TONGAAT HULETT
INTERIM RESULTS FOR THE
SIX MONTHS ENDED 30 SEPTEMBER 2018

SALIENT FEATURES

- Revenue increased 9% to R8,808 billion (2017: R8,118 billion)
- Operating profit decreased 64% to R530 million (2017: R1,471 billion)
- Sugar production increased by 13% to 954 000 tons (2017: 848 000 tons)
- Major land transactions remain under negotiation
- Sugar imports into South Africa declining after increased duty protection implemented in August 2018
- Headline loss of R87 million (2017: headline earnings of R661 million)
- Operating cash inflow after working capital of R183 million (2017: R53 million outflow)

COMMENTARY

Tongaat Hulett encountered significant challenges during the six months ended 30 September 2018. Operating profit for the period of R530 million was 64% below the R1,471 billion earned in the six months ended 30 September 2017 ("the comparative period"). In the land conversion and development activities, the major transactions under negotiation for the period were not concluded by 30 September 2018. Operating profit from the starch and glucose operation benefitted from lower maize costs. The difficult local market conditions experienced by the sugar operations in South Africa and Mozambique during the second half of 2017/18 continued into the first half of 2018/19, with a resultant negative impact on both revenue and cane valuations.

The sugar operations recorded a combined operating profit of R1,138 billion (2017: R1,308 billion), before cane valuations. Sugar production for the six month period increased to 954 000 tons (2017: 848 000 tons), including the raw sugar equivalent production in Eswatini (formerly Swaziland). Revenue from the higher production was offset by the lower world market raw sugar price, which was on average 22% below the comparative period. The charge against operating profit of R796 million (2017: R473 million) in respect of cane valuations was R323 million higher than the comparative period, to which Mozambique and South Africa contributed R172 million and R130 million respectively. In Mozambique, the movement in cane valuations was attributable to lower domestic prices and a reduction in the business' cane area due to the expiry of some lease arrangements with private farmers. In South Africa, the movement in cane valuations arose from lower domestic prices and a lower cane age profile as the harvest programme was further advanced than the comparative period. After adjusting for the impact of cane valuations, operating profit amounted to R342 million (2017: R835 million).

The Zimbabwe sugar operations generated operating profit of R537 million (2017: R580 million), before cane valuations. Increased water availability and the accelerated sugarcane root replanting programme have improved cane yields and resulted in sugar production of 306 000 tons (2017: 280 000 tons). Strong growth in local market sugar sales continued. Liquidity constraints in the local market have resulted in considerable cost-push inflationary pressure. After adjusting for cane valuations, operating profit was R319 million (2017: R358 million).

The South African sugar operations recorded operating profit of R205 million (2017: R273 million), before cane valuations. Improvements in cane yields, quality and milling performance increased sugar production to 431 000 tons (2017: 380 000 tons). In response to competition from imported sugar, local prices were reduced both in July 2017 and March 2018 by a cumulative 22%, resulting in lower margins relative to the comparative period. After extensive engagement with the International Trade Administration Commission and the South African government, the US dollar-based reference price, used in the calculation of the import duty, was increased in August 2018 from US$566 to US$680 per ton. In addition to the higher duty protection, subsequent reviews and adjustments to the tariff have been implemented timeously. The above interventions resulted in a decline in the volume of imported sugar entering the local market over the past six months to 112 000 tons (2017: 301 000 tons). Local prices increased in September 2018 returning to pre-July 2017 levels. Local sales volumes were negatively affected by the continued availability of imported sugar in the market. In August 2018 a sizeable “buy-in” ahead of the price increase occurred. After adjusting for cane valuations, operating profit was R13 million (2017: R211 million).

The Mozambique sugar operations recorded operating profit of R341 million (2017: R394 million), before cane valuations. Sugar production increased to 176 000 tons (2017: 153 000 tons) due to the earlier commencement of the milling season. The stronger Metical resulted in a higher local price of sugar in Mozambique than in neighbouring markets in US dollar terms, creating price arbitrage opportunities. Local market sales volumes were below the comparative period. Realisations from export sales, which represent more than 50% of the industry’s production, were impacted by low international prices and the stronger currency. The construction of the 90 000 ton sugar refinery at the Xinavane sugar mill was completed within budget. After adjusting for cane valuations, operating profit was R7 million (2017: R232 million).

The starch and glucose operation achieved an operating profit of R300 million (2017: R240 million). Margins continued to benefit from lower maize prices that traded closer to export parity levels after the prior season record crop and a surplus crop in the current season reflecting a recovery from the drought-affected maize prices experienced in the comparative period. Increased co-product realisations also contributed to improved margins. The benefit of new market development initiatives and the ongoing success in displacing imports, was masked by weaker local demand, particularly in the alcoholic beverage sector, and by customer production constraints within the coffee creamer sector. Overall, domestic volumes declined by 7% relative to the comparative period. The improved competitiveness of local maize prices supported an increase in export volumes. The ongoing focus on reducing costs and improving operational efficiencies continued to yield positive results.

Land conversion and development activities recorded an operating loss of R30 million (2017: operating profit of R441 million). Negotiations around some transactions in the period were not concluded and substantial commercial engagements are continuing with a number of prospects. Revenue for the period was generated from the sale of 0,6 developable hectares in Bridge City (2017: 68 developable hectares across various areas).

Tongaat Hulett's operating cash flow after working capital improved by R236 million to R183 million (2017: R53 million outflow). Proceeds from previous land sales totalling R112 million were collected by 30 September 2018, with a further R630 million being received in October 2018. Tongaat Hulett's working capital requirements reduced by R705 million, with the South African sugar operations benefitting from the sizeable "buy-in" ahead of the September 2018 price increase. New capital expenditure of R343 million comprised R325 million in respect of the refinery project in Mozambique and R18 million on completing the energy efficiency project at the refinery in Durban. Expenditure on ongoing capital requirements and sugarcane root replanting totalled R595 million (2017: R709 million). During the period, capital expenditure was limited to essential replacement items only. The sugarcane root replanting programme, aside from normalising after the drought, took into account current market fundamentals in determining the required pace of replanting. Finance costs of R477 million (2017: R413 million) were commensurate with the level of borrowings over the period. Overall, the period reflected a net cash outflow after dividends of R1,601 billion (2017: R1,683 billion).

Tongaat Hulett's net debt at 30 September 2018 was R7,754 billion (2017: R6,514 billion) with headroom on its borrowings facilities of R1,8 billion. The capital structure of each business continues to be reviewed and over the past six months, the South African borrowings benefitted from the receipt of R362 million from the

Mozambique sugar operations. A dividend payment of R114 million was received from Triangle in Zimbabwe, bringing the total dividend received since the beginning of September 2017 to R372 million. A process to remit a further dividend from Zimbabwe is currently underway.

Taking the above into account, Tongaat Hulett recorded a headline loss for the period of R87 million, being a decrease of 113% against the comparative period. After consideration of Tongaat Hulett's current financial position, the Board has deemed it appropriate to not declare an interim dividend (2017: 100 cents per share).

OUTLOOK

Sugar – To focus on generating cash flow and increasing returns on capital employed

The challenges facing the South African and Mozambique sugar operations are receiving urgent attention.

Tongaat Hulett's existing sugarcane footprint, under normal growing conditions and on completion of foreseeable planting partnerships, has the potential to produce 1 600 000 tons of sugar. Total sugar production in 2018/19 is estimated to be between 1 311 000 tons and 1 352 000 tons, compared to the 1 171 000 tons produced in 2017/18. Sugar production in 2019/20 is expected to exceed 1 400 000 tons, underpinned by the prospect of normal summer rainfall and improvements in cane yields. All sugar operations continue to focus on reducing operating costs through increased production efficiency.

In Zimbabwe, the Tugwi-Mukosi dam has secured the availability of bulk water for irrigation for the next two years. The additional production will support higher export sales into regional deficit markets at premium prices. Recently, a favourable outcome was reached with the government providing Tongaat Hulett with security of tenure over its assets in Zimbabwe. Tongaat Hulett's outlook on its Zimbabwe operations remains positive.

In South Africa, indications are that imported sugar is working itself out of the market although the extent of the "buy-in" at the lower price may slow sales volumes in the second half of the year. Consequently, export sales into world price related markets will increase. A return to the sugar industry's normalised local sales levels of 1 650 000 tons is expected in 2019/20. The higher duty protection will assist in rebuilding margins of both growers and millers, the full benefit of which, together with further growth in sugar production, will be reflected in the 2019/20 financial results.

In Mozambique, robust measures are being taken to stem the flow of illegal sugar imports from the region in order to recover local market share. The commissioning of the Xinavane refinery will be completed by mid-November 2018 and will deliver a step-change improvement to the sales mix in Mozambique. The refined sugar will replace imported white sugar, satisfy the country's growing industrial demand and enhance returns from the domestic price premium relative to the realisations from export markets. An estimated 7 000 tons of refined sugar will be produced in the second half of 2018/19, with the full year benefit to be realised in 2019/20. Good progress continues to be made with sales volumes into regional deficit markets.

Starch and Glucose – Favourable maize outlook and sustained profit margins

The starch and glucose operation remains well positioned to grow sales volumes and enhance its product and market mix, underpinned by available production capacity, ongoing improvements in operating efficiencies and continued market development.

In the current economic conditions, some recovery in consumer demand is expected in the second half of the financial year. Sales volumes will benefit from the resolution of a major customer's production constraints in the coffee creamer sector, the commissioning of increased capacity in powdered glucose, the continuation of the import replacement strategy and new business development initiatives. Further growth in export markets is anticipated, supported by a competitive maize price and a weaker currency.

The current season maize crop of 12,9 million tons, combined with 3,7 million tons of carry-over stock from the previous season, should see maize prices remain competitive and close to export parity levels, thereby sustaining margins. Co-product revenue is expected to increase in the second half of the year, supported by market fundamentals.

Land Conversion and Development – Set to unlock further value from a solid platform

Tongaat Hulett has a unique portfolio of prime land located around Durban, which is one of South Africa's primary growth corridors. The land conversion and development activities have transitioned this portfolio into a solid platform for value creation for many stakeholders.

The registration of transfer of land already sold will generate considerable cash inflows. Proceeds totalling R630 million were collected during October 2018, leaving land debtors of R1,934 billion, most of which is expected to be collected over the next twelve months, as administrative, planning and other conditions are fulfilled.

The opening of new development areas around King Shaka International Airport, Ballito and Ntshongweni (west of Durban), is expanding the geographic market spread beyond the currently dominant greater Umhlanga region.

Land released from agriculture totals 3 566 developable hectares. Development and commercial focus is concentrated on 621 developable hectares, representing 2,8 million square metres of new building floor area, of which 189 hectares are shovel ready and can accommodate 1,3 million square metres of new building floor area.

Conclusion

Tongaat Hulett recognises the imperative to restore returns for its shareholders to an acceptable level, improve cash generation and reduce debt levels. Therefore, the business is accelerating a review process across all its operations with the objective of unlocking value.

In light of the current debt levels, tight cash flow management will continue to receive focussed attention across the business. Various initiatives are in progress to reduce working capital requirements, limit capital expenditure and improve operating cash flows. Tongaat Hulett expects an improved cash flow performance in the second half of the financial year. The unwinding of Tongaat Hulett's black economic empowerment structure is expected to be completed by 31 January 2019.

Tongaat Hulett remains focussed on improving its financial performance, notwithstanding the current operating environment, with progress on establishing a platform for earnings growth beyond 2018/19.

For and on behalf of the Board

Bahle Sibisi	Sydney Mtsambiwa
Chairman	Interim Chief Executive Officer

Amanzimnyama
Tongaat, KwaZulu-Natal

9 November 2018

TONGAAT HULETT LIMITED

Registration number: 1892/000610/06 JSE share code: TON ISIN: ZAE000096541

INTERIM RESULTS

for the 6 months ended 30 September 2018

Income Statement

Condensed consolidated Rmillion	**Unaudited 6 months to 30 September 2018**	Unaudited 6 months to 30 September 2017	Audited 12 months to 31 March 2018
Revenue	**8 808**	8 118	16 982
Operating profit	**530**	1 471	1 958
Net financing costs (note 1)	**(477)**	(413)	(878)
Profit before tax	**53**	1 058	1 080
Tax (note 2)	**(57)**	(267)	(249)
(Loss)/profit for the period	**(4)**	791	831
(Loss)/profit attributable to:			
Shareholders of Tongaat Hulett	**(110)**	724	713
Non-controlling interests	**106**	67	118
	(4)	791	831
(Loss)/earnings per share (cents)			
Basic	**(93.7)**	628.5	618.0
Diluted	**(93.7)**	628.5	618.0

Headline (loss)/earnings attributable to Tongaat Hulett shareholders (note 3)	**(87)**	661	617
Headline (loss)/earnings per share (cents)			
Basic	**(74.1)**	573.8	534.8
Diluted	**(74.1)**	573.8	534.8
Dividend per share (cents)	**0.0**	100.0	160.0
Currency conversion			
Rand/US dollar closing	**14.21**	13.46	11.89
Rand/US dollar average	**13.39**	13.21	13.00
Rand/Metical average	**0.22**	0.21	0.21
Rand/Euro average	**15.73**	15.03	15.15
US dollar/Euro average	**1.18**	1.14	1.17

Segmental Analysis

Condensed consolidated Rmillion	**Unaudited 6 months to 30 September 2018**	Unaudited 6 months to 30 September 2017	Audited 12 months to 31 March 2018
REVENUE			
Sugar			
Zimbabwe	**2 584**	2 063	3 918
Eswatini	**170**	162	210
Mozambique	**1 108**	1 191	1 584
South Africa	**3 046**	2 004	6 332
Sugar operations - total	**6 908**	5 420	12 044
Starch operations	**1 872**	1 993	3 913
Land Conversion and Developments	**28**	705	1 025
Consolidated total	**8 808**	8 118	16 982

The adoption of IFRS 15 Revenue from Contracts with Customers in the current period has resulted in a net increase in revenue of R558 million. In the sugar operations, revenue in South Africa increased by R621 million, in Mozambique by R12 million and decreased by R101 million in Zimbabwe and in the land conversion and development operations it increased by R26 million. The prior periods were prepared under the previous revenue recognition standard, IAS 18 Revenue.

OPERATING PROFIT			
Sugar			
Zimbabwe	**319**	358	563
Eswatini	**3**	34	29
Mozambique	**7**	232	159
South Africa	**13**	211	86
Sugar operations - total	**342**	835	837
Starch operations	**300**	240	572
Land Conversion and Developments	**(30)**	441	661
Centrally accounted and consolidation items	**(46)**	(39)	(59)
Other capital items	**(31)**		(39)
BEE IFRS 2 charge and transaction costs	**(5)**	(6)	(14)
Consolidated total	**530**	1 471	1 958

ANALYSIS OF SUGAR OPERATING PROFIT			
Sugar operations - before cane valuations	**1 138**	1 308	467
Zimbabwe	**537**	580	363
Eswatini	**55**	61	4
Mozambique	**341**	394	71
South Africa	**205**	273	29
Cane valuations - income statement effect	**(796)**	(473)	370
Zimbabwe	**(218)**	(222)	200
Eswatini	**(52)**	(27)	25
Mozambique	**(334)**	(162)	88
South Africa	**(192)**	(62)	57
Sugar operations - after cane valuations	**342**	835	837
Zimbabwe	**319**	358	563
Eswatini	**3**	34	29
Mozambique	**7**	232	159
South Africa	**13**	211	86

Statement of Financial Position

Condensed consolidated Rmillion	**Unaudited 30 September 2018**	Unaudited 30 September 2017	Audited 31 March 2018
ASSETS			
Non-current assets			
Property, plant and equipment	**15 906**	14 184	13 922
Long-term receivable	**693**	649	681
Goodwill	**407**	388	346
Intangible assets	**476**	409	447
Investments	**25**	30	25
	17 507	15 660	15 421
Current assets	**17 218**	17 002	13 694
Inventories	**6 886**	6 139	3 072
Growing crops (note 4)	**2 290**	2 137	2 755
Trade and other receivables	**5 092**	5 137	5 183
Tax	**42**		22
Cash and cash equivalents	**2 908**	3 589	2 662
TOTAL ASSETS	**34 725**	32 662	29 115
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	**135**	135	135
Share premium	**1 544**	1 544	1 544
BEE held consolidation shares	**(635)**	(621)	(623)
Retained income	**9 064**	9 525	9 401
Other reserves	**1 763**	1 095	(286)
Shareholders' interest	**11 871**	11 678	10 171
Non-controlling interests	**2 197**	2 038	1 838
Equity	**14 068**	13 716	12 009
Non-current liabilities	**8 190**	8 408	8 215
Deferred tax	**2 324**	2 483	2 376
Long-term borrowings	**5 023**	5 127	5 048
Provisions	**843**	798	791
Current liabilities	**12 467**	10 538	8 891
Trade and other payables (note 5)	**6 099**	4 682	4 165
Short-term borrowings	**5 639**	4 976	4 077
Non-recourse equity-settled BEE borrowings	**615**	602	603
Tax	**114**	278	46
TOTAL EQUITY AND LIABILITIES	**34 725**	32 662	29 115

Statement of Other Comprehensive Income

Condensed consolidated Rmillion	**Unaudited 6 months to 30 September 2018**	Unaudited 6 months to 30 September 2017	Audited 12 months to 31 March 2018
(Loss)/profit for the period	**(4)**	791	831
Other comprehensive income/(loss)	**2 357**	463	(1 163)
Items that will not be reclassified to profit or loss:			
Foreign currency translation	**2 347**	469	(1 155)
Actuarial loss on post-retirement benefits			(10)
Tax on actuarial loss			2
Items that may be reclassified subsequently to profit or loss:			
Hedging reserve	**13**	(8)	
Tax on movement in hedging reserve	**(3)**	2	
Total comprehensive income/(loss) for the period	**2 353**	1 254	(332)
Total comprehensive income/(loss) attributable to:			
Shareholders of Tongaat Hulett	**1 924**	1 161	(237)
Non-controlling interests	**429**	93	(95)
	2 353	1 254	(332)

Statement of Changes in Equity

Condensed consolidated Rmillion	**Unaudited 6 months to 30 September 2018**	Unaudited 6 months to 30 September 2017	Audited 12 months to 31 March 2018
Balance at beginning of period	**10 171**	10 781	10 781
Adjustment on initial adoption of IFRS 15 (note 11)	**(159)**		
Total comprehensive income/(loss) for the period	**1 924**	1 161	(237)
(Loss)/profit for the period	**(110)**	724	706
Movement in hedging reserve	**10**	(6)	
Foreign currency translation	**2 024**	443	(943)
Dividends paid	**(66)**	(220)	(330)
BEE share-based payment charge	**2**	5	12
Share-based payment charge	**26**	8	10
Settlement of share-based payment awards	**(27)**	(57)	(65)
Shareholders' interest	**11 871**	11 678	10 171
Non-controlling interests	**2 197**	2 038	1 838
Balance at beginning of period	**1 838**	1 957	1 957
Adjustment on initial adoption of IFRS 15 (note 11)	**(23)**		
Total comprehensive income/(loss) for the period	**429**	93	(95)
Profit for the period	**106**	67	117
Foreign currency translation	**323**	26	(212)
Dividends accrued	**(26)**		
Dividends paid	**(21)**	(12)	(24)
Equity	**14 068**	13 716	12 009

Statement of Cash Flows

Condensed consolidated Rmillion	**Unaudited 6 months to 30 September 2018**	Unaudited 6 months to 30 September 2017	Audited 12 months to 31 March 2018
Operating profit	**530**	1 471	1 958
Loss/(surplus) on disposal of property, plant and equipment	**32**	(51)	(106)
Depreciation	**550**	517	1 001
Growing crops valuation and other non-cash items	**866**	510	(271)
Operating cash flow	**1 978**	2 447	2 582
Change in working capital	**(1 795)**	(2 500)	(307)
Cash flow from operations	**183**	(53)	2 275
Tax payments	**(282)**	(218)	(354)
Net financing costs	**(477)**	(413)	(878)
Cash flow from operating activities	**(576)**	(684)	1 043
Expenditure on property, plant and equipment:			
New	**(343)**	(109)	(876)
Replacement	**(355)**	(218)	(298)
Cane roots	**(226)**	(348)	(887)
Major plant overhaul cost changes		(90)	(1)
Intangible assets	**(14)**	(53)	(106)
Proceeds on disposal of property, plant and equipment		51	155
Net cash flow before dividends and financing activities	**(1 514)**	(1 451)	(970)
Dividends paid	**(87)**	(232)	(354)
Net cash flow before financing activities	**(1 601)**	(1 683)	(1 324)
Borrowings raised	**1 473**	2 568	1 611
Non-recourse equity-settled BEE borrowings	**12**	(21)	(19)
Settlement of share-based payment awards	**(27)**	(57)	(65)
Net (decrease)/increase in cash and cash equivalents	**(143)**	807	203
Balance at beginning of period	**2 662**	2 741	2 741
Currency alignment	**389**	41	(282)
Cash and cash equivalents at end of period	**2 908**	3 589	2 662

Notes

Condensed consolidated Rmillion	**Unaudited 6 months to 30 September 2018**	Unaudited 6 months to 30 September 2017	Audited 12 months to 31 March 2018
1. Net financing costs			
Interest paid	**(546)**	(497)	(1 049)
Interest capitalised	**21**	21	45
Interest received	**48**	63	126
	(477)	(413)	(878)
2. Tax			
Normal	**(317)**	(386)	(199)
Deferred	**296**	129	(25)
Withholding tax	**(11)**	(10)	(25)
Rate change	**(25)**		
	(57)	(267)	(249)

During the period, the agricultural tax rate in Mozambique increased from 10% to 32% due to a concession previously granted not being extended. Representations are being made to government to reinstate the 10% tax rate for agriculture.

3. Headline (loss)/earnings			
(Loss)/profit attributable to shareholders	**(110)**	724	713
Adjusted for:			
Capital loss/(surplus) on disposal of land, cane roots and buildings	**32**	(52)	(27)
Loss on disposal of plant and equipment			3
Tax on the above items	**(9)**	(11)	(71)
Non-controlling interests			(1)
	(87)	661	617
4. Number of shares (000)			
In issue	**135 113**	135 113	135 113
Weighted average (basic)	**117 441**	115 189	115 372
Weighted average (diluted)	**117 441**	115 189	115 372

5. Growing crops

Growing crops, comprising standing cane, is measured at fair value which is determined using an estimate of cane yields and prices which are unobservable inputs and, in accordance with IFRS, categorised as level 3 under the fair value hierarchy. Changes in fair value are recognised in profit or loss. A change in yield of one ton per hectare on the estimated yield of 80 tons cane per hectare (30 September 2017: 75 tons per hectare and 31 March 2018: 81 tons per hectare) would result in a R28 million (30 September 2017: R28 million and 31 March 2018: R34 million) change in fair value while a change of one percent in the cane price would result in a R23 million (30 September 2017: R25 million and 31 March 2018: R28 million) change in fair value.

6. Trade and other payables

Trade and other payables includes an interest bearing maize obligation of R603 million (30 September 2017: R687 million and 31 March 2018: R486 million).

7. Capital expenditure commitments			
Contracted	**129**	282	398
Approved	**101**	708	240
	230	990	638
8. Operating lease commitments	**66**	82	60
9. Guarantees and contingent liabilities	**142**	79	91

10. Basis of preparation

The condensed consolidated financial statements for the six months ended 30 September 2018 have been prepared in accordance with and containing the information required by IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council, and comply with the Companies Act of South Africa and the JSE Limited Listing Requirements. These condensed consolidated financial statements do not include the fair value disclosures for financial instruments as required by IAS 34 paragraph 16A(j), which are available on the company's website, at the registered office or on request. The directors take full responsibility for these condensed consolidated financial statements, which have been prepared under the supervision of the Interim Chief Financial Officer, Mr RD Aitken CA(SA). The results have not been audited, and any reference to future financial performance has not been reviewed or reported on, by the company's auditor.

11. Accounting policies

The accounting policies applied in the preparation of the financial statements for the six months ended 30 September 2018 comply with International Financial Reporting Standards ("IFRS") and are consistent, in all material respects, with those applied for the financial year ended 31 March 2018, except for the adoption of IFRS 9 Financial Instruments ("IFRS 9") and IFRS 15 Revenue from Contracts with Customers ("IFRS 15") as detailed below. The other new and revised accounting pronouncements, effective from 1 April 2018, were adopted by Tongaat Hulett with no impact on the financial results.

<u>Financial Instruments</u>

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") and sets out the new requirements for the classification and measurement of financial instruments, introduces an expected credit loss model for the measurement of impairment losses and establishes a closer alignment between hedge accounting and risk management practices.

The application of the requirements of IFRS 9 to Tongaat Hulett is as follows:

- Classification and measurement requirements: There is no impact on Tongaat Hulett.

- Impairment requirements:
  In terms of IAS 39, financial assets (e.g. trade receivables, contract assets, lease receivables, loan commitments) were impaired using an incurred loss model when there was objective evidence of default. Under IFRS 9, an impairment is based on an expected credit loss ("ECL") model which takes into account historical credit loss experience adjusted for current and future economic conditions. The ECL to be recognised is based on the expected losses that may arise within the next twelve months. If there is a significant increase in credit risk, or if the company elects to do so, the ECL is based on the lifetime of the financial asset.

  As Tongaat Hulett's sugar and starch operations are short term in nature (e.g. terms of 14 days in the South African sugar operations and 30 days in the starch operation) the impact of IFRS 9 is insignificant. In the developments operation, the financial assets are mainly secured by the value of the serviced land as reflected in the transaction price. The registration of the property is delayed as a protection mechanism for the recovery of the full amount due. Based on the above, no impairment adjustments have been processed for the period.

- Hedge accounting requirements:
  Hedge accounting is applied in the starch operation to account for maize futures. Tongaat Hulett has elected to adopt the transitional provisions of IFRS 9 which allow a choice to continue with the hedge accounting requirements of IAS 39 rather than adopting the new IFRS 9 requirements.

The adoption of IFRS 9 has had no material impact on Tongaat Hulett's earnings and no retrospective adjustments have been made to the financial statements.

<u>Revenue Recognition</u>

IFRS 15: Revenue from Contracts with Customers replaces all existing IFRS revenue requirements and establishes a single, principles-based model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised as Tongaat Hulett satisfies performance obligations and transfers control of goods or services to its customers, compared with the previous accounting standard that recognised revenue based on an assessment of the risks and rewards of ownership.

The measurement of revenue is determined based on the amount to which Tongaat Hulett expects to be entitled in the exchange for the goods or services and is allocated to each specific performance obligation in the contract. Depending on whether certain criteria are met, revenue is recognised either over time or at a point in time, as and when the performance obligations are met, and control of the goods or services is transferred to the customer.

IFRS 15 affects Tongaat Hulett's commercial transactions within its land conversion and development activities as well as certain of the customary transactions within the sugar operations where sugar is sold to industry (or similar) bodies. The impact of adopting IFRS 15 is detailed below:

- Land Conversion and Development:
  A commercial land transaction involves the conclusion of an unconditional, binding contract which transfers the risks and rewards of ownership of the land to the purchaser and conveys on Tongaat Hulett an obligation to provide the necessary services infrastructure to the site. In terms of the previous accounting standard, revenue on a commercial land transaction was recognised as a single transaction at the time the contract became unconditional.

  Under IFRS 15, the commercial land transaction is split into two distinct performance obligations with revenue being apportioned between them.

  - Sale of the land:
    The revenue attributed to the sale of land is recognised at the point in time when the relevant agreement becomes unconditional and binding on the purchaser and the purchaser can exercise effective control over the land.

  - Provision of services infrastructure:
    The revenue attributed to the necessary services infrastructure, is deferred and recognised over the period the obligation is fulfilled, using the percentage completion method with reference to the services costs incurred relative to the total estimated services costs.

- South African sugar operations:
  In March each year, in terms of the sugar industry agreement, the South African Sugar Association ("SASA") is obliged to purchase all unsold sugar stocks designated for the local market to determine the final sucrose price for the season. Revenue was previously recognised at that point in time as ownership of the sugar had legally transferred to SASA and payment had been received.

Applying the IFRS 15 transfer of control requirements, since the South African sugar operations retain control over the physical sugar stocks and have the responsibility to market and sell the sugar on behalf of SASA, revenue is not recognised under IFRS 15 until the sugar is delivered to the end-customer.

- Zimbabwe sugar operations
  In September and March each year, a third-party commodity trader purchases a bulk volume of sugar designated for the local market. Revenue was previously recognised at those points in time as ownership of the sugar had legally transferred to the commodity trader and payment had been received.

  Applying the IFRS 15 transfer of control requirements, the Zimbabwe sugar operations retain control over the physical sugar stocks and have the responsibility to market and sell the sugar on behalf of the commodity trader, revenue is not recognised under IFRS 15 until the sugar is delivered to the end customer.

- Mozambique sugar operations
  As sugar is produced by the Mozambique sugar operations, it is sold to the Distribuidora Nacional de Acucar Limitada ("DNA"), a body established to market, sell and distribute the industry's sugar production into local and certain preferential export markets. Sugar that is surplus to the DNA's requirements is repurchased by the Mozambique sugar operations, in proportion to their share of industry, for sale to other export markets. Revenue was previously recognised at the date of sale to the DNA as ownership of the sugar had legally transferred to the DNA and payment had been received.

  Applying the IFRS 15 transfer of control requirements, since the Mozambique sugar operations retain responsibility to market, sell and distribute the surplus sugar, revenue from the sale of such surplus sugar is no longer recognised at the time of sale to the DNA, but rather when the sugar has subsequently been exported to the end-customer.

Tongaat Hulett has elected not to restate comparative information and, in terms of the transitional requirements of IFRS 15, has adopted the modified retrospective approach whereby the cumulative effect of initially applying the new standard has been recorded as an adjustment to the opening balance of equity at the date of initial application, being 1 April 2018. Comparative information has not been restated and is reported under the previous standard.

The effect of the adoption of IFRS 15 at 31 March 2018 on the statement of financial position would have been a decrease in equity of R182 million (Tongaat Hulett: R159 million and non-controlling interests: R23 million) comprising of an increase in inventory (i.e. sugar stocks) of R1,068 billion, an increase in trade and other payables (i.e. deferred revenue) of R1,195 billion, a decrease in trade and other receivables of R122 million and a decrease of R67 million in the deferred tax liability.

12. Subsequent events
There were no material events between 30 September 2018 and the date of this report.

Corporate Information

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

Directorate:
C B Sibisi (Chairman), S M Beesley, F Jakoet, J John, R P Kupara^, T N Mgoduso,
N Mjoli-Mncube, S G Pretorius, T A Salomão+

Company secretary:
M A C Mahlari

Executive:
S D Mtsambiwa^ (Interim Chief Executive Officer), R D Aitken (Interim Chief Financial Officer)

+ Mozambican ^ Zimbabwean

Registered office:
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Transfer secretaries:
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