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Tongaat Hulett

INTERIM RESULTS FOR HALF-YEAR ENDED 30 JUNE 2008

- Revenue of R3,1 billion (2007: R2,4 billion)
- Profit from Tongaat Hulett operations of R443 million (2007: R308 million)
- Headline earnings of R252 million (2007: loss of R155 million – affected by corporate structuring transactions)
- Interim dividend of 160 cents per share (2007: 150 cents per share)

COMMENTARY

Peter Staude, CEO of Tongaat Hulett, said “We are pleased to have continued to grow profit from operations with further progress in the positioning of Tongaat Hulett as a growing and competitive agri-processing business.

In the first half of 2008, revenue increased by 28% to R3,1 billion. Tongaat Hulett’s profit from operations grew by 44% to R443 million (2007: R308 million). Benefits arose from a more competitive maize price, improved margins and volume growth in the starch operations. Higher contributions were earned from products supplied into the animal feeds and edible oil market sectors from both starch and sugar operations in South Africa. Increased profit contributions came from the sugar operations in Mozambique, Zimbabwe and Swaziland.

Profit from the starch operations increased to R103 million (2007: R37 million) as market conditions for starch and glucose improved. The rise in international maize prices encouraged increased plantings by South African maize farmers and this, coupled with good weather conditions, has led to an increase in the South African maize crop to 11,6 million tons. This has resulted in local maize prices trading close to world prices. Starch and glucose selling prices have improved as demand for agricultural commodities across all sectors in international markets continues to increase due to changing dietary requirements and demand from biofuels. Sales volumes in the domestic market grew by 2,4% with the successful recovery of volumes in the coffee creamer sector previously supplied by imported product and with good growth in the paper-converting sector, offset by declines in the alcoholic beverage sector. A shortage internationally of protein for animal feeds and edible oils has resulted in significant improvements in co-product prices.

Profit from the sugar operations grew to R253 million (2007: R167 million). This includes the Zimbabwean operations being accounted for on a dividend received basis. The 5 major operations in Mozambique, Zimbabwe and Swaziland contributed R141 million (2007: R67 million) to operating profit.

In Mozambique, the planting of an additional 3 509 hectares has been completed and this cane is growing well. An additional 5 000 hectares are planned to be planted by the end of 2008 and the related land preparation has been substantially completed. Sugar production in 2008 at Xinavane is expected to increase to 75 000 tons (2007: 67 000 tons) and at Mafambisse to 59 000 tons (2007: 41 000 tons).

Dividends of R35 million (2007: Nil) were received from Triangle Sugar in Zimbabwe, which was a declaration from prior year profits. This coincided with the acquisition, for a similar amount, of a shareholding in Botswana Sugar Industries, previously held by Triangle and now held from South Africa. The Botswana and Namibia packing and distribution operations delivered a consistently good performance. Tambankulu Estates in Swaziland is expected to produce a raw sugar equivalent of 56 000 tons in 2008 (2007: 58 000 tons) and has benefited from higher realisations within the Swaziland sugar industry. Voermol, the South African downstream animal feeds operation performed well, with higher margins and volumes increasing.

The below average 2007 South African sugar crop resulted in lower export sales volumes in the first half of 2008 and an increased cost per ton of sugar produced. Raw sugar export volumes from South Africa reduced to 66 000 tons (2007: 84 000 tons) and were sold at an effective world sugar price of 10,8 US c/lb (2007: 14,4 US c/lb) at an average R7,50/US$ (2007: R6,70/US$). South African domestic sales in the first half of the year increased to 230 000 tons (2007: 210 000 tons). Sugar production in 2008 is estimated to be 722 000 tons (2007: 604 000 tons). On 9 May 2008 a fire at the refinery's raw sugar storage facility destroyed buildings, conveyer equipment and approximately 5 000 tons of raw sugar. Production at the refinery resumed on 28 May 2008. Comprehensive insurance cover is in place and a R32 million insurance claim has been accrued for lost production up to the end of June 2008.

Operating profit from land developments was R115 million (2007: R127 million). In addition, capital profit of R15 million (2007: R5 million) was realised. The residential property market is being affected by the prevailing difficult economic climate. Sales into the industrial and commercial markets are being constrained by a shortage of saleable stock and the lack of final unconditional development approvals, despite continuing demand for property in certain areas of these sectors. In this market, a number of transactions were concluded from the limited available stock, reflecting the benefit of the well established property development platform. In the first half of 2008, fifteen hectares of developable land were sold. Major contributions to profit came from the mixed-use developments in Umhlanga Ridge Town Centre and Ridgeside. Zimbali experienced continued market interest and is nearing sell-out of the existing development. Bulk infrastructure timing is limiting saleable stock in Ridgeside. Residential sales in Kindlewood were muted. Bridge City is in its early stages of development and is attracting market interest.

Tongaat Hulett's net debt has increased to R1,8 billion from R991 million at the end of 2007. Finance costs have increased with the higher interest rates and the increased borrowings in the business. This period has seen higher working capital levels as well as significant capital expenditure, mainly on the Mozambique expansion.

The 2007 financial results included the main effects of the completed corporate structuring transactions – the listing and unbundling of Hulamin, a share buy-back and the 25% BEE equity participation transactions. The 2008 results include the ongoing amortisation of the employee BEE equity transactions' IFRS2 charge to the income statement and the consolidation of the BEE special purpose vehicles, as required by International Financial Reporting Standards (IFRS). The balance sheet thus reflects the consolidation of the debt in the BEE equity participation entities. This BEE debt does not have recourse to Tongaat Hulett and will effectively be equity settled.

Headline earnings for the first half of 2008 grew to R252 million (2007: headline loss of R155 million which included the once-off corporate structuring and BEE equity transaction costs and excluded the Hulamin fair valuation gain prior to listing and unbundling).

The Board has declared an interim dividend for the half-year of 160 cents per share (2007: 150 cents per share).

OUTLOOK

The starch operations should continue to benefit from the recovery in margins, mainly as a result of competitive maize prices.

At the beginning of July 2008, the stock of unconditional saleable land has reduced to 69 hectares. Progress is being made to increase available land, with final unconditional development approvals, from Tongaat Hulett's 14 500 gross hectares of agricultural land with development potential. In the prevailing market, the focus has shifted to specific opportunities such as retirement villages, hotel sites, logistics facilities around the new international airport at La Mercy, Tongaat and the industrial and affordable housing sectors.

In Zimbabwe, the current unsustainable macroeconomic conditions, including hyperinflation, foreign currency shortages, non-availability of key inputs and local price controls, are challenging the profitability of the Zimbabwean operations. Attention is currently on ensuring that the infrastructure and skills base are maintained. Tongaat Hulett's operations are positioned for a rapid turnaround once the macroeconomic conditions in Zimbabwe are restored.

In Mozambique, the R1,3 billion agricultural and milling expansion projects at Xinavane and Mafambisse are progressing well towards substantially increased production in the 2009 season and to benefit from greater preferential access to the European Union, with institutional prices well above the world price. The 2008 sugar production at Xinavane is increasingly being impacted by the modification and upgrading of the existing mill, in order to increase production in 2009 by 140% over 2008.

Tongaat Hulett is fast tracking the planning of renewable power generation at four of its eight sugar mills in the region, against the background of predictions that electricity demand in South Africa will exceed generating capacity for a five to seven year period.

Overall, the growth in profit from operations for the full 2008 year is expected to be at a lower rate than that of the first six months."

Peter Staude
Chief Executive Officer

About Tongaat Hulett

Tongaat Hulett is an agri-processing business which includes integrated components of land management, property development and agriculture. Through its sugar and starch operations in Southern Africa, Tongaat Hulett produces a range of refined carbohydrate products from sugar cane and maize. It has considerable expertise in downstream agricultural products, biofuel production and electricity cogeneration. Competition for alternative land usages is increasing rapidly. Tongaat Hulett balances the operational requirement for cane supplies to its sugar cane processing operations with the transition to property development

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