

# AT A GLANCE

Agriculture and agri-processing is a fundamental element of socio-economic development in Africa - particularly in relation to rural communities, farming, food security and water management, housing and land conversion activities as urban areas expand. This is also linked to the socio-political dynamics of the region.

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.

**AGRICULTURE AND AGRI-PROCESSING (SUGARCANE/SUGAR AND MAIZE/STARCH) WITH LIVESTOCK NUTRITION, RENEWABLE ENERGY OPPORTUNITIES (ELECTRICITY GENERATION AND ETHANOL PRODUCTION)**

**PORTFOLIO OF LAND FOR CONVERSION AND DEVELOPMENT (UNIQUE PORTFOLIO AND WELL-ESTABLISHED DEVELOPMENT PLATFORM IN KWAZULU-NATAL)**

**OPERATIONS LOCATED IN SIX COUNTRIES IN SUB-SAHARAN AFRICA**

**LARGEST PRIVATE SECTOR EMPLOYER IN BOTH MOZAMBIQUE AND ZIMBABWE**

**APPROXIMATELY ONE MILLION PEOPLE IN SOUTH AFRICA ARE DIRECTLY IMPACTED BY THE SOUTH AFRICAN SUGAR INDUSTRY**

**TONGAAT HULETT CREATES VALUE FOR ALL STAKEHOLDERS THROUGH AN ALL-INCLUSIVE APPROACH TO GROWTH AND DEVELOPMENT, WHICH FOLLOWS THE INTERCONNECTED NATURE OF ITS ACTIVITIES**



**STARCH OPERATIONS**

- 670 000 tons of maize converted to starch and glucose per annum
- available wet-milling capacity and enhanced product mix
- largest wet-miller of maize in Africa
- market development to increase the production of value-added modified starches
- sales into Sub-Saharan Africa and other regional markets accelerating from a low base



**SUGAR OPERATIONS**

- 194 408 hectares (own and third party) of sugarcane supplying eight Tongaat Hulett sugar mills
- approximately 34 000 hectares of new cane land has been planted over the past six years
- low-cost incremental sugar production from existing (2 million tons) milling capacity



**LAND CONVERSION AND DEVELOPMENT ACTIVITIES**

- 7 612 developable hectares identified for conversion out of sugarcane into urban land usage over time
- 3 566 developable hectares (47 percent of the portfolio) formally released from agriculture
- 1 485 developable hectares in the portfolio have EIA approval
- invested R979 million into land earmarked for future sales

**CONSTRUCTIVE INTERFACE WITH GOVERNMENTS, SOCIETY AND OTHER KEY STAKEHOLDERS**

# SALIENT FINANCIAL FEATURES 2017/18

REVENUE	OPERATING PROFIT	HEADLINE EARNINGS	ANNUAL DIVIDEND
<b>R16,982</b> BILLION	<b>R1,958</b> BILLION	<b>R617</b> MILLION	<b>160</b> CENTS PER SHARE
- 5,2% (2017: R17,915 BILLION)	- 16,1% (2017: R2,333 BILLION)	- 37,2% (2017: R982 MILLION)	(2017: 300 CENTES PER SHARE)

## THE RESULTS FOR THE YEAR ENDED MARCH 2018 REFLECTED:

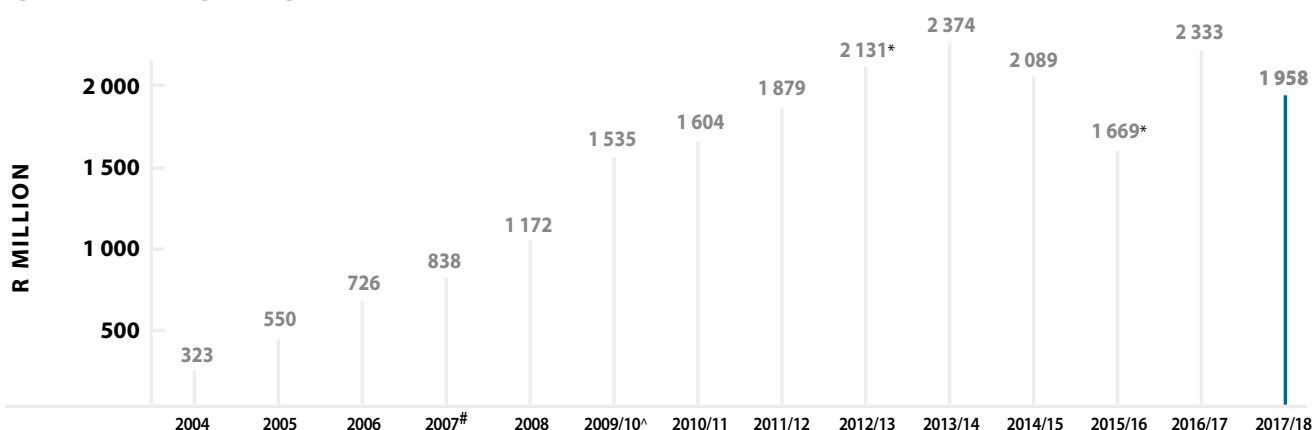
- sugar operations were adversely affected by the dynamics of imports into the South African market, low international sugar prices and the impact of stronger local currencies on export realisations
- starch and glucose operation improved operating profit in the second half of the year, benefitting from more competitive maize costs
- land conversion and development activities led to a number of sales in new markets and operating profit which was in line with the previous year

Tongaat Hulett's operating cash flow (after working capital) was R2,275 billion (2017: R3,176 billion)

Overall, the year reflected a net cash outflow after dividends of R1,324 billion (2017: R544 million inflow)

STARCH OPERATIONS	SUGAR OPERATIONS	LAND CONVERSION AND DEVELOPMENT ACTIVITIES
<ul style="list-style-type: none"> <li>• Operating profit of R572 million (2017: R510 million)</li> <li>• Margins benefitted from lower maize prices, that traded closer to export parity levels after the record crop of 16,8 million tons and were negatively impacted by a stronger Rand</li> </ul>	<ul style="list-style-type: none"> <li>• Operating profit of R837 million (2017: R1,271 billion)</li> <li>• Total sugar production increased to 1 171 000 tons (2017: 1 056 000 tons)</li> <li>• The price of raw sugar in the world market remained under pressure during the year</li> </ul>	<ul style="list-style-type: none"> <li>• The sale of 96 developable hectares resulted in operating profit of R661 million (2017: R641 million from the sale of 75 developable hectares)</li> <li>• Further investments were made during the year into planning and infrastructure that underpins future sales, mainly in areas where sales negotiations are underway or enquiries are being received</li> </ul>

## OPERATING PROFIT



<sup>#</sup> 2007 and prior: profit from Tongaat Hulett operations within the old Tongaat-Hulett Group <sup>^</sup> Change in financial year end from December to March

\*Restated for revised International Financial Reporting Standards

# 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.

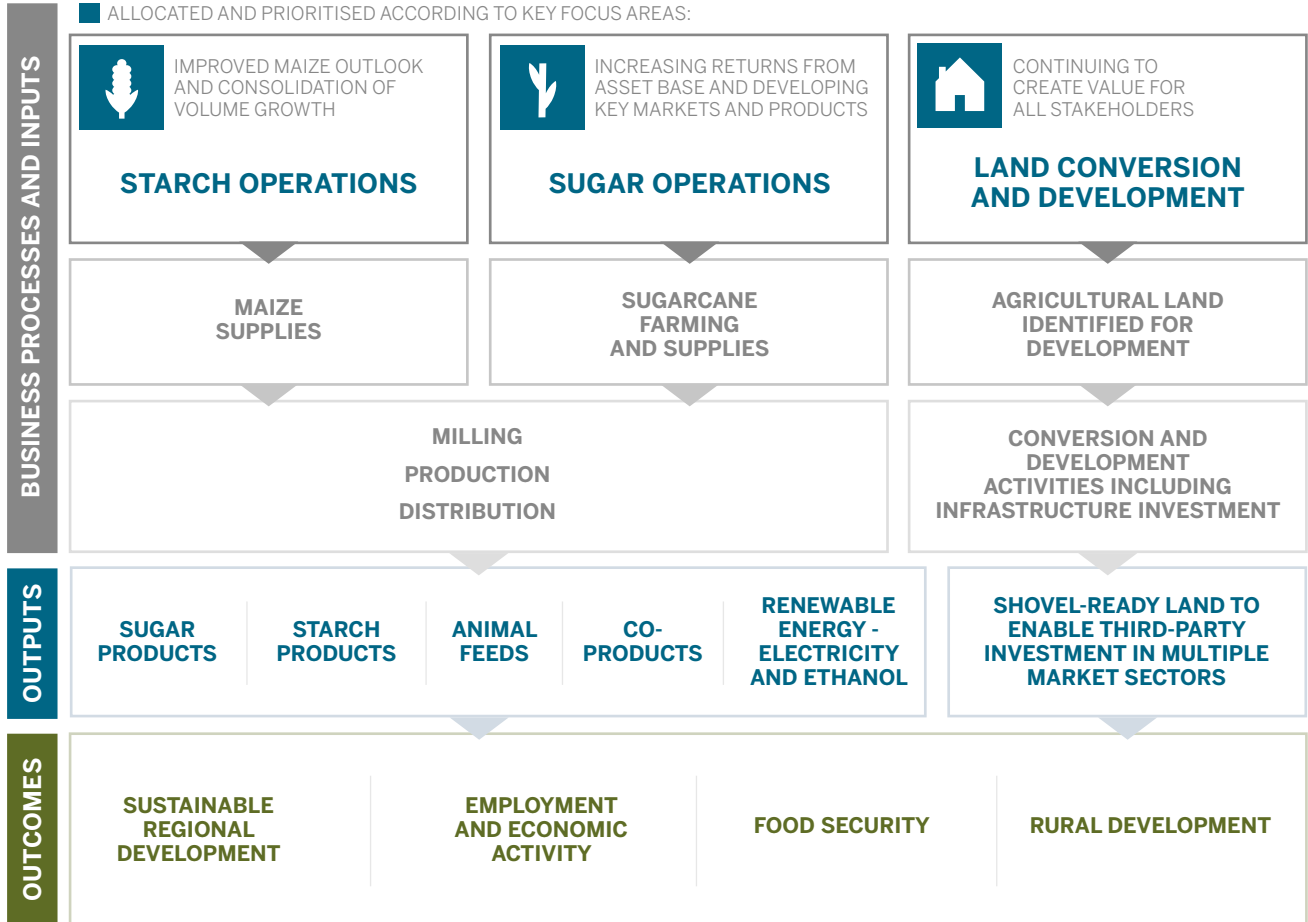
### OTHER OPPORTUNITIES

- 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.

# BUSINESS MODEL

## RESOURCES AND RELATIONSHIPS: PEOPLE | LAND | COMMUNITIES

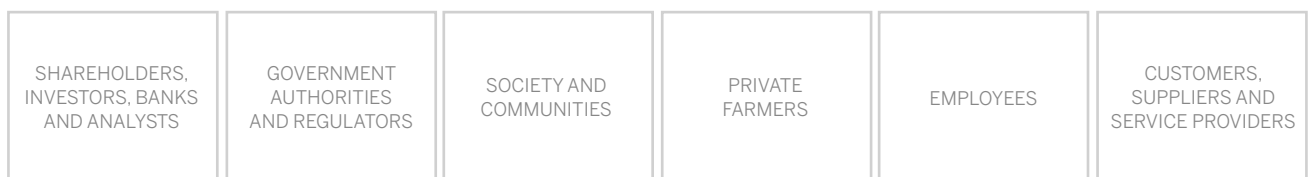
ALLOCATED AND PRIORITISED ACCORDING TO KEY FOCUS AREAS:



### OPERATING IN ENVIRONMENTS THAT PRESENT BOTH OPPORTUNITIES AND RISKS:



### SHARED VALUE PARTNERSHIPS WITH KEY STAKEHOLDERS:



VALUE CREATION FOR ALL STAKEHOLDERS THROUGH AN ALL-INCLUSIVE APPROACH TO GROWTH AND DEVELOPMENT

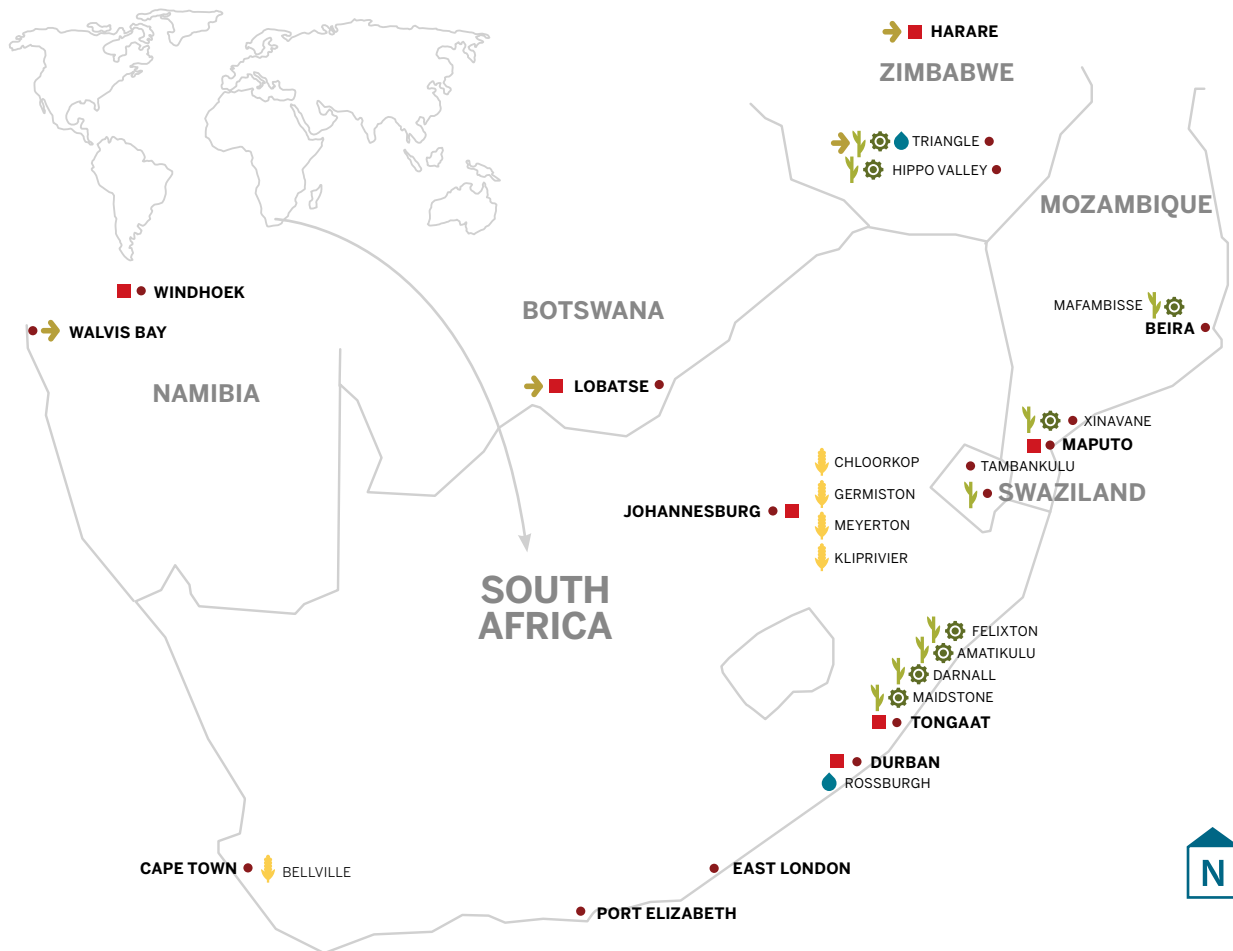
# GEOGRAPHIC FOOTPRINT

THE EIGHT SUGAR MILLS ARE SUPPLIED BY SOME 194 408 HECTARES OF SUGARCANE, SOURCED FROM A COMBINATION OF LARGE-SCALE FARMERS, SMALL-SCALE FARMERS, LAND REFORM FARMERS AND OWN ESTATES

MORE THAN 30 YEARS SELLING TO REGIONAL MARKETS WITH ESTABLISHED OPERATIONS IN SIX COUNTRIES

THE THIRD LARGEST MAIZE BUYER IN SOUTH AFRICA

TOTAL PORTFOLIO OF 7 612 HECTARES AVAILABLE FOR LAND CONVERSION IN SOUTH AFRICA



## KEY

- OFFICES
- ⬇ STARCH MILLS
- ⬇ CANE FARMING
- ⚙ Sugar mills
- Sugar/ethanol refineries
- ➔ distribution and packaging facilities

## SUGARCANE HECTARES SUPPLYING TONGAAT HULETT'S MILLS IN 2017/18

South Africa	116 416 HA	60%
Zimbabwe	45 245 HA	23%
Mozambique	28 910 HA	15%
Swaziland	3 837 HA	2%

# TONGAAT HULETT PROFILE



## MANUFACTURED CAPITAL

> 670 000 TONS OF MAIZE CONVERTED TO STARCH AND GLUCOSE PER ANNUM

LARGEST WET-MILLER OF MAIZE IN AFRICA

> 2 MILLION TONS INSTALLED SUGAR MILLING CAPACITY

7 612 HECTARES OF DEVELOPABLE LAND IDENTIFIED FOR CONVERSION AND DEVELOPMENT ACTIVITIES

TONGAAT HULETT IS AN AGRICULTURE AND AGRI-PROCESSING BUSINESS, FOCUSING ON THE COMPLEMENTARY FEEDSTOCKS OF SUGARCANE AND MAIZE. THROUGH ITS SUGAR AND STARCH OPERATIONS, TONGAAT HULETT PRODUCES A RANGE OF REFINED CARBOHYDRATE PRODUCTS FROM SUGARCANE AND MAIZE, WITH MANY PRODUCTS BEING INTERCHANGEABLE.

Global sweetener markets continue to be dynamic and the business seeks to optimise its various market positions, leveraging off its current base to maximise revenue from these products.

The business's sugar operations are well placed to benefit from the evolving dynamics of renewable electricity and ethanol in the SADC region. Its ongoing activities in agriculture have resulted in the company having a substantial land portfolio within the primary growth corridors of KwaZulu-Natal with strong policy support for conversion at the appropriate time. A core element of Tongaat Hulett's strategic vision is to maximise the value generated from the conversion of land in the portfolio by responding to key demand drivers, identifying its optimal end use for all stakeholders and the investment in developing the land platform, which underpins the pipeline of shovel-ready land. Value creation for all stakeholders through an all-inclusive approach to growth and development is a key focus area and Tongaat Hulett regards its constructive interfaces with governments and society to be significant.

The company has a primary listing on the Johannesburg Stock Exchange dating back to 1952 and a secondary listing on the London Stock Exchange since 1939. The structure of the business in its current state arose from the merger of the Tongaat Group Limited and the Huletts Corporation Limited, and its operations date back to the mid-1800s.

Tongaatt Hulett has seen the benefit of partnering with key stakeholders to achieve outcomes that represent a "win all". In so doing, these relationships contribute towards the achievement

of the business's strategic objectives, while also meeting the objectives of its various stakeholders, including shareholders, governments, private farmers and their representative bodies, communities, employees and people impacted by the company's operations and its development activities. Tongaat Hulett's approach to working with its key stakeholders continues to support its objective of being considered the developmental partner of choice of governments in the SADC regions, in the journey to further growing their agricultural sectors.

## SUGAR OPERATIONS

### SOUTH AFRICA

The company's South African sugar operations on the KwaZulu-Natal north coast and in the Zululand region operate four sugar mills at Maidstone, Darnall, Amatikulu and Felixton. These mills have an installed capacity to produce more than

1 million tons of sugar per annum. Cane is sourced from a combination of predominantly rain-fed own estates, large-scale commercial and small-scale private farmers in rural KwaZulu-Natal. At the beginning of the 2017/18 season, the South African operations were supplied by 116 416 hectares. The operation's central refinery in Durban produces some 600 000 tons of high-quality refined sugar per annum, with the primary product being the leading Hulett's® brand. The South African sugar product range offers a total sweetener solution including a range of high-intensity sweeteners.

### ZIMBABWE

The sugar operations in Zimbabwe consist of Triangle and a 50,3 percent stake in Hippo Valley Estates, representing a combined installed sugar milling capacity of more than 640 000 tons. At the beginning of the 2017/18 season, the Zimbabwe operations were supplied by 45 245 hectares of sugarcane land (own-estates and private farmers) with a potential to produce more than four million tons of sugarcane. The total refined sugar installed capacity is







60 000 tons and the Triangle ethanol plant has an installed capacity of 41 million litres over a 48-week production season. Securing adequate water supply is important. In this regard, the 1,803 million megalitre capacity Tugwi-Mukosi dam (previously known as Tokwe-Mukosi) and the 1,740 million megalitres of the Mutirikwi/Tugwi system significantly improve the water security of the operation. The Lowveld region has a total dam capacity of some 4,226 million megalitres which provides adequate water for the Zimbabwean operations.

The Huletts Sunsweet® brand is the leading sugar brand in the country. The Lowveld in Zimbabwe, with excellent topography, climate and established water storage and conveyance infrastructure for irrigation, is recognised globally as a highly competitive sugar producer. The Zimbabwean operations include the business running the largest cattle herd and extensive game reserves, which have significant potential for tourism.

### MOZAMBIQUE

The Mozambique sugar operations comprise the expanded sugar mills and estates surrounding Xinavane and Mafambisse. At the beginning of the 2017/18 season, 28 910 hectares supplied Tongaat Hulett operated mills. Sugar production capacity at the Xinavane mill is more than 250 000 tons in a 32-week crushing season, while the Mafambisse mill has an existing 90 000 tons of sugar production capacity. The two operations have a combined installed milling capacity in excess of 340 000 tons of sugar per annum. The sugar estates are irrigated and are generally located in areas with favourable growing conditions, resulting in high cane and sucrose yields. The larger Xinavane operation will benefit from the construction of the Moamba dam (760 000 megalitres) and the extension of the Corumana dam wall, which will result in its capacity being increased from 880 000 megalitres to 1,260 million megalitres by May 2019. The operation initiated the construction of a R550 million, 90 000-ton sugar refinery at its Xinavane operation during the year.

The favourable agricultural conditions, proximity to ports, and the technical support from South Africa, position the Mozambique operations well for further growth. The operations also include extensive landholdings, which border the Kruger National Park, and have high tourism potential.

### SWAZILAND

Tongaat Hulett's Tambankulu sugarcane estate in Swaziland is situated in the north east of the country and comprises 3 837 hectares of fully-irrigated farms of which approximately 97 percent is harvested annually. The estate consistently achieves excellent sucrose yields due to the good soil and growing conditions in the region and delivers its cane to the nearby Simunye and Mhlume sugar mills. The estates have the capacity to produce a Raw Sugar Equivalent (RSE) of some 60 000 tons per annum.

### NAMIBIA AND BOTSWANA

The Botswana operation has the capacity to pack and distribute 60 000 tons of sugar per annum using its Blue Crystal® brand while in Namibia, Tongaat Hulett has an 80 000 ton per annum packing and distribution operation with its leading Marathon® brand.

## RENEWABLE ENERGY

The eight sugar mills in Mozambique, South Africa and Zimbabwe all generate electricity from bagasse during the sugarcane crushing season. In some instances, these operations supply electricity to the grid. In Zimbabwe, Triangle has an ethanol plant which provided 21,7 million litres for blending with petrol during the 2017/18 year. Tongaat Hulett is well placed to benefit from evolving renewable energy dynamics with the potential to build large-scale renewable electricity plants, as well as the opportunity to convert its export sugar to ethanol in its southern African operations.

## VOERMOL FEEDS

The company's animal feeds operation, Voermol Feeds, is located at the Maidstone mill in Tongaat, KwaZulu-Natal. Tongaat Hulett manufactures and markets a range of energy and supplementary feeds to the livestock farming community through its Voermol® brand, using bagasse and molasses. The production and marketing of high-quality, cost-effective products over more than 50 years, combined with the development of long-term relationships with farmers, agricultural companies and suppliers, has established Voermol Feeds as the market leader in the molasses and pith-based animal feeds industry in South Africa.





## LAND CONVERSION ACTIVITIES

Tongaat Hulett carries out land conversion activities in close collaboration with the public sector, communities and other businesses. These partnerships continue to increase in scope and socio-economic impact. Tongaat Hulett's development activities are supporting a comprehensive, embedded social programme; are yielding increasing numbers of opportunities for well-located, affordable neighbourhoods; and are enabling transformation of ownership and participation in the real estate value chain. Of the sugarcane land supplying Tongaat Hulett's South African sugar mills, only 7 percent is owned by Tongaat Hulett, while the area under black ownership now exceeds 41 percent.

Tongaat Hulett's inclusive approach to growth and development simultaneously drives rural development in these cane catchment areas and urban social and economic empowerment through development of 7 612 developable hectares of prime land in KwaZulu-Natal, near Durban and Ballito, which will be converted out of sugarcane into urban land usage over a number of years.

These activities are underpinned by ongoing use of the land under agriculture throughout the development cycle and commence with collaborative planning with authorities on optimum use of land for all stakeholders. This leads to the release from agriculture and other development approvals, simultaneously strengthening demand drivers and unlocking infrastructure at key points, while executing optimal sales and development strategies for the various parcels of land.

Further details regarding these ongoing processes are provided in Tongaat Hulett's Land Development Portfolio, available at [www.tongaat.com/LDP](http://www.tongaat.com/LDP)



## STARCH AND GLUCOSE OPERATION

Tongaat Hulett's wet-milling operation is the major producer of starch and glucose on the African continent. Established in 1919, the starch operation is an important supplier to a diverse range of South African and African industries. Operating four wet-milling plants located in Kliprivier, Germiston and Meyerton in Gauteng and Bellville in the Western Cape, Tongaat Hulett converts more than 670 000 tons of bought-in maize per annum into starch and starch-based products. The business manufactures a wide range of products, from unmodified maize starch to highly-refined glucose products, which are key ingredients for manufacturers of foodstuffs, beverages and a variety of industrial products. The company's Amryal® corn starch, Hydex® and Vaalgold® Gluten 60 remain some of the leading starch, glucose and feed ingredient brands in South Africa. The co-products produced during the starch and glucose manufacturing process supply the animal feed industry. The business operates a dedicated Sorbitol facility, which is in Chloorkop in Gauteng, and has distribution networks and facilities in Zimbabwe, Australasia and the Far East.

Tongaat Hulett's significant investments in the production of sweeteners using both sugar and maize will ensure that the business remains well positioned to benefit from global developments in this area.

