

**Vantage's Fund II plans to co-fund a new R2.4 billion (\$220m) sorghum-to-bioethanol plant to be located in the Free State by arranging and part-funding a R335m (\$31m) mezzanine debt tranche**

Cape Town, South Africa – Vantage Capital, Africa's leading mezzanine funder, today announced that it will be providing R175 million (\$16m) of mezzanine funding to Mabele Fuels for the construction and operation of a sorghum-to-bioethanol plant to be located in Bothaville in the Free State as soon as the necessary government regulations are gazetted.

In addition to providing R175 million from its R1.9 billion (\$175m) mezzanine fund, Vantage has arranged a further R160 million (\$15m) of mezzanine funding from Standard Bank and the Eskom Pension and Provident Fund. The total mezzanine funding component amounted to R335 million of the R2.4 billion project.

Mezzanine funding is an intermediate form of risk capital which is situated between senior debt, the least risky tranche of the capital structure, and equity, the most risky. It combines elements of both debt and equity thereby providing companies with long-term funding on terms which are less dilutive to shareholders than pure equity. Mezzanine funding is increasingly being used for long-term project finance opportunities which require a tranche of "patient" capital which is less constraining than bank debt. Mabele Fuels represents one of several such opportunities that Vantage has been reviewing during the 5 year investment period of its second-generation fund.

The bioethanol plant will be the first of its kind in South Africa and will mark the establishment of a new biofuels industry in the country. From October 2015, oil refineries will be required to blend domestically produced bioethanol into petrol in a 2% ratio. This sees South Africa following in the footsteps of nations such as the United States, Europe and Brazil who also blend bioethanol into petrol, in ratios ranging between 5% and 25%. In order to achieve a 2% blend in South Africa, an estimated 250 000 litres of bioethanol will need to be produced annually. The bioethanol plant being co-funded by Vantage will produce around two thirds of this required volume, with the remainder to be supplied by a plant backed by the Industrial Development Corporation (IDC) which is to be located in Cradock in the Eastern Cape. Construction of the Mabele Fuels plant will commence shortly after the necessary government regulations are gazetted, enabling production of bioethanol to begin around the October 2015 commencement date for mandatory blending.

A by-product of bioethanol production, known as DDGS (Distiller's Dried Grains with Solubles), has become a significant animal feed product globally due to its high protein content. It is expected to replace yellow maize in South Africa's animal feed market and will provide bioethanol producers with a secondary source of income.

The developmental impact of the biofuels industry is significant. For one, it will reduce the country's dependence on imported fuel. It will also help to build a greener economy, with bioethanol containing zero aromatics, benzene and sulphur, making it a cleaner fuel to burn. Importantly though, the industry will also stimulate the country's agricultural sector through sourcing grain sorghum domestically. Emerging black farmers will be encouraged to grow and supply the crop, helping to uplift rural communities and alleviate poverty. It is estimated that the industry will create at least 55 000 new jobs.

Zahir Williams, Joint CEO of Mabele Fuels, noted that "the project has the full support of the South African government, who have played an instrumental role in facilitating private investment into the industry through a subsidy mechanism as well as through promulgating legislation for the mandatory

blending of bioethanol with petrol. Everything is ready and we are now waiting for government to gazette the necessary regulations.” The government subsidy will provide licensed domestic bioethanol producers, such as Mabele Fuels, with a minimum return on assets. It is funded through a biofuels levy added to the petrol price, which is currently expected to be 3.5c to 4c per litre.

Luc Albinski, Managing Partner at Vantage, said that “Vantage is proud to be a key funder of this landmark project, which will see South Africa producing a cleaner fuel while at the same time stimulating the agricultural sector and creating jobs.”

Grain sorghum will be used as the primary feedstock for the Mabele Fuels plant. Indigenous to Africa, the crop has to date been cultivated in South Africa primarily for sorghum beer production and animal feed. David Kornik, Associate Partner at Vantage, notes that “grain sorghum is an ideal crop for bioethanol production, being a drought and disease resistant crop that is capable of generating reliable yields on marginal land, and is suitable for wide-scale cultivation in South Africa without impacting on food security.” The crop grows well in drier areas, especially on marginal soils that are shallow and have heavier clays. Conditions in the Free State are particularly well suited to grain sorghum cultivation, a key reason for the Mabele Fuels plant being located in Bothaville at the heart of the country’s so-called “grain triangle”.

Mabele Fuels will require around 380 000 tons of grain sorghum annually, which will be sourced domestically over time from commercial and emerging black farmers. An estimated 150 000 hectares of farmland will be required to grow these volumes, half of which will come from previously unused land being cultivated and the other half from maize crops being switched into grain sorghum. Given that maize is grown on close to 3 million hectares of land in South Africa, the loss of 75 000 hectares to grain sorghum equates to less than 3% of maize farmland and the impact on maize prices and on food security is therefore expected to be negligible.

Other key project funders include Standard Bank, the Government Employees Pension Fund, the National Empowerment Fund and Eskom Pension and Provident Fund.

Mabele represents the seventh investment of Vantage’s second investment fund. In aggregate with Mabele, Vantage, Africa’s leading mezzanine provider, will have invested over R1.7 billion (\$156m) into twelve different transactions across its first generation and second generation mezzanine funds. Vantage is seeking to complete its Fund II investment program by the end of 2014.

## Notes to Editors

### About Vantage Capital

The Vantage Capital Group is a majority black-owned fund manager and investment firm. The Group was established in 2001 with funds under management of R125m and now manages over R5 billion (\$459m). In addition to managing technology venture capital, mezzanine debt and renewable debt funds, Vantage also provides advisory and origination services through its debt capital markets division and makes proprietary investments using its balance-sheet capital.

Capital for its fund management business has been sourced from over 30 institutions including many leading African pension funds like the Public Investment Corporation (PIC) in South Africa and the Debswana Pension Fund in Botswana, development funders such as the Development Bank of Southern Africa (DBSA) and the Norwegian Fund for Development (Norfund), and private sector endowments such as the Kellogg Foundation from the United States.

Vantage has offices in Johannesburg and Cape Town and in addition to its home market in South Africa, targets debt opportunities in a number of high-growth African countries including Ghana, Nigeria, Ethiopia, Kenya, Tanzania, Uganda, Zambia, Botswana and Namibia.

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