

INVESTMENT CASE

Tongaat Hulett is a proactive and resilient organisation working in collaboration with all its stakeholders in a focused, constructive, mutual value-adding and developmental manner. It is well-positioned to benefit, and be a key development partner, as agriculture and agri-processing in Sub-Saharan Africa develops from a low base. It has operations in six countries in Southern Africa, significant sugarcane and maize processing facilities, a unique land conversion platform, a growing animal feeds position, opportunities to further grow ethanol production and electricity generation, and possibilities in cassava processing.



TONGAAT HULETT'S STRATEGIC POSITIONING AND OBJECTIVES FOCUS ON THE FOLLOWING KEY POINTS

SUGAR - INCREASING RETURNS BY GROWING SUGAR PRODUCTION FROM AVAILABLE MILLING CAPACITY THROUGH CANE SUPPLY INITIATIVES, REDUCING THE UNIT COST OF PRODUCTION AND DEVELOPING KEY MARKETS AND PRODUCTS

- Tongaat Hulett, through proactive cane development and irrigation initiatives, will grow sugar production utilising its available milling capacity of 2 million tons per annum, benefitting from evolving preferential regional trade access and growth in sugar consumption.
- Across all its sugar operations, approximately 34 000 hectares of new cane land has been planted over the past six years, mainly in communal areas. The existing sugarcane footprint, given regular growing conditions and the completion of the planting partnerships already underway, should produce some 1,6 million tons of sugar. Total sugar production in 2018/19 is estimated to be between 1,31 million tons and 1,45 million tons. The production estimate is underpinned by improved water availability at all operations, and cane yields that reflect the

benefit of agricultural improvement plans and the replanting of sugarcane roots after the drought.

- Governments are generally supportive of protecting domestic sugar markets from imported sugar, particularly against the background of the high rural job impact of the sugar industry. In Zimbabwe and Mozambique, the effectiveness of various protection measures has become meaningful. In South Africa, the South African Sugar Association has applied for an increase in the US dollar-based reference price, used in the calculation of the duties, from US\$566 to US\$856 per ton. A decision is expected in 2018. The Department of Economic Development has supported the application. The industry has committed itself to provide further support to small-scale growers and expand community sugarcane farming in rural areas. Higher duty protection would assist in rebuilding margins of both growers and millers. The sugar industry has reduced local prices in response to competition from imports and to recover local market share.
- Tongaat Hulett remains focused on various initiatives to increase domestic sales, including the ongoing development of its leading sugar brands; improvements in marketing and distribution activities; and the investment in a refinery in Mozambique. The refinery will deliver a step change improvement to the sales mix in Mozambique, as sugar, previously sold into world price related markets, will now be redirected to the local market. The new financial year will benefit from three months of refined sugar

production, with the full year benefit being realised in 2019/20. The prospect of an economic recovery in Zimbabwe is expected to translate into further growth in domestic demand, particularly in the industrial sugar market.

- Regional trade preferences and agreements are gathering momentum. In the region, Tongaat Hulett already realises a premium over world market prices, supported by high-quality products and services, and where possible, by leveraging its sugar brands. The Hulett's® Refined and Hulett's SunSweet® sugar brands are already available in targeted markets, such as Kenya.
- All sugar operations continue to prioritise the reduction of the cost base, building on the successes of previous years. Cost reduction initiatives are focused on bought-in goods, services, logistics, marketing and manpower costs across all the business areas. Unit costs of sugar production will benefit from future volume increases.



STARCH AND GLUCOSE - IMPROVED MAIZE OUTLOOK AND CONSOLIDATION OF VOLUME GROWTH

- The starch and glucose operation is focused on growing sales volumes and margins by continuing to replace imports with local production, by enhancing its product mix through new business development and by targeting selected export markets. Sales into Sub-Saharan Africa and other regional markets are accelerating from a low base.
- Working together with customers, further opportunities are being explored to increase sales volumes through customer exports.
- Market development to increase the production of value-added modified starches is progressing well. These initiatives are supported by further improvements to the use of available production, which still has more than 15 percent spare capacity, and in operating efficiencies.



LAND CONVERSION AND DEVELOPMENT - CONTINUING TO CREATE VALUE FOR ALL STAKEHOLDERS THROUGH AN INCLUSIVE APPROACH TO LAND DEVELOPMENT ACTIVITIES

- Tongaat Hulett has a portfolio comprising 7 612 developable hectares of prime land in KwaZulu-Natal, near Durban and Ballito, which over a number of years, will be converted out of sugarcane into urban land usage. Of this land, some 47 percent (3 566 developable hectares) has been released formally from agriculture through approvals granted by the national government in response to applications made with the support of local and provincial government. Environmental approvals, which provide clarity regarding timing and suitability for ultimate usage, have been received for specified, market-aligned developments on 1 485 developable hectares.
- Considerable progress has been made towards bringing land to shovel-ready stage, with Tongaat Hulett having invested R979 million into land earmarked for future sales, to create a sound planning and infrastructure platform. Available shovel-ready land currently totals 185 developable hectares, exceeding the 171 hectares sold over the past two years. In the socially and economically important Cornubia area alone, investments of R489 million have been made.
- Significant negotiations are currently underway over some 300 developable hectares spread over Ridgeside, Sibaya, Cornubia, Bridge City, Umhlanga Ridge Town Centre, Kindlewood, Inyaninga and Tinley Manor.

LEADERSHIP AND STRENGTH OF MANAGEMENT TEAM

- Multiple advanced core competencies, good governance, strong executive and Board leadership.

SOCIO-ECONOMIC POSITIONING AND CONSTRUCTIVE INTERFACE WITH GOVERNMENTS AND SOCIETY

- Strategic positioning in the region is underpinned by the fundamental link between agriculture, agri-processing, rural jobs and community development, government and local authorities, unlocking infrastructure investment, and the conversion of cane land to development.

OTHER OPPORTUNITIES

- Attention continues on how best to unlock opportunities in ethanol production and electricity generation to maximise the value extracted from sugarcane.
- Working to unlock livestock nutrition in the region, by leveraging its Voermol platform.
- Future ethanol production in South Africa currently looks particularly promising.
- Exploring opportunities for cassava processing.