

# INTRODUCTION TO TONGAAT HULETT

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Tongaat Hulett is an agri-processing business which includes integrated components of land management, property development and agriculture. Through its sugar and starch operations in Southern Africa, Tongaat Hulett produces a range of refined carbohydrate products from sugar cane and maize. It has considerable expertise in downstream agricultural products, biofuel production and electricity cogeneration. Competition for water and alternative land usages is an ongoing dynamic. Tongaat Hulett balances the operational requirement for cane supplies to its sugar cane processing operations with the transition of agricultural land to other uses at the appropriate times. It is well positioned to benefit from the changing world of agriculture and agri-processing.

Over the past century, Tongaat Hulett has established itself as a leading large scale agri-processing business which has its base firmly established in Southern Africa. Demand for food products is increasing worldwide, renewable energy has introduced a new dimension to agriculture and agricultural trade regimes are changing, with Africa and the European Union (EU) moving closer as a trade bloc. Further opportunities for expansion and growth in Africa are thus emerging. Tongaat Hulett has the established business platform and size to capitalise on these opportunities.

The successful management of the socio-economic and political dynamics of agriculture, land, water, agri-processing, food and energy are integral to the business. The growth and development of Tongaat Hulett's operations, in the selected regions in which it operates, have involved establishing credible partnering relationships with local communities, governments and employees over time. Its 25 percent South African Black Economic Empowerment (BEE) equity participation transactions and involvement in post settlement land claim solutions, the partnership with the Mozambique government in establishing the Mozambique sugar operations and its programmes to establish indigenous cane farmers in Zimbabwe illustrate the level of understanding and extent of relationships in the region.

The integrated business model involves land and water management, agriculture, agri-processing and the transition to property development and other uses at the appropriate times. Tongaat Hulett is able to maximise value through the various phases of land usage, from acquisition, agriculture and agri-processing to the transition to property development. This carefully managed process continues to enhance the value of Tongaat Hulett's remaining land. As Durban grows and further

developments such as the new international airport at La Mercy materialise, the importance of the agricultural land conversion to development is increasing.

Tongaat Hulett's wet-milling operation is the major producer of starch and glucose on the African continent. Established in 1919, the starch operation has grown to be an important supplier to a diverse range of South African and African industries. Operating five wet-milling plants, Tongaat Hulett converts more than 600 000 tons of maize per annum into starch and starch-based products. It manufactures a wide range of products, from unmodified maize starch to highly refined glucose products, which are key ingredients for local manufacturers of foodstuffs, beverages and a variety of industrial products. The expansion of the economically active population in the South African economy is positive for the volume growth of these products.

Possessing a portfolio of sugar operations and assets in some of the lowest cost sugar production areas in the world, coupled with its leading Hulett's® sugar brand, world class technology and preferential market access, Tongaat Hulett is in the advantageous position of being able to capitalise on the changing sugar fundamentals in world markets.

The sugar assets are located in Southern Africa. Production in 2008 amounted to 1 106 000 tons of sugar and actions are underway to increase sugar cane supplies in order to utilise the available milling capacity that will be in excess of 1 960 000 tons by the 2009/10 season. Further expansion potential exists, particularly in the low cost production areas of Zimbabwe and Mozambique.

In South Africa, Tongaat Hulett's sugar milling, refining and agricultural operations are located on the North Coast of KwaZulu-Natal and in the Zululand region, where it has four sugar mills with installed capacity to produce more than 1 million tons of sugar per annum. The sugar operations are strategically positioned to leverage efficiencies and economies as sugar milling in the region improves its cost competitiveness. The matching of milling capacity to available cane supplies remains a key driver of low cost sugar production. The central refining capacity of some 600 000 tons offers the organisation unique advantages.

The downstream and sugar value added operations include South African refined exports, domestic marketing and sales, Botswana and Namibia packing and distribution, as well as Voermol animal feeds. Key to enhanced value creation are

the market leading Hulett<sup>®</sup> and Voermol<sup>®</sup> brands. The South African sugar operations product range offers a total sweetener solution including a range of high intensity sweeteners. The Voermol Feeds operation markets its range of energy and supplementary feeds to the livestock farming community.

Tongaat Hulett is able to take advantage of the evolving renewable energy dynamics in its sugar operations by substituting the production of molasses and sugar for the international market with the production of bio-ethanol for the local market. The opportunity exists through additional capital investments to increase the efficiency in which the energy component of bagasse is converted to electricity thereby substantially increasing the quantum of electricity produced at its mills for use by third parties.

In Mozambique, sugar operations consist of the sugar mills and estates surrounding Xinavane and Mafambisse. Following the expansion projects currently underway, sugar production will be in excess of 300 000 tons by 2010. The sugar estates are fully irrigated and are located in areas with ideal growing conditions resulting in high cane and sucrose yields. These agricultural conditions combined with the sugar mills close proximity to the ports and technology availability and support from South Africa create a platform for future growth. Mozambique's LDC and ACP status allows its products to enter the EU on a duty free basis, giving it an advantage over countries such as Brazil.

Sugar operations in Zimbabwe consist of Triangle and a 50,35 percent stake in Hippo Valley Estates, representing a combined installed sugar milling capacity of 600 000 tons. The lowveld in Zimbabwe, with excellent topography, climate and established water storage and conveyance infrastructures for irrigation, is recognised as the lowest cost sugar producer in Southern Africa, if not the world. The operations at Triangle have produced, since 1980, industrial alcohol as an extension of the manufacturing process, with capital invested during 2007 to convert this to fuel grade ethanol.

Tongaat Hulett conducts its business operations in a manner that seeks to create value for all stakeholders, is sustainable and contributes meaningfully to the social and physical environment in which it operates. A high priority is placed on all aspects of safety, health and environment. Tongaat Hulett has a BEE scorecard rating as a Level Four Contributor with a score of 70,38 percent achieved in 2008 and was included in the JSE's Socially Responsible Investment Index for the fifth consecutive year.

