

ILLOVO DISTILLERS TANZANIA LIMITED

Project for the construction of a new 50kl/day potable
alcohol distillery

Project Business Plan

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TABLE OF CONTENTS

1. DEFINITIONS.....	3
2. EXECUTIVE SUMMARY.....	4
3. IDTL HISTORY	4
4. PROJECT DETAILS	4
5. COMMERCIAL.....	5
6. FINANCIAL, FUNDING AND TAX.....	5
7. GOVERNMENT SUPPORT	6

1. DEFINITIONS

The following definitions shall apply in this business proposal:

EBIT	Earnings before interest and tax
EAC	East African Community
ENA	Extra neutral alcohol
GoT	Government of United Republic of Tanzania
IDTL	Illovo Distillers Tanzania Limited
Illovo	Illovo Sugar Africa Proprietary Limited
KSC	Kilombero Sugar Company Limited
Kilombero Growers	means the sugar cane growers based in the Kilombero Valley who supply sugar cane to KSC
New K4 Mill	New sugar factory situated adjacent to KSC's existing K1(Msolwa) Mill
Project	IDTL's new distillery expansion project as detailed in section 2.1 also known as K3.1
SADC	Southern African Development Community
TIC	Tanzania Investment Centre
TRA	Tanzania Revenue Authority
TZS	Tanzania Shillings
US\$	United States Dollars
VAT	Value Added Tax
VAT Act	Tanzania VAT Act, 2014

2. EXECUTIVE SUMMARY

2.1 Project Parameters

- 2.1.1 The construction of KSC's new K4 mill will result in a doubling of molasses production from 50 k'tons to circa 100 k'tons. Molasses is the main feedstock in IDTL's alcohol production process, and utilising the additional molasses to expand IDTL's potable alcohol production was considered to be the most beneficial use of the molasses.
- 2.1.2 The investment in a new distillery called K3.1 with a capacity of 50 kilo litres per day will result in the supply of an additional 12m - 14m litres of alcohol per annum into Tanzania's deficit ENA market.
- 2.1.3 It is currently estimated (to a 90% degree of accuracy) that the total capital investment required to execute the Project will be approximately US\$ 61.3 million.

2.2 Project Benefits

The Project is anticipated to deliver the following benefits:

- 2.2.1 an estimated increase of TZS 34.858 billion to IDTL's EBIT by 2029/30 (inflated);
- 2.2.2 achieving an EBIT return on investment of 20.9% by 2029/30;
- 2.2.3 a projected increase in corporate taxes payable by IDTL to GoT of over TZS 9.4 billion per annum (once a steady state is achieved at the new distillery);
- 2.2.4 additional revenue collection by GoT from VAT of TZS 26.4 billion;
- 2.2.5 an anticipated saving of Tanzania foreign exchange outflows of around US 11.3 million per annum by displacing imported alcohol with locally produced IDTL product;
- 2.2.6 creating an additional 40 (forty) full time highly skilled technical jobs in the Kilombero Valley and an increase in personal income taxes collected by GoT;
- 2.2.7 approximately 5 existing local businesses supported directly and indirectly by IDTL will benefit from execution and implementation of the Project;
- 2.2.8 production of a local liquid fertiliser, rich in potassium, for use by Kilombero Growers and others.

3. IDTL HISTORY

- 3.1 IDTL which is 100% owned by Illovo, is located in the Kilombero Valley, in the district of Kilosa of the Morogoro Region (360 kilometres west of Dar es Salaam).
- 3.2 IDTL commenced operations over a decade ago and the distillery has consistently operated above design levels to produce circa 14m litres of potable alcohol for the Tanzanian market.

4. PROJECT DETAILS

- 4.1 The new distillery will be constructed adjacent to IDTL's existing distillery, resulting in the realisation of synergies between the old and new distilleries.

- 4.2 The new distillery will have a capacity of 50 kilo litres of potable alcohol per day and will operate for 280 days of the year, resulting in IDTL's production of potable alcohol increasing from 14m litres to 28m litres.
- 4.3 The technical solution will include new technology which will process the effluent from both distilleries, via an anaerobic digester, to generate and capture biogas to be utilised in fuelling a new biogas boiler to produce steam for the manufacturing of potable alcohol. Steam generation will be backed up by 2 electrode boilers generating steam from 5 MW of power exported from the new K4 sugar mill. The anaerobic digester plant output will be concentrated to produce a potassium rich and low carbon fertiliser for use by Kilombero Growers and others.
- 4.4 Execution of the Project is expected to take 21- 24 months starting from 13 December 2024, with commissioning of the plant expected in during June to August of 2026 and handover to operations scheduled by end of August 2026.

5. COMMERCIAL

The main commercial drivers for Project are as follows:

- 5.1 Tanzania is a deficit market for potable alcohol with current demand estimated to be twice domestic production. The deficit is greater than the proposed additional ENA production capacity from IDTL and will rise as demand is forecasted to increase.
- 5.2 An independent demand study was commissioned and concluded that growth in ENA consumption is linked to increasing GDP and population, plus greater spirit consumption. According to the study the ENA market is expected to grow by a compound annual growth rate of approximately 8%.
- 5.3 The current gap in the market is supplied by imports from SADC and India & Pakistan. Customers have a clear preference for IDTL supply due to local currency pricing, high quality product, ease of purchase and shorter lead times compared to imports.
- 5.4 Customer demand for increased IDTL ENA supply has been validated and targeted customers, all spirit manufacturers, with the ability to consume all IDTL's future supply have been identified.

6. FINANCIAL PROJECTION, FUNDING AND TAX

6.1 Financial returns

- 6.1.1 The Project will grow IDTL's EBIT by US\$ 12.8 million from 2029/30, driven by the doubling of its production volumes for sale into the deficit Tanzanian market.
- 6.1.2 The capital cost of the Project is currently estimated to be US\$ 61.3 million.

6.1.3 The results of the business case are as follows:

Capex (\$'m)	61.3m
Year 5 EBIT (\$'m)	14.3m
Year 5 ROI (%)	23.3%
IRR (%)	20.8%
Simple payback (years)	5.5 years

Note: EBIT year is assumed to be 2031/32 which is the point at which the steady state potable alcohol production is achieved.

6.2 Funding

6.2.1 The funding required to execute the Project will be sourced from shareholder funding and external debt local debt.

6.3 Tax

6.3.1 To achieve cost competitiveness and achieve the required returns on the Project, IDTL requires support from GoT in the form of tax incentives.

6.3.2 Specific tax mechanisms required for the project are covered in more detail under the Government Support section below.

7. **GOVERNMENT SUPPORT**

7.1 TIC Certificate of Incentives

7.1.1 TIC assists foreign investors to obtain the necessary authorisations required by the laws of Tanzania to set up and operate investments in Tanzania. The TIC grants Certificates of Incentives under authority conferred upon it by Part III, Section 17 (1-8) of Tanzania Investment Act, 1997. A holder of a Certificate of Incentives is entitled to various investment incentives as stipulated in the Investment Act, 1997.

7.1.2 To qualify for and to obtain a TIC Certificate of Incentives a minimum fixed investment cost for a New, Rehabilitation and Expansion Project is US\$ 500,000.

7.1.3 IDTL understands that the following incentives are made available to applicants who are granted a TIC Certificate of Incentives:

Customs Duty on Project Capital Goods

7.1.3.1 A significant number of capital goods will need to be imported into Tanzania in order to construct the new distillery.

It is requested that Customs duty is reduced to 0% on capital goods imported by IDTL into Tanzania for the purpose of executing the Project.

7.1.3.2 A list of tariff codes shall be provided by IDTL for qualifying capital goods

Customs duty on deemed capital goods

7.1.3.3 The import duty exemption on deemed capital goods is 75%. Deemed capital goods are goods such as building materials, utility vehicles and equipment. It is anticipated that apart from the capital goods, building material for the housing the plant and machinery may also be imported into Tanzania.

7.1.3.4 IDTL may also require specific equipment for testing and commissioning of plant and machinery.

It is requested that TIC grants a 75% import duty exemption on all deemed capital goods imported by IDTL into Tanzania for the purpose of executing the Project.

7.1.3.5 A list of tariff codes shall be provided by IDTL for qualifying deemed capital goods.

Duty exemptions on plant and machinery temporary imported for construction phase

During the construction phase, a number of plant and machinery which is not readily available in Tanzania would be imported during the construction phase of the Project. In this regard, duty exemption consideration is required on the basis that the plant and machinery temporary imported will be re-exported once the project is completed.

It is requested that Customs duty is reduced to 0% on all plant and machinery imported into, and subsequently re-exported from Tanzania, for the purpose of executing the Project.

Capital allowance

7.1.3.6 The Income Tax Legislation allows 50% capital allowances in the first year of use for plant and machinery used in manufacturing processes and fixed in a factory.

7.1.3.7 Thereafter, wear and tear rates apply to the plant and machinery at a rate of 25%.

7.1.3.8 We request that wear and tear rates applied to plant and machinery for years of assessment subsequent to the first year of use is applied on a straight lined basis.

It is requested that TIC grants a 50% capital allowance in the first year of use, for plant and machinery used in the new manufacturing process, and the balance written off evenly over a subsequent two year period

VAT deferment

7.1.3.9 VAT is levied at a rate of 18% on capital goods imported into Tanzania.

- 7.1.3.10 VAT deferment is granted on project capital goods such as plant and machinery. In order to qualify for VAT deferment the applicant to TIC has to carry on an economic activity, keep proper VAT records and file returns, has no tax outstanding and VAT payable in respect of each unit of the capital goods is TZS 20 million or above.
- 7.1.3.11 VAT deferment may be granted upon approval of the TIC application.
- 7.1.3.12 IDTL therefore requests that it not be required to pay VAT on importation capital goods and will not be payable in the future subject to compliance with the following requirements:
- 7.1.3.12.1 deferred import VAT is accounted for by KSC as required by law;
- 7.1.3.12.2 the said capital goods are not transferred, sold or otherwise disposed of in any way to another person not entitled to enjoy similar privileges;
- 7.1.3.12.3 the security provided by IDTL has not expired;
- 7.1.3.12.4 IDTL does not become liable to fines or penalties, or is not prosecuted for or convicted, under VAT Act or any other applicable taxation legislation.

It is requested that TIC grants a levy of 0% VAT on all capital goods imported by IDTL for the purposes of the Project

7.2 Work permits

- 7.2.1 IDTL is committed to using local contractors, service providers and labour where possible in the construction of the K3.1 distillery I. Construction will require skilled, semi-skilled and unskilled labour. The Project will therefore create training and employment opportunities in the Kilombero Valley area.
- 7.2.2 To the extent that special skills are required and not available in Tanzania, the services of the foreign contractors and service providers will be required. Much of plant and machinery required to construct the K3.1 distillery I will need to be imported and as such the special skills of the foreign contractors and service providers familiar with operational setup of such plant and machinery will be required during the construction and commissioning phases of the project.
- 7.2.3 It is therefore anticipated that work permits would be required for the employees of foreign contractors and service providers. The estimated number of work permits that may be required during the construction and commissioning phases of the K3.1 distillery are as follows:
- 7.2.3.1 Build phase 240 people
- 7.2.3.2 Commissioning phase 20 people

Assistance is sought from the TIC to facilitate the issuing of 240 work and residence permits for the execution phase of the Project and 20 work and residence permits for the commissioning and integration phases of the Project

from the relevant immigration authorities in Tanzania, so that there are no undue delays in the construction and commissioning phases of the K3.1 distillery.

In addition, its requested that long term business visas for senior executive personnel representing shareholders visiting the project site on a regular basis through the construction period, be granted. IDTL will provide a list of these executives to the relevant Government authority, but the number of visas requested will not exceed 20.

END
