondpass.net/4378013](http://www.diamondpass.net/4378013)

Audio webinar registration:

<https://services.themediaframe.com/links/thungela-10041288.html>

#### Disclaimer

This document includes forward-looking statements. All statements other than statements of historical facts

included in this document, 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 Reserve and Resource positions), are forward-looking statements. 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. The Group assumes no responsibility to update forward-looking statements in this

announcement except as required by law.

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.

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Johannesburg

6 December 2021

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