HULISANI EARNINGS ANNOUNCEMENT

KEY FEATURES FOR THE YEAR

Operational

- Built internal capacity through streamlining of processes to manage more investments
- Working on large scale consolidation and acquisition opportunities to achieve scale in the business and which is work in progress
- Improved asset management capability to monitor performance and contract management
- Better than budget revenue and cash flow for the year under review, with Avon and Dedisa Peaking Power Plants delivering an excellent performance
- Write-off of investment in Ignite (Proprietary) Limited ("Ignite") due to change in market sentiment, risk appetite and the need to strengthen our balance sheet
- GRI valuation gain and operating at full production for the year (150 equivalent steel wind towers per annum) and is currently contracted to build the majority of round 4 REIPPP wind farms utilising steel towers.

Financial

- Revenue grew by 38% in the current period driven by the reclassification of the income from Legend Power Solutions ("LPS") to revenue from finance income to better reflect the nature of the income. Income from LPS grew significantly in the current period driven mainly by increased utilization of the power plant in response to higher demand for electricity during the period
- Operating expenses for the period under review amounted to R73.6 million (2019: R73.3 million). The costs for the current period were largely in line with the prior corresponding year. Major contributors to the expenses in the current year are a once off settlement costs of R8.5 million in a litigation matter in respect of Momentous Technologies (Proprietary) Limited and R5.2 million in settlement of fees due to Nibira (Proprietary) Limited following arbitration proceedings. There were, however, offsetting gains, including the reversal of the expected credit losses following the full settlement of the Pele SPV13 (Proprietary) Limited ("**Pele**") loan.
- Loss per share increased by 18% to 59 cents per share, from 50 cents per share in the prior corresponding period. This was largely due to the write-off of our investment in Ignite (Proprietary) Limited ("Ignite") amounting to R25.7 million
- Net cash from investing activities for the group amounted to R32.8 million for the current period compared to R8.4 million in the prior period, while net cash movement for the period amounted to a cash outflow of R4 million, compared to a cash outflow of R8.4 million in the prior period.
- Net cash from investing activities for the company amounted to R44.9 million for the current period compared to R14.4 million in the prior period, while net cash movement for the period amounted to a cash inflow of R1.8 million, compared to a cash outflow of R14.4 million in the prior period

EXECUTIVE REVIEW OF PERFORMANCE

The financial year under review, was characterised by our focus on keeping costs under control, cleaning up the balance sheet and building up capacity for growth. The assets we are invested in generated more income than budgeted. Apart from the necessary write-downs to clean our balance sheet, we are pleased to report positive cashflow in line with our business strategy, this being achieved in exceedingly difficult trading circumstances

Following an extended period of policy and regulatory uncertainty, which resulted in no new procurement by Eskom in the energy sector since 2015, the year under review was a seminal point in terms setting out a clear energy policy for South Africa until 2030. The Integrated Resource Plan 2019 (“IRP 2019”) was released in the year under review, which sets out the plan to build 25 000 to 30 000MW of new energy generation capacity power by 2030, mainly from renewable energy.

Transactions

The private power producer sector has been a challenging environment from a transaction perspective for the past few years. With policy certainty in place, there has been a noted improvement in market sentiment leading to increased transactional and consequential increase in deal flow and prospects. As a result, Hulisani considered several sizeable transactions and consolidation opportunities during the year in line with the cautionary statement issued on 25 May 2020.

The assessment of potential transactions, which are aligned with our strategic intent, typically takes 12 to 18 months and is a complex exercise requiring a technical, legal and financial due diligence. Against this backdrop, there are advanced negotiations underway which, if successfully concluded, will provide significantly greater scale in line with our long-term growth strategy.

Investments

Hulisani has adopted a hands-on approach to assets in which we are invested. With a key focus on energy generation assets, our investments are diverse and include a wind farm, a solar PV plant, and gas peaking plants.. With regards to manufacturing assets, Hulisani is invested in the only operational steel wind tower manufacturing facility in South Africa.

The year under review was one during which RustMo1 focused on improved plant efficiency. The plant’s technical software was enhanced to ensure grid compliance and supervisors were upskilled through management courses, in support of succession planning.

Production levels remained constant this year, while revenue increased marginally, while year-on-year profits remained flat. acceptable. Asset management software is being piloted at RustMo1 with a view to rolling out this software as a management tool across Hulisani’s assets. The software will provide real-time reporting, including actual generation, revenue, as well as maintenance vs budget.

RustMo1 provides Hulisani with the expertise and experience required to manage and operate smaller plants not situated in traditional solar PV areas like the Northern Cape. As opportunities for distributed power generation grow for mines and municipalities outside of traditional solar PV areas, Hulisani’s is able to quickly deploy this expertise in mining areas and thus create economic activity in formerly depressed areas.

Ignite is a company focused on the development of short to medium term flexible power solutions throughout Africa. The decision to invest in Ignite was driven mainly in the need to develop diversified pipeline outside of the government procurement process and outside of South Africa. What distinguishes the Ignite business from other energy developers is the focus on solutions that are capable of being implemented quickly and efficiently, mainly in mining applications in the most remote areas of the African continent. The potential for providing such solutions throughout Africa has been growing, particularly with the lower energy tariffs offered by solar PV integration into hybrid solutions that reduce the cost of running remote plants exclusively on diesel or heavy fuel oil generators. In practice, the environment has not been favourable to executing on this strategy due to different jurisdictions and increased risk aversion. This has been exacerbated by the travel restrictions imposed after year-end, which have further diminished the prospects of closing transactions that are targeted by Ignite. We have thus taken the decision to focus on South Africa in the short to medium-term as there is no reasonable prospect to close transactions and to simplify the balance sheet of the company.

Now in its fifth year of operation, the Kouga Wind Farm reached record production outputs, with 6% more GWh reported for the year under review. Focused attention was given to resolving the remaining defects stemming from the original engineer, procure and construct (EPC) contract, and operational performance was improved. The plant is now operating optimally, positioning it well to withstand the anticipated additional competition in the area.

Kouga Wind Farm achieved a 7.5% increase in revenue and no impairments were recognised for the year under review. The improved performance has resulted in an increase in dividends and Hulisani's share of profits increased by 43% this year.

The Avon and Dedisa Peaking Power plants provide essential power when demand is required to be quickly fed into the grid. They are structured in a manner where there is a minimum amount of contracted utilisation which is complimented by variable utilisation that is based on demand. As such, they are complimentary to renewable energy plants and are able to manage variable loads and have been key to reducing the economically damaging impact of load shedding.

The plants performed well during the year under review, reporting higher utilisation than budgeted and provided a double-digit increase in dividends. A fair value increase was reported for the period. This performance is indicative of the importance of flexible large-scale gas plants as complementary to renewable energy plants.

These plants are extremely beneficial to South Africa at a time when there is relatively low energy capacity.

GRI, South Africa's only operational producer of steel wind towers, functioned at full production for the year (150 wind towers per annum) and is currently contracted to build the majority of round 4 REIPPP wind farms utilising steel towers. Wind power is anticipated to play a pivotal role in powering the African continent. As such, we view the adoption of the African Continental Free Trade Agreement (AfCFTA) by over 29 countries as positive. Access to new markets, improved trade links, and increased integration are just some of the benefits of the continent-wide free trade agreement. GRI is well positioned to take advantage of South Africa's steel availability and expertise as a potential manufacturing hub for the continent, more so in view of supply chain interruptions caused by the global COVID-19 outbreak which took hold after the financial year end.

Strategy and investment case

Our purpose is clear: we invest in quality energy assets that yield sustainable, predictable and inflation linked long-term returns.

The portfolio thus far demonstrates the yielding nature of the assets together with the building of value through diversification of the portfolio and cost control. There is also the additional benefit of CPI-linked returns which improve with time as the senior debt is repaid and operational efficiencies are realised.

The long-term nature of our investments is critical to understanding Hulisani's value and the return has to be viewed as a total return. The business has continued to mature with a strong core team, the achievement of scale and a yield to investors is the next phase of the company We have successfully contained our costs while ensuring that we build sufficient capacity to manage a larger portfolio of projects.

The upside of our long-term strategy will be realised when we achieve scale. Any delays in reaching desired scale attributable to the policy uncertainty can be quickly regained as we are currently experiencing a buoyant market. Hulisani can be scaled incrementally, managing more projects with largely the same resources. This is the point at which Hulisani will achieve positive operating leverage.

To achieve this critical scale, we are considering consolidation options and partnering opportunities. We continue to pursue a pipeline of quality transactions albeit at a time that is not conducive to such activity, now intensified by the economic fallout of COVID-19.

Financial performance

Our assets continue to generate better revenues than projected and are cash generative. In difficult trading circumstances, we are pleased to report positive cashflow demonstrating the quality of our investments and execution of our strategy.

The underlying fundamentals of the assets we are invested in are solid. The importance of the business principle that 'cash is king' has been highlighted as we consider the impact of COVID-19 on our business. While the situation is still fluid at the time of writing, we are comfortable that our investment strategy is sound and that our business model is unlikely to be materially affected by the events of COVID-19.

In line with IFRS requirements, there was a restatement of prior year results and a significant increase in net asset value, which is explained in greater detail in our detailed financial statements. The increase in net asset value arose from the valuation of a PUT Option in our investment in GRI that resulted in a fair value gain as a result of the downside protection that is afforded by the Put Option.

Key risks

The risk of policy uncertainty was significantly reduced this year.

The COVID-19 pandemic has brought several uncertainties and has brought new risk factors in terms of business interruption and related uncertainty. It has also significantly slowed transaction activity.

Our business model is currently being tested by COVID-19 and indications so far are that the model is resilient enough to survive and thrive in a post-COVID-19 world. Our view is decidedly long-term and therefore we can look beyond this extremely difficult time given our 20-year investment views. We have no reason to doubt that the underlying sovereign contracts in our investments will not be honoured.

After the reporting period, Eskom announced its intention to repurpose some of its old coal-fired power plants that are due to be decommissioned. The request from Eskom is to repurpose some of these sites into gas, solar and wind power generators, as well as industrial hubs. These are positive developments and further strengthens our view that South Africa's energy sector is undergoing a transition and that future energy needs will be met by independent power producers in partnership with government or direct to consumers. Global imperatives for more sustainable and renewable energy sources are unlikely to abate and therefore independent power producers of renewable energy in South Africa will experience higher demand. COVID-19 has also laid bare the structural challenges in our country and the need for inclusive growth and access to energy will probably take on a new importance that needs to be addressed. This means that the country's impact and ESG investing agenda will be as urgent as it is now and private public partnerships will take on a more important role. Any plans for economic recovery will require stable, affordable, and renewable energy supply.

Outlook

During the year under review, Government set out a clear energy policy for South Africa until 2030. The IRP 2019 sets out a plan to build 25 000 to 30 000MW of new energy generation capacity power by 2030, mainly from renewable energy. The following are notable changes in the past financial year to date:

- Integrated Resource Plan 2019 ("IRP2019") has been finalized and adopted. IRP2019 sets out the energy to be procured through the central government procurement process run by the IPP office until 2030.
- A Section 34 Ministerial Determination has been issued to give effect to the IRP2019, enabling the procurement of new energy plants
- The National Energy Regulator ("NERSA") has asked for public comment to the Section 34 Ministerial Determination, thereby seeking to give concurrence to the aforementioned and pave the way for procurement of new energy plants through the the central government procurement process run by the IPP office in terms of IRP2019;
- Concurrence for the 2000MW Risk Mitigation Power Procurement Programme ("RMPPP") has been received from Nersa. This is an expedited power procurement programme to alleviate the immediate to medium-term energy requirements to alleviate supply shortages.;
- No capacity constraint on installed capacity, meaning that there is no limit to installed capacity above 1MW. As a result, there has been a significant increase in the request for proposals from large power consumers looking to procure power from Independent Power Producers;
- Municipalities in good financial standing are now able to procure their own power from independent power producers; and
- Eskom has commenced with the process of divisionalising its three operating activities – generation, transmission, and distribution This will lead to a competitive electricity market, visibility in terms of cost allocation at Eskom and open up space for independent power producers to participate competitively in line with international best practice.

This certainty in energy policy is likely to position the independent power producer sector as a key economic growth area. The commitment to easing the country off its dependence on one central energy supplier is likely to result in a lower cost of doing business as lower renewable energy tariffs are blended with Eskom tariffs, whilst achieving price certainty and scalability.

The Carbon Tax Act was signed into law during the year under review, which is likely to prompt large power users to pursue the procurement of renewable energy to offset their carbon emissions.

The global economic fallout of COVID-19 has exposed the need for countries to diversify their supply chains by procuring a greater percentage of inputs locally. In this regard, it is our view that GRI is ideally positioned to contribute to the 14 000MW of wind expected to be procured in terms of IRP2019. Local content requirements for the procurement of components used in the construction manufacture of power plants should be enforced applied consistently to give price stability and create jobs and skills needed in the economy.

With the implementation of the IRP2019 underway, Hulisani is well-positioned to capitalise on a growing local energy sector.

The scale of COVID-19's economic impact, while still unquantified, is immense. Local stimulus will not be sufficient for South Africa to meet its economic growth targets. While it is patently clear that the world will be different after the immediate crisis of the pandemic has passed, global co-operation is imperative. In this spirit, larger economies will need to work with emerging economies.

Exacerbating the situation, international rating agencies have downgraded South Africa to junk status, and the cost of borrowing will be higher. With many competing priorities, government funding will be constrained at best, elevating the importance and role of private sector funding. In our view, the future of public-private partnerships in the infrastructure and energy landscape is beyond doubt.

Sustainable energy supply is imperative if we are to achieve economic growth while stemming and reversing inequality. Procurement for REIPPP rounds 5 and 6 are opportunities to progress the energy policy advances made during the year.

In addition, COVID-19 exposes the need for South Africa to diversify its supply chain by procuring a greater percentage of inputs locally. Local wind farms should not be importing components and wind towers from other countries as GRI produces them locally. It is our view that local content requirements should be increased and must be consistently applied in the rush to add energy to the grid. Industry is ready to partner with government to accelerate and ramp up local production.

Hulisani's resilience has been shaped by consistent delivery on strategic imperatives, adherence to investment policies and the pursuit of sound fundamentals. The maturity of the business and its sustainability are enhanced by its cash-generating assets. We are keenly aware of the opportunities in this sector at the right scale and are pursuing these in the knowledge that the resilience of the business will be further bolstered by the ongoing stability of its operations in the future.

With frameworks and implementation mechanisms firmly in place, we are confident about the outlook for South Africa's energy sector.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Group	
		2020	2019 Restated
	Note(s)	R '000	R '000
Revenue		69,438	50,371
Other operating income		1,000	17
Other operating gains		7,843	5,997
Other operating expenses		(73,610)	(73,303)
Financial assets write-off		(25,737)	-
Impairment loss		-	-
Operating loss		**(21,066)**	**(16,918)**
Investment income		3,807	7,485
Finance costs		(13,760)	(14,863)
Share of the profit from equity accounted investments		7,608	5,318
Loss before taxation		**(23,411)**	**(18,978)**
Taxation		(3,522)	(3,797)
Loss for the year		**(26,933)**	**(22,775)**
Basic and diluted loss per share (c)		**(59)**	**(50)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		2020	2019 Restated*	01 March 2018 Restated*
	Note(s)	R '000	R '000	R '000
Assets				
Non-Current Assets		523,376	548,812	556,083
Current Assets		39,155	54,172	64,657
Total Assets		**562,531**	**602,984**	**620,740**
Equity				
Share capital		500,000	500,000	500,000
Reserves		6,562	6,562	7,335
Retained income		(151,519)	(122,105)	(95,519)
Equity Attributable to Equity Holders of Parent		355,043	384,457	411,816
Non-controlling interest		25,103	29,078	33,333
		380,146	**413,535**	**445,149**
Liabilities				
Non-Current Liabilities		154,948	154,311	161,306
Current Liabilities		27,437	35,138	14,285
Total Liabilities		**182,385**	**189,449**	**175,591**
Total Equity and Liabilities		**562,531**	**602,984**	**620,740**

FINANCIAL COMMENTARY

1. Revenue

Revenue for the group is R69.4 million (2019: R50.3 million), an increase of 38% from the comparative prior period. Revenue at group level consists of sales of electricity at RustMo1, the subsidiary, and the interest earned from the convertible loan from LPS. The increase in the group revenue is mainly attributable to the reclassification of interest earned from LPS, from investment income to revenue. The income from LPS is significantly higher than the prior period because of higher dispatch of the Avon and Dedisa Peaking Power plants and efficiency gains. The reclassification of the interest earned from investment income to revenue is to best align the disclosure of the investment with the strategy of the business as an investment holding company.

2. Operating Costs

Operating expenses for the period amount to R73.6 million (2019: R73.3 million), the costs for the current period are largely in line with the comparative year. Contributing to the expenses in the current year are once off settlements of R8.5 million in a litigation matter in respect of Rustmo (refer to note 36) and R5.2 million in settlement of fees due to Nibira (Proprietary) Limited following arbitration proceedings.. There were, however, offsetting gains, including the reversal of the expected credit losses following the full settlement of the Pele SPV13 (Proprietary) loan.

The February 2020 group operating expenses include non-cash items of depreciation and amortization of R17.4 million (2019: R16 million).

3. Financial assets write-off

	2020 R '000	2019 R '000
Financial assets write-off		
Ignite loans	5,000	-
Ignite preference shares	24,889	
	29,889	
Less: ECL reversal	(4,152)	
	25,737	-

In the current year, the group wrote off the investment in Ignite as a result of a significant increase in the credit risk following a default on a payment that was due in the current period. Management performed a detailed assessment of the financial status of Ignite, considering the current economic conditions and prospects, and determined that it was prudent to fully write off the assets.

4. Investment valuations

Each year, we undertake a valuations process to value our investments. This involves using estimates and an element of judgement. The inputs/assumptions used in these valuations are reviewed and agreed with the external auditors and independent service providers. These include (but are not limited to) discount rates, forward-looking inflation and interest rate outlooks, performances vs. budgets and cashflow projections. As a result of this process, we had the following outcomes:

- A fair value gain of R4.8 million relating to our investment in LPS
- A fair value gain of R3.0 million relating to our investment in GRI

5. Fair Value gains for the period.

	2020 R'000	2019 Restated R'000
Fair value gain/(loss) on financial instruments at fair value through profit and loss	7,843	5,997
	7,843	5,997

There fair value gains relates to fair value gains from Avon and Dedisa plants (R4,8 million), as well as the investment in derivatives (R3 million).

6. Share of profits or losses from associates

The group derives its share of profits or losses from its associate, Kouga, at 6,67%. There was an increase in share of profits from Kouga from R5.3 million in the prior year to R7.6 million in the current period.

7. Non-Current Assets

Non-Current Assets for group amount to R523 million down from R549 million in the prior period. The decrease is driven mainly by depreciation and amortization of assets as well as the write-off of the Investment in Ignite.

Non-Current Assets for the company amount to R353 million down from R383 million in the prior period. The decrease is driven mainly by the impairment of the investment in the subsidiary at the company level as well as the write-off of the Ignite investment which affects both company and group results.

8. Net Asset Value

The net asset value for both group and company has reduced as a result of losses for the period. The net asset value of the group amounts to R380 million down from R413 million in the prior period, while the net asset value for the company amounts to R347 million down from R389 million in the prior period.

9. Non-Current Liabilities

The non-current liabilities for both group and company have increased slightly over the period mainly as a result of lease liabilities raised, following the adoption of the new statement on leases, IFRS 16. Non-Current liabilities for the group amount to R154,9 million up from R154,3 million, while non-current liabilities for the company amount to R4,4 million up from R3,1 million in the prior period.

10. Cash Balances

The cash balance for the group stands at R22,6 million, down from R26,6 million in the prior year and is driven mainly by net outflows from operating activities

ADMINISTRATION AND CORPORATE INFORMATION

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