Tongaat Hulett

Interim Results for the six months ended 30 September 2013

- **Revenue of R7,854 billion** (2012: R7,398 billion) **+6,2%**
- **Operating profit of R1,381 billion** (2012: R1,290 billion) **+7,1%**
- **Headline earnings of R663 million** (2012: R655 million) **+1,2%**
- **Interim dividend of 150 cents per share** (2012: 150 cps)

Condensed consolidated Rmillion	Unaudited 6 months to 30 Sept 2013	Unaudited 6 months to 30 Sept 2012 (note 8)	Audited 12 months to 31 March 2013 (note 8)
INCOME STATEMENT			
Revenue	**7 854**	7 398	14 373
Operating profit	**1 381**	1 290	2 131
Net financing costs (note 1)	**(298)**	(281)	(560)
Profit before tax	**1 083**	1 009	1 571
Tax (note 2)	**(319)**	(274)	(392)
Net profit for the period	**764**	735	1 179
Profit attributable to:			
Shareholders of Tongaat Hulett	**708**	656	1 079
Minority (non-controlling) interest	**56**	79	100
	764	735	1 179
Headline earnings attributable to Tongaat Hulett shareholders (note 3)	**663**	655	1 067
Earnings per share (cents)			
Net profit per share			
Basic	**632,3**	606,2	978,9
Diluted	**625,9**	594,9	961,0
Headline earnings per share			
Basic	**592,1**	605,2	968,0
Diluted	**586,2**	594,0	950,3
Dividend per share (cents)	**150,0**	150,0	340,0
Currency conversion			
Rand/US dollar closing	**10,08**	8,27	9,21
Rand/US dollar average	**9,78**	8,18	8,48
Rand/Metical average	**0,33**	0,30	0,30
Rand/Euro average	**12,87**	10,40	10,95
US dollar/Euro average	**1,32**	1,27	1,29
SEGMENTAL ANALYSIS			
REVENUE			
Sugar			
Zimbabwe operations	**1 324**	1 633	3 222
Swaziland operations	**173**	135	207
Mozambique operations	**1 402**	1 286	1 688
SA agriculture, milling and refining	**1 762**	1 509	3 920
Downstream value added activities	**978**	1 004	1 819
Sugar operations - total	**5 639**	5 567	10 856
Starch operations	**1 594**	1 401	2 859
Land Conversion and Developments	**621**	430	658
Consolidated total	**7 854**	7 398	14 373
OPERATING PROFIT			
Sugar			
Zimbabwe operations	**232**	435	625
Swaziland operations	**53**	41	76
Mozambique operations	**151**	270	421
SA agriculture, milling and refining	**133**	99	52
Downstream value added activities	**115**	122	256
Sugar operations - total	**684**	967	1 430
Starch operations	**232**	147	388
Land Conversion and Developments	**512**	246	366
Centrally accounted and consolidation items	**(37)**	(42)	(9)
BEE IFRS 2 charge and transaction costs	**(10)**	(28)	(44)
Consolidated total	**1 381**	1 290	2 131
STATEMENT OF CASH FLOWS			
Operating profit	**1 381**	1 290	2 131
Profit on disposal of property, plant and equipment	**(49)**	(5)	(24)
Depreciation	**283**	231	472
Growing crops and other non-cash items	**787**	278	(397)
Operating cash flow	**2 402**	1 794	2 182
Change in working capital	**(2 075)**	(1 390)	(56)
Cash flow from operations	**327**	404	2 126
Tax payments	**(141)**	(47)	(239)
Net financing costs	**(298)**	(281)	(560)
Cash flow from operating activities	**(112)**	76	1 327
Expenditure on property, plant and equipment:			
New	**(86)**	(61)	(447)
Replacement	**(270)**	(338)	(477)
Major plant overhaul costs	**(7)**	(97)	(93)
Capital expenditure on growing crops	**(39)**	(36)	(157)
Other capital items	**64**	1	24
Net cash flow before dividends and financing activities	**(450)**	(455)	177
Dividends paid	**(214)**	(192)	(357)
Net cash flow before financing activities	**(664)**	(647)	(180)
Borrowings raised	**865**	1 160	503
Non-recourse equity-settled BEE borrowings	**(15)**		(15)
Shares issued			5
Settlement of share-based payment awards	**(8)**	(43)	(94)
Net increase in cash and cash equivalents	**178**	470	219
Balance at beginning of period	**917**	592	592
Foreign exchange adjustment	**(6)**	37	106
Cash and cash equivalents at end of period	**1 089**	1 099	917
STATEMENT OF OTHER COMPREHENSIVE INCOME			
Net profit for the period	**764**	735	1 179
Other comprehensive income	**1 130**	494	1 112
Items that will not be reclassified to profit or loss:			
Foreign currency translation	**1 129**	494	1 149
Actuarial loss			(44)
Tax on actuarial loss			12
Items that may be reclassified subsequently to profit or loss:			
Hedge reserve	**2**		(6)
Tax on movement on hedge reserve	**(1)**		1
Total comprehensive income for the period	**1 894**	1 229	2 291
Total comprehensive income attributable to:			
Shareholders of Tongaat Hulett	**1 704**	1 074	1 996
Minority (non-controlling) interest	**190**	155	295
	1 894	1 229	2 291

CORPORATE INFORMATION

Tongaat Hulett Limited

Registration No: 1892/000610/06 JSE share code: TON ISIN: ZAE000096541

Directorate: J B Magwaza (Chairman), P H Staude (Chief Executive Officer)*, F Jakoet, J John, R P Kupara^, A A Maleiane+, T N Mgoduso, N Mjoli-Mncube, M H Munro*, S G Pretorius, C B Sibisi.

* Executive directors ^ Zimbabwean +Mozambican

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P O Box 3, Tongaat 4400 Telephone: +27 32 439 4019 Facsimile: +27 31 570 1055

Transfer secretaries: Computershare Investor Services (Pty) Limited Telephone: +27 11 370 7700

Sponsor: Investec Bank Limited Telephone +27 11 286 7000

COMMENTARY

Revenue increased by 6% to R7,854 billion and operating profit grew by 7% to R1,381 billion for the half-year to September 2013. The results reflect the combination of a number of factors with differing impacts. These six months have seen a record performance from both the land conversion and starch operations. Land conversion and developments generated sales from 174 developable hectares and the starch operation benefitted from competitive maize costs and favourable co-product realisations. The sugar operations are experiencing the pressure of significantly lower international sugar prices, particularly for exports into the European Union, as well as experiencing the impact of increased imports into Southern African markets, impacting adversely on both revenue earned and the valuation of standing cane. The pricing pressures have added impetus to the drive to reduce costs of sugar production, with substantial reductions being achieved in the current season. Unit costs of production are further benefitting from volume growth. Tongaat Hulett's overall sugar production is continuing to increase this season and is expected to be at the highest level in the past 10 years.

Operating profit in the first half of the year from the various sugar operations totalled R684 million (2012: R967 million). Tongaat Hulett's total sugar production is well on track to increase from 1,254 million tons (raw sugar equivalent) last year to between 1,366 and 1,408 million tons this season, with the increase this year coming from South Africa. Downward pressure on sugar prices is being experienced internationally. In real terms, the world sugar price has been at its lowest level in many years. In the regional markets, local market sales are being lost to imports as a result of the current low world price, leading to increased export volumes at lower prices.

The South African agriculture, sugar milling and refining operations recorded operating profit of R133 million (2012: R99 million). The benefit of substantially increased sugar production has been offset by the current revenue dynamics and the impact of imports. The various downstream sugar value added activities contributed R115 million (2012: R122 million), with lower local volumes as a result of imports. In total, operating profit from the SA sugar operations including the downstream sugar value added activities amounted to R248 million (2012: R221 million) for the half-year.

With the changing dynamics in the European Union, the price levels that the business is achieving for sales from Mozambique and Zimbabwe into the EU this season, from its multiple commercial arrangements and channels, are averaging some 6 US cents per pound lower than the levels in the last two years. Operating profit from the Mozambique sugar operations reduced to R151 million (2012: R270 million) for the half-year. In Zimbabwe, the first six months have seen lower sales invoicing levels (193 000 tons) than the first half of last year (248 000 tons), which is a result of lower local market sales (mainly due to substantially increased imports in the market) and a timing difference on export shipments. Cane valuations have been impacted by lower prices and the effect of curtailed root replanting as a consequence of the current water dynamics. The operating profit from the Zimbabwe sugar operations for the half-year amounted to R232 million (US$23 million) compared to the same period last year of R435 million (US$53 million).

The Swaziland sugar cane growing operations have reported increased operating profit of R53 million (2012: R41 million) as a result of an improved sucrose price in the current season compared to the lower export pricing levels contracted by the Swaziland industry in the prior year.

The starch operation grew operating profit to R232 million (2012: R147 million). Starch and glucose processing margins were favourably influenced by local maize costs that were close to international prices, favourable exchange rates and good co-product realisations. Total sales volumes grew by 5%, driven by increased exports and growth in the coffee/creamer and alcoholic beverage sectors which offset declines in other local sectors. Manufacturing plant performance has continued to improve.

Land conversion and developments generated profit of R512 million (2012: R246 million). A total of 174 developable hectares was sold in the half-year. A sale to Dube Tradeport was concluded of 151 developable hectares that is not yet shovel ready, near the international airport, north of Durban, generating a profit of R350 million. Tongaat Hulett and Dube Tradeport are working together to capture the synergy of each other's unique capabilities. Sales in the Umhlanga area featured a transaction with the highest price thus far per square meter, equating to net cash profit of R34 million per developable hectare in Umhlanga Ridgeside. Sales were also concluded in the Umhlanga Ridge Town Centre, Izinga, Kindlewood and Cornubia areas.

The centrally accounted and consolidation items together with lower BEE IFRS2 charges amounted to R47 million (2012: R70 million). Finance costs amounted to R298 million (2012: R281 million) and were commensurate with the borrowing levels.

Operating cash flow improved to R2,4 billion (2012: R1,8 billion) before working capital. Operating cash flow exceeded operating profit as the latter includes the non-cash reduction in the fair value of sugar cane in the half-year to September 2013. The higher working capital cash absorption in the current period is particularly as a consequence of higher sugar stock levels in Zimbabwe and South Africa. The cash absorbed in working capital was some R2,1 billion (2012: R1,4 billion) at the half-year, being the middle of the sugar season when inventories and debtor levels are usually higher than at the end of the year. Capital expenditure has been consciously restricted in the past six months. In total for the half-year, net cash out flow before dividends was R450 million, which is similar to last year. Net debt at the end of September amounted to R5,4 billion (2012: R5,1 billion).

Total net profit before the deduction of minority interests was R764 million (2012: R735 million) for the half-year and headline earnings attributable to Tongaat Hulett shareholders amounted to R663 million compared to R655 million in the same period last year.

An interim dividend of 150 cents per share has been declared (2012: 150 cents per share) in the form of a scrip distribution with a cash alternative.

OUTLOOK

Tongaat Hulett is in a good position to benefit from multiple actions taken across a wide front, with its footprint in six SADC countries, its ability to process both sugar cane and maize, renewable energy opportunities and increased momentum in land conversion.

Sugar Operations

A period of unsustainably low international prices has been experienced following two seasons of exceptionally good weather conditions for sugar cane growing globally and low Government controlled ethanol prices in Brazil. The changes in the EU are on-going, with some fundamentals remaining in place, including duty free access for Mozambique, Zimbabwe and Swaziland. At present, this benefit is being eroded by the EU allowing additional imports at reduced duty and the low world price. The business is focusing a great deal of attention in multiple areas on achieving the best possible outcome in terms of sugar prices, the mix of sugar flow destinations and combatting unfair import competition. The sugar industries in both Mozambique and Zimbabwe are in a receptive engagement with their Governments to restrict imports. In South Africa, the current duty application is to increase the price level below which duty applies. Taking the SA sugar industry as a whole, imports into South Africa in October 2013 were equivalent, on an annualised basis, to the production of approximately three sugar mills. Generally, the most vulnerable to these dynamics are rural communities and emerging farmers.

The drive to reduce costs is gathering momentum. Initially, action is being taken to eliminate, reduce or postpone costs wherever possible, to be followed by a structured review of "quantum", "value add", "in house or outsource" and possible longer term procurement arrangements. Cost reduction actions are yielding substantial savings this year. The season's total costs, excluding off-crop expenditure in the mills, in Zimbabwe are expected to be R290 million (US$29 million) lower than last year and in Mozambique, R49 million lower, after absorbing annual cost increases. In South Africa, with production volumes increasing by some 25%, milling costs alone are expected to be R24 million below last year. Unit costs of sugar production will also continue to benefit from further growth in volumes and better yields, as milling costs and many of the agricultural costs per hectare are mostly fixed.

Tongaat Hulett is in the fortunate position, in a world of sugar consumption growth of 2% per annum, new sugar milling capacity being costly and very few new mills being constructed, to still have more than 700 000 tons per annum of existing unutilised sugar milling capacity, with good electricity and ethanol prospects, after the growth of sugar production of between 9% and 12% expected in the current year and 14% and 9% in the past two years respectively.

The on-going strategy to increase cane supply in South Africa is focused on improving yields and getting more hectares under cane. The greatest potential for additional hectares lies with community/small scale farmers, with support from Government. A co-operation agreement is in place with the Ingonyama Trust, which covers some 2,7 million hectares of land in KwaZulu-Natal. Tongaat Hulett is making good progress to facilitate attractive funding for community/small scale growers. An additional 8 000 hectares of new cane land supplying Tongaat Hulett's mills are expected to be planted in the current year.

In Zimbabwe, with the low dam levels and the corresponding mitigating actions related to irrigation to protect the substantial current investment in sugar cane roots, cane expansion and root replanting for both private growers and own estates have been curtailed, to be resumed once the dam levels recover. For the first time in many years, the rainfall forecast in the catchment area of the dams is for La Nina (wetter weather pattern) compared to the dry El Nino of the past number of years. Should the water inflow in the coming summer be similar to the lower inflow periods during the last 8 years then it would necessitate a reduction of irrigation to some 50% of normal levels, which would substantially reduce cane yields and sugar production.

Tongaat Hulett's two operations in Zimbabwe continue to develop their positive socio-economic impact on the country. These operations employ 18 000 people and are in an important recovery, growth and expansion phase, which should create sustainable value for all stakeholders. A central part of this recovery is the development of indigenous private cane farmers. As at the end of the 2012/13 season, at least 670 active indigenous private farmers, farming some 11 200 hectares and employing more than 5 600 people, supplied 850 000 tons of cane which generated US$56 million in annual revenue for them. Zimbabwe, with Tongaat Hulett as a partner, has the potential to further develop indigenous private cane farmers substantially. This potential is linked to how much annual production can be achieved from the existing sugar mills. Based on Tongaat Hulett's view of its existing mills, a further 600 farmers on 12 700 hectares could supply an additional 1,4 million tons of cane per annum. As part of its on-going objective to economically empower communities around its operations in Zimbabwe, Tongaat Hulett is on a socio-economic upliftment drive to create value for relevant entrepreneurs, by developing sustainable new business enterprises and outsourced services within its value chain, with particular focus on employment creation for the youth.

The drive to optimise revenue earned from sugar cane is one of the most important strategic positioning issues. It is pleasing that a "Request for Information and Registration (RFIR)", issued by the SA Department of Energy, was completed and submitted in June 2013 to register Tongaat Hulett's position relating to new electricity generation. Tongaat Hulett now awaits the opportunity to submit a bid for the first 80MW power station following the Ministerial Determination for 800MW issued in December 2012. Planning for the project, including the environmental impact assessments and plant construction contracting processes, is well advanced.

Starch Operation

The starch operation is currently well positioned with the large majority of its maize priced for the current year and margins are expected to remain at levels in line with those achieved in the last year. New season maize prices are trading close to international prices with initial planting intentions being slightly below the prior season. An increasing proportion of local market volumes is being sold on long term contracting principles. Starch and glucose volumes are expected to show growth with local market demand being driven by increased volumes in the coffee/creamer and alcoholic beverage sectors and good growth in export volumes. Continued improvements in manufacturing performance are expected.

Land Conversion Activities

In South Africa, Tongaat Hulett is building on its good progress to date to accelerate land conversion and is targeting a further 8 300 developable hectares (13 100 gross hectares) for development. There are on-going processes on most of the targeted land to enhance its usage and value to all stakeholders. The extent and pace of planning, in collaboration with Government, has increased substantially and infrastructure investment is unfolding rapidly. The next two year period should be rewarding in unlocking value from Tongaat Hulett's land holdings. Currently, active developments available for sale total 467 developable hectares, which is three times the level that existed in 2005. They should realise net cash profits in excess of R3 billion. A further 1 387 developable hectares are well advanced towards becoming shovel ready. Land conversion to housing development for poorer communities is also gaining momentum. Demand for the upmarket housing sites in Izinga is high. In the Cornubia industrial area, with 33 developable hectares remaining available for sale, interest is high and offers were turned down in the first half of the year as negotiations are continuing. At the same time, the Cornubia retail / town centre sites are rapidly evolving as an extension of the Umhlanga / Gateway area. In Umhlanga, Ridgeside - precinct 2 and the unsold remainder of precinct 1 - comprising 42 developable hectares (485 000 square meters of bulk) is arguably the best real estate opportunity in South Africa at present. The above ground developments in this Ridgeside area are expected to exceed R12 billion over a period of time. Over the next few weeks, a wide spread campaign will elicit expressions of interest from all prospective purchasers of this 42 hectare piece of real estate. Interest in land that is not yet shovel ready is at an all-time high and is continuing to increase.

For and on behalf of the Board

J B Magwaza
Chairman

Peter Staude
Chief Executive Officer

Amanzimnyama
Tongaat, KwaZulu-Natal

7 November 2013

Condensed consolidated Rmillion	Unaudited 30 Sept 2013	Unaudited 30 Sept 2012 (note 8)	Audited 31 March 2013 (note 8)
STATEMENT OF FINANCIAL POSITION			
ASSETS			
Non-current assets			
Property, plant and equipment	**11 173**	9 559	10 287
Growing crops	**4 191**	3 540	4 583
Long-term receivables	**475**	379	455
Goodwill	**326**	276	300
Intangible assets	**73**	69	78
Investments	**17**	10	14
	16 255	13 833	15 717
Current assets	**8 781**	7 502	5 584
Inventories	**4 345**	3 255	1 858
Trade and other receivables	**3 344**	3 147	2 809
Derivative instruments	**3**	1	
Cash and cash equivalents	**1 089**	1 099	917
TOTAL ASSETS	**25 036**	21 335	21 301
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	**134**	134	134
Share premium	**1 539**	1 535	1 539
BEE held consolidation shares	**(724)**	(775)	(747)
Retained income	**7 026**	6 328	6 541
Other reserves	**1 889**	353	865
Shareholders' interest	**9 864**	7 575	8 332
Minority interest in subsidiaries	**1 555**	1 235	1 373
Equity	**11 419**	8 810	9 705
Non-current liabilities	**6 988**	6 656	6 855
Deferred tax	**2 086**	1 746	1 930
Long-term borrowings	**3 489**	3 534	3 481
Non-recourse equity-settled BEE borrowings	**707**	737	722
Provisions	**706**	639	722
Current liabilities	**6 629**	5 869	4 741
Trade and other payables (note 4)	**3 395**	2 984	2 572
Short-term borrowings	**3 006**	2 653	2 078
Derivative instruments	**8**	8	16
Tax	**220**	224	75
TOTAL EQUITY AND LIABILITIES	**25 036**	21 335	21 301
Number of shares (000)			
– in issue	**108 648**	108 501	108 648
– weighted average (basic)	**111 966**	108 220	110 225
– weighted average (diluted)	**113 110**	110 274	112 274

Condensed consolidated Rmillion	Unaudited 6 months to 30 Sept 2013	Unaudited 6 months to 30 Sept 2012 (note 8)	Audited 12 months to 31 March 2013 (note 8)
STATEMENT OF CHANGES IN EQUITY			
Balance at beginning of period	**8 332**	6 678	6 678
Total comprehensive income for the period	**1 704**	1 074	1 996
Retained earnings	**708**	656	1 046
Movement in hedge reserve	**1**		(5)
Foreign currency translation	**995**	418	955
Dividends paid	**(206)**	(184)	(347)
Share capital issued - ordinary			5
BEE held consolidation shares	**8**	24	37
Share-based payment charge	**34**	26	57
Settlement of share-based payment awards	**(8)**	(43)	(94)
Shareholders' interest	**9 864**	7 575	8 332
Minority interest in subsidiaries	**1 555**	1 235	1 373
Balance at beginning of period	**1 373**	1 088	1 088
Total comprehensive income for the period	**190**	155	295
Retained earnings	**56**	79	101
Foreign currency translation	**134**	76	194
Dividends paid to minorities	**(8)**	(8)	(10)
Equity	**11 419**	8 810	9 705

NOTES

1. Net financing costs			
Interest paid	**(317)**	(295)	(596)
Interest received	**19**	14	36
	(298)	(281)	(560)
2. Tax			
Normal	**(282)**	(251)	(294)
Deferred	**(37)**	(18)	(93)
Rate change adjustment - deferred		(5)	(5)
	(319)	(274)	(392)
3. Headline earnings			
Profit attributable to shareholders	**708**	656	1 079
Adjusted for:			
Capital profit on disposal of land	**(46)**	(2)	(16)
Capital loss on other items	**(2)**	1	1
Tax effect of the above items	**3**		3
	663	655	1 067

4. Trade and other payables

Included in trade and other payables is the maize obligation (interest bearing) of R493 million (30 September 2012: R407 million and 31 March 2013: R216 million).

5. Capital expenditure commitments			
Contracted	**83**	127	175
Approved	**77**	162	312
	160	289	487
6. Operating lease commitments	**106**	81	104
7. Guarantees and contingent liabilities	**48**	30	38

8. Basis of preparation, accounting policies and comparative figures

The condensed consolidated unaudited results for the half-year ended 30 September 2013 have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the information as required by International Accounting Standard 34 Interim Financial Reporting and the requirements of the Companies Act of South Africa. Except as described below, the report has been prepared using accounting policies that comply with IFRS which are consistent with those applied in the financial statements for the year ended 31 March 2013 and were prepared under the supervision of the Chief Financial Officer, M H Munro CA (SA).

Tongaat Hulett has adopted all the new or revised accounting pronouncements as issued by the IASB which were effective for Tongaat Hulett from 1 January 2013. The adoption of these standards had no recognition and measurement impact on the financial results, other than for the adoption of the revised IAS 19 which requires that post-retirement benefit accounting actuarial gains and losses be recognised immediately in other comprehensive income and no longer be amortised through profit or loss.

Comparative figures have been restated, with the effect of the compulsory adoption of the revised IAS 19 on profit or loss for the year ended 31 March 2013 (with the 6 months ended 30 September 2012 in brackets) being an increase in operating profit of R12 million (2012: R2 million), a corresponding tax charge of R3 million (2012: R1 million) and net profit for the period of R9 million (2012: R1 million). Other comprehensive income decreased by R26 million (2012: increase of R3 million) after tax. The effect on the statement of financial position at 31 March 2013 was an increase in provisions for retirement benefits of R68 million (2012: R38 million) and decreases in equity and deferred tax of R47 million (2012: R26 million) and R21 million (2012: R12 million) respectively.