

TANZANIA INVESTMENT CENTRE

DAR ES SALAAM

PROGRESS REPORT

The Kilombero Expansion Project at the Kidatu -Morogoro site is now well advanced with overall completion status of 92.7% as at the end of November 2024.

Construction activity was at 87.1% complete with initial commissioning having already commenced. The new factory will be highly automated introducing latest technology operational and packing facilities. The new factory includes a Bulk 1 ton storage facility of 90 000 tons which will be filled during the crushing season, and which will be decanted and repacked outside of the crushing season to ensure a ratable sugar supply into the Tanzanian local market throughout the year assisting to eliminate the GAP period when sugar is not easily available in the country.

It is expected to commence commercial operations in between June 2025 and January 2026.

The completed expansion project will increase the sugar production at Kilombero Sugar Company by about 200,000 tons and increase the overall sugar production to 271,000 tons per annual crushing season.

The expansion has allowed for excess electrical power generation capacity of between 10 -15 MW and discussions in terms of a formal Power Purchase Agreement to export 10 MW into the TANESCO grid are well advanced.

The construction staff compliment peaked at approximately 1600 people on site with >75% of people being employed on site being Tanzanian nationals. 22 Tanzanian companies out of the 44 established on site were also Tanzanian registered companies. The site compliment is reducing as the project peak is passed and is fluctuating in the range of between 1100 and 1200 people at the moment.

Equipment installed in the new factory came from international geographies such as India, Spain, China, Brazil, United Kingdom and South Africa.

The completed factory will be a value-added asset to the Kilombero Sugar Company shareholders and will be the largest producer of sugar within Tanzania once in operation by between June 2025 and January 2026.

S/No.	Information	Description	Current Project Status
1	Shareholder's Information	Current Shareholders names, nationality and percentage of ownership	Kilombero Holdings Limited 75% Government of Tanzania 25%
2	Company communication Information	Email address Mobile Number Land Line Telephone Number Physical Address (Plot No. Block No. Street, District and Region)	kscl.info@illovo.co.tz +255 23 261 7061 Farm No. 1394 Mrabani Street Mkamba Village Kidatu Ward - Ifakara Town Council, Morogoro Region
3	Contact Person	Name Position Communication details (Email, Mobile and telephone)	Derick Stanley Corporate Affairs Director Dstanley@illovo.co.tz +255 684 353688
4	Incorporation	Certificate of Incorporation Number	2539
5	TIN Information	TIN Certificate No.	100-617-180
6	Project Objective	Project Core Activity	Manufacturing of Sugar and storage facility
7	Capacity	Project capacity per year	200,000 tons
8	Direct Employment	Local Foreign Total	902 241 1143
9	Indirect employment	Type/areas of Indirect employment	Small businesses have established in the Ruaha village, accommodation facilities have substantially expanded, and banks have increased patronage. In the agriculture area it is expected that approximately 9000 new growers will supply sugarcane to the expanded Kilombero Sugar Company factories and this has a significant increase in local employment

1. Project Financing Expenditure to date (USD)

	Foreign (USD)	Local (USD)	Total (USD)
Land and Buildings	0	78.90 million	78.90 million
Plant and machinery	>113.09 million	59.39 million	172.48 million
Vehicles/Aircrafts		0.09 million	0.09 million
Furniture		0.02 million	0.02 million
Office equipment		0.41 million	0.41 million
Insurance Cover		2.51 million	2.51 million
Pre-operational expenses		7.56 million	7.56 million
Working sub-total capital			
Grand Total	113.09 million	148.87 million	~ 261.96 million

2. Project Financing

Explain how the project is being financed e.g. equity, loans, sources of loans, conditions etc. see table below:

	Amount (USD)	Source Country
Local equity	19.0 million	Tanzania
Local loans	157.2 million	Tanzania
Foreign equity	13.07 million	South Africa
Foreign Loans	72.72 million	United Kingdom
Total Investment	261.96 million	

3. Problems and Solutions

The execution of the project has been complicated by the follow on of the COVID – 19 pandemic and associated schedule ad cost implications, the impact of the Ukraine war and piracy in the red sea. These have all impacted significantly on the schedule which has been extended by two (2) years since project commencement as a consequence of the knock-on effects. TSK the main contractor has suffered significant cashflow constraints as a consequence of the knock-on cost effects on the project and this has resulted in cashflow management being prioritized above execution schedule inducing completion date challenges.

Kilombero Sugar Company shareholders have assisted significantly by approving delays in completion to June 2025 – January 2026 and also assisting with significant cashflow assistance to the main EPC contractor TSK. Both TSK and the Kilombero Sugar Company shareholders have injected new money into the project to ensure its success. New cash injection has been approved subject to stringency approval and payment processes which ensure the sub-contractors are paid and thereby enabling them to accelerate the works.

The investment by Kilombero Sugar in this project was made on the assumption and strong assurances made by Government at the time that there will be continued strong support to

protect the sugar industry to ensure a stable market. Unfortunately, in January – September 2024, Government issued import licenses to fill the Sugar GAP for 220,000 tons, of which 170,000 tons of sugar import licenses were issued to non-sugar producers, which was not prescribed by the Sugar Act. 80,000 tons of sugar were imported into Tanzania post June 2024 when all sugar producers' mills had started production for the new 2024/25 Season. Imports also were allowed to come into the country duty free and exempt from VAT. The net result there was a large over supply of cheap sugar against which local producers could not compete with, resulting in more than a drop in local sugar producer sales by as much as 60% from June to December 2024 result high sugar stocks. As a result, sugar producers, Kilombero Sugar included, suffered severe financial difficulties during this time leading to loan defaults and renegotiations with banks and consequential higher borrowing costs and outstanding debt. Kilombero Sugar as a result had to borrow an additional \$62million from its major shareholder, ABF Plc Limited, as local banks would not lend more money. The company is over geared at a total debt projected at US\$ 219.6million (TZS 549 billion). It is essential for the success and sustainability of K4 project that government maintains consistent policies and laws that protect the sugar industry and ensure that there is not over importation of cheap sugar. Every ton of sugar imported is effectively exporting jobs and investments to the countries supplying the imported sugar.

7. Future Plans

The following six (6) months period will be fully focused on execution and commissioning completion of the new factory in readiness for commercial operations between June 2025 and January 2026.

The readying of the Tanzanian growers and the required infrastructure to delivery the significant increase in sugarcane to the expanded factories will enjoy a primary focus and retrofits to existing vehicle fleet and procurement of new fleet is a major priority.

Staff recruitments and training and procurement of essential spare parts is a major workstream which is key to the successful commissioning and commercial startup of the new factory.

8. Recommendations and any other comments

The Kilombero Sugar Company will be the lead sugar producer in Tanzania with a new highly automated, high technology factory at the Kidatu – Morogoro site.

It is crucial that employee upskilling is completed ahead of final commissioning, and this is underway.

It will be required that procurement of critical spares enjoy duty exemptions as the costs are significant and the majority >95% of all spares are procured from international geographies listed earlier in this report.

To commission, startup commercial operations and settle the new factory down will require the recruiting of expatriates who have the knowledge and can transfer the knowledge to the Tanzanian workforce. It is there important that immigration support the requirements for short and medium work permits to enable the success of the Kilombero Sugar Factory startup.

Recent Pictures of the site @ 13th January 2025





