

# INTERIM REPORT



for the six months ended 30 September 2008

Company registration no. 1906/000622/06  
Share code ILV ISIN ZAE000083846

## **Basis of preparation**

This report incorporates financial statements which reflect both actual results based on accounting policies and methods of computation which are based on International Financial Reporting Standards ("IFRS") and those determined on a sugar season basis which, in the directors' opinion, provide a better basis for evaluating the financial performance of the company.

The sugar industry is a seasonal agriculturally based business and the payment processes are such that cash flows throughout the season, which runs from 1 April to 31 March, are derived from the expected tonnages and prices that will be achieved for the season as a whole. The effect of this is that product sales tonnages and prices received, and raw material prices paid are provisional in nature until the conclusion of the season. For this reason the directors consider that profit figures based on actual cash flows may not represent the best basis for evaluating the performance and the results for the period. In respect of the sugar season basis results, operational profits for cane growing and sugar production comprise the company's view of the position at 30 September 2008 as it relates to the season as a whole. All other results are based on actual performance. The amounts disclosed in respect of cane growing and sugar production operations are based on a profit forecast for the year ending 31 March 2009 which has been examined by our auditors, Deloitte & Touche. Their unmodified accountants' report is available for inspection at the company's registered office.

The unaudited actual results for the six months ended 30 September 2008 have been prepared using accounting policies and methods of computation that comply with IFRS and are prepared in accordance with IAS34 (Interim financial reporting). The accounting policies adopted are consistent with those of the previous financial period.

## **Review**

On a sugar season basis, the group achieved pleasing results for the half year, with headline earnings of R384.8 million reflecting a 36% improvement over the same period in the previous year. Headline earnings per share of 109.9 cents represents a 35% increase.

Group operating profit which increased by 31% to R687.0 million benefited from improved domestic market sugar sales, higher world and regional sugar prices, weaker exchange rates and good results from the downstream operations. Lower sugar production in South Africa and lower than anticipated production in Zambia following the first phase of the expansion project, partly offset these benefits.

Net financing costs are similar to those of the previous year. Borrowings have increased to R3 298.5 million as a result of major expansion capital expenditure and increased seasonal working capital.

Taxation at R111.4 million remains relatively low mainly due to the Zambian subsidiary being granted expansion-related tax allowances. The group's effective tax rate is 18.2% (2007: 19.9%).

The contributions to operating profit were sugar production 55%, cane growing 33% and downstream 12%. By country, contributions were South Africa 16%, Malawi 45%, Zambia 16%, Swaziland 8%, Tanzania 10% and Mozambique 5%.

The season to-date has been affected by variable weather conditions. Both South Africa and Swaziland had a very dry winter, although South Africa has received welcome spring rains. The rest of the group has experienced normal weather which with effective irrigation and long sunshine hours has been conducive to good cane growth.

In general, the sugar factories have performed satisfactorily. Phase 1 of the factory expansion in Zambia has been difficult and the wet conditions experienced in the offcrop period resulted in a delayed start to the season. Mechanical performance of the plant was disappointing in the first few months of the season, although the factory is now settling down and phase 2 of the project is on line to commence operation in April 2009. This has restricted Zambian sugar production for the season which is forecast to be similar to that of last year.

Assuming normal growing and operating conditions for the remainder of the season, group sugar production is expected to be around 1.925 million tons which is approximately 130 000 tons above last year. The increase in production has occurred in all countries of operation, although the increase in South Africa has arisen due to the repossession of the Umfolozi mill at the beginning of the season. The mills in South Africa, where most of the cane is produced under rainfed conditions, have seen a decline in production due to a decrease in cane yields. The whole South African sugar industry has been similarly affected.

Downstream operations have performed well and output is anticipated to be similar to that of last year. World prices of furfural and lactulose have been strong.

The world sugar price has been extremely volatile. In the early part of the year, prices were much stronger as a result of a forecast deficit in production; however, during recent months, prices have fallen similarly to other commodities. Overall, the revenue realised from exports to the world market is significantly higher than in the previous year, and the improved world price has also impacted favourably on export revenues from regional markets.

Domestic sugar market sales and prices in the countries of operation outside South Africa have been strong, however in South Africa imports have had a negative impact on sales volumes.

Subject to certain suspensive conditions, including approval by the Competition Commission, Illovo has concluded an agreement with a company established by local cane growers for the sale of its interest in the Umfolozi mill with effect from 31 March 2009.

The Mali project continues to make progress, albeit slowly, particularly the environmental and social impact studies which are required in respect of the concessional funding for the agricultural development. Sugar production is expected to commence in October 2011. The growth plans in the other countries of operation are on schedule.

#### **Directorate**

We are pleased to welcome Nosipho Molope to the Board as an independent, non-executive director. Ms Molope has considerable financial and business experience.

Don MacLeod, who has been Managing Director of Illovo since 1992, will be retiring from this position on 31 March 2009. He will, however, remain a member of the Board as a non-executive director, and will assume the role of Deputy Chairman from 1 April 2009.

Graham Clark, previously the Operations Director, has been appointed to succeed Mr MacLeod as Managing Director on 1 April 2009.

John Russell, currently New Projects Director, will be retiring on 31 March 2009. In line with the company's succession plan, David Haworth and Larry Riddle have been appointed executive directors with effect from 1 April 2009.

#### **Dividend**

An interim dividend of 41.5 cents per share (2007: 33.0 cents) has been declared. It is anticipated that for the full year the dividend will be twice covered by headline earnings.

#### **Prospects**

Operations for the current year are progressing well, but the results for the year will be influenced by the level of the rand compared to other currencies, the world sugar price and final sugar production. Provided there is no major change to these factors, it is presently anticipated that for the full year ending 31 March 2009, headline earnings will be between 15% and 25% higher than in the previous financial year. The profit forecast has been examined by our auditors, Deloitte & Touche, and their unmodified accountants' report is available for inspection at the company's registered office.

On behalf of the Board

**R A Williams**  
Chairman

**D G MacLeod**  
Managing Director

Mount Edgecombe  
12 November 2008

## GROUP INCOME STATEMENT

		Actual Unaudited Six months ended 30 September		Sugar season basis Unaudited Six months ended 30 September		Change	Actual Audited Year ended 31 March 2008
	Notes	2008 Rm	2007 Rm	2008 Rm	2007 Rm	%	2008 Rm
<b>Revenue</b>		<b>3 753.6</b>	<b>2 959.7</b>	<b>4 469.2</b>	<b>3 428.0</b>	30	<b>6 794.1</b>
<b>Operating profit</b>		<b>915.8</b>	695.3	<b>687.0</b>	523.7	31	1 064.5
Net financing costs	1	<b>75.5</b>	72.7	<b>75.5</b>	72.7		170.4
<b>Profit before material items</b>		<b>840.3</b>	622.6	<b>611.5</b>	451.0		894.1
Material items	2	<b>0.6</b>	0.8	<b>0.6</b>	0.8		( 0.1)
<b>Profit before taxation</b>		<b>840.9</b>	623.4	<b>612.1</b>	451.8		894.0
Taxation		<b>165.6</b>	126.2	<b>111.4</b>	89.9		140.7
<b>Profit after taxation</b>		<b>675.3</b>	497.2	<b>500.7</b>	361.9		753.3
Attributable to outside shareholders in subsidiary companies		<b>167.3</b>	103.4	<b>115.2</b>	76.3		153.5
<b>Net profit attributable to shareholders in Illovo Sugar Limited</b>		<b>508.0</b>	<b>393.8</b>	<b>385.5</b>	<b>285.6</b>	35	<b>599.8</b>
<b>Determination of headline earnings :</b>							
IAS 33 net profit attributable to shareholders		<b>508.0</b>	393.8	<b>385.5</b>	285.6	35	599.8
Adjusted for :							
IAS 16 (profit)/loss on disposal of property		<b>(0.6)</b>	(0.8)	<b>(0.6)</b>	(0.8)		0.1
IAS 16 (profit)/loss on disposal of plant and equipment		<b>(0.1)</b>	(0.8)	<b>(0.1)</b>	(0.8)		( 0.3)
<b>Headline earnings</b>		<b>507.3</b>	<b>392.2</b>	<b>384.8</b>	<b>284.0</b>	36	<b>599.6</b>
Number of shares in issue (millions)		<b>350.6</b>	349.3	<b>350.6</b>	349.3		349.9
Weighted average number of shares on which headline earnings per share are based (millions)		<b>350.3</b>	349.2	<b>350.3</b>	349.2		349.4
<b>Headline earnings per share (cents)</b>		<b>144.8</b>	112.3	<b>109.9</b>	81.3	35	171.6
Diluted headline earnings per share (cents)		<b>144.0</b>	111.5	<b>109.4</b>	80.9		170.5
Basic earnings per share (cents)		<b>145.0</b>	112.8	<b>110.1</b>	81.8		171.7
Diluted basic earnings per share (cents)		<b>144.2</b>	112.0	<b>109.6</b>	81.4		170.5
Dividend per share (cents)		<b>41.5</b>	33.0	<b>41.5</b>	33.0	26	85.5

## NOTES TO THE FINANCIAL STATEMENTS

	Unaudited Six months ended 30 September <b>2008</b> <b>Rm</b>	2007 <b>Rm</b>	Audited Year ended 31 March 2008 <b>Rm</b>
<b>1. Net financing costs</b>			
Interest paid	<b>258.6</b>	87.6	250.4
Less : capitalised	<u>( 146.6)</u>	-	<u>( 41.9)</u>
	<b>112.0</b>	87.6	208.5
Interest received	<b>( 35.3)</b>	( 18.4)	( 37.9)
Foreign exchange (gains)/losses	<b>( 0.8)</b>	3.5	1.1
Dividend income	<b>( 0.4)</b>	-	( 1.3)
	<u><b>75.5</b></u>	<u>72.7</u>	<u>170.4</u>
<b>2. Material items</b>			
Profit/(loss) on disposal of property	<b>0.6</b>	0.8	( 0.1)
<b>Material profit/(loss) before taxation</b>	<b>0.6</b>	0.8	( 0.1)
Taxation	-	-	-
<b>Material profit/(loss) attributable to shareholders in Illovo Sugar Limited</b>	<u><b>0.6</b></u>	<u>0.8</u>	<u>( 0.1)</u>

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## ABRIDGED GROUP BALANCE SHEET

	Actual Unaudited 30 September 2008		Sugar season basis Unaudited 30 September 2008		Actual Audited 31 March 2008
	Rm	Rm	Rm	Rm	Rm
<b>ASSETS</b>					
<b>Non-current assets</b>	<b>4 963.0</b>	2 806.4	<b>4 963.0</b>	2 806.4	3 926.5
Property, plant and equipment	3 904.1	2 064.2	3 904.1	2 064.2	3 014.5
Cane roots	938.9	691.5	938.9	691.5	821.7
Investments	120.0	50.7	120.0	50.7	90.3
<b>Current assets</b>	<b>4 400.2</b>	3 468.3	<b>4 400.2</b>	3 468.3	2 354.5
Inventories	2 056.3	1 676.8	2 056.3	1 676.8	605.1
Growing cane	1 084.4	733.0	1 084.4	733.0	948.5
Accounts receivable	1 201.2	1 058.5	1 201.2	1 058.5	782.7
Financial instruments	58.3	-	58.3	-	18.2
<b>Total assets</b>	<b>9 363.2</b>	<b>6 274.7</b>	<b>9 363.2</b>	<b>6 274.7</b>	<b>6 281.0</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Total equity</b>	<b>3 484.1</b>	2 457.9	<b>3 309.5</b>	2 322.6	2 928.9
Equity holders' interest	2 803.6	1 965.8	2 681.1	1 857.6	2 373.3
Minority shareholders' interest	680.5	492.1	628.4	465.0	555.6
<b>Non-current liabilities</b>	<b>3 916.2</b>	2 124.0	<b>3 916.2</b>	2 124.0	1 807.3
Deferred taxation	617.7	546.6	617.7	546.6	639.0
Net borrowings	3 298.5	1 577.4	3 298.5	1 577.4	1 168.3
<b>Current liabilities</b>	<b>1 962.9</b>	1 692.8	<b>2 137.5</b>	1 828.1	1 544.8
Accounts payable and provisions	1 962.9	1 558.4	2 137.5	1 693.7	1 536.2
Financial instruments	-	134.4	-	134.4	8.6
<b>Total equity and liabilities</b>	<b>9 363.2</b>	<b>6 274.7</b>	<b>9 363.2</b>	<b>6 274.7</b>	<b>6 281.0</b>

## OTHER SALIENT FEATURES

Operating margin (%)	24.4	23.5	15.4	15.3	15.7
Effective tax rate (%)	19.7	20.2	18.2	19.9	15.7
Gearing (%)	94.7	64.2	99.7	67.9	39.9
Interest cover (times)	12.1	9.6	9.1	7.2	6.2
Net asset value per share (cents)	993.8	703.7	944.0	664.9	837.2
Depreciation	132.7	92.4	132.7	92.4	151.7
Capital expenditure	920.2	281.7	920.2	281.7	1 003.6
- expansion	804.2	200.6	804.2	200.6	837.0
- product registration costs	7.9	7.6	7.9	7.6	11.7
- replacement	108.1	73.5	108.1	73.5	154.9
Capital commitments	2 463.7	2 861.7	2 463.7	2 861.7	3 140.4
- contracted	476.8	873.3	476.8	873.3	798.2
- approved but not contracted	1 986.9	1 988.4	1 986.9	1 988.4	2 342.2
Lease commitments	137.3	65.0	137.3	65.0	196.7
- land and buildings	71.4	19.3	71.4	19.3	100.8
- other	65.9	45.7	65.9	45.7	95.9
Contingent liabilities	4.2	4.6	4.2	4.6	5.0

**ABRIDGED GROUP CASH FLOW STATEMENT**

	Actual		Sugar season basis		Actual Audited Year ended 31 March 2008 Rm
	Unaudited Six months ended 30 September 2008 Rm		Unaudited Six months ended 30 September 2007 Rm		
<b>Cash flows from operating and investing activities</b>					
Cash operating profit	850.2	728.4	621.4	556.8	1 055.0
Working capital requirements	(1 515.2)	(1 382.2)	(1 286.4)	(1 210.6)	46.2
Cash (utilised by)/generated from operations	(665.0)	(653.8)	(665.0)	(653.8)	1 101.2
Replacement capital expenditure	(108.1)	(73.5)	(108.1)	(73.5)	(154.9)
Financing costs, taxation and dividend	(514.9)	(433.0)	(514.9)	(433.0)	(708.9)
Net investment in future operations	(849.7)	(196.1)	(849.7)	(196.1)	(869.5)
Other movements	1.9	2.7	1.9	2.7	(13.1)
<b>Net cash outflow before financing activities</b>	<b>(2 135.8)</b>	<b>(1 353.7)</b>	<b>(2 135.8)</b>	<b>(1 353.7)</b>	<b>(645.2)</b>
Net cash inflow from financing activities	1 573.9	916.8	1 573.9	916.8	737.8
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(561.9)</b>	<b>(436.9)</b>	<b>(561.9)</b>	<b>(436.9)</b>	<b>92.6</b>

**STATEMENT OF CHANGES IN EQUITY**

<b>Share capital and share premium</b>					
Balance at beginning of the period	361.0	354.5	361.0	354.5	354.5
Issue of new shares	4.2	3.0	4.2	3.0	6.5
Balance at end of the period	365.2	357.5	365.2	357.5	361.0
<b>Share-based payments reserve</b>					
Balance at beginning of the period	12.6	10.9	12.6	10.9	10.9
Share-based payment expense	0.2	0.7	0.2	0.7	1.7
Balance at end of the period	12.8	11.6	12.8	11.6	12.6
<b>Non-distributable reserves</b>					
Balance at beginning of the period	412.4	146.3	412.4	146.3	146.3
Realised profit on disposal of land	-	0.8	-	0.8	-
Effect of foreign currency translation	57.4	(41.9)	57.4	(41.9)	269.5
Effect of cash flow hedges	39.0	(4.5)	39.0	(4.5)	(3.4)
Balance at end of the period	508.8	100.7	508.8	100.7	412.4
<b>Retained surplus</b>					
Balance at beginning of the period	1 403.6	1 103.0	1 403.6	1 103.0	1 103.0
Realised profit on disposal of land	4.9	(0.8)	4.9	(0.8)	-
Transfer to dividend reserve	(114.8)	(114.8)	(114.8)	(114.8)	(299.2)
Net profit for the period	508.0	393.8	385.5	285.6	599.8
Balance at end of the period	1 801.7	1 381.2	1 679.2	1 273.0	1 403.6
<b>Dividend reserve</b>					
Balance at beginning of the period	183.7	157.0	183.7	157.0	157.0
Transfer from retained surplus	114.8	114.8	114.8	114.8	299.2
Dividends paid	(183.4)	(157.0)	(183.4)	(157.0)	(272.5)
Balance at end of the period	115.1	114.8	115.1	114.8	183.7
<b>Equity holders' interest</b>					
	2 803.6	1 965.8	2 681.1	1 857.6	2 373.3
<b>Minority shareholders' interest</b>					
Balance at beginning of the period	555.6	456.6	555.6	456.6	456.6
Effect of foreign currency translation	40.4	12.0	40.4	12.0	56.8
Dividends paid	(85.5)	(82.6)	(85.5)	(82.6)	(114.4)
Increase in shareholding	2.7	2.7	2.7	2.7	3.1
Net profit for the period	167.3	103.4	115.2	76.3	153.5
Balance at end of the period	680.5	492.1	628.4	465.0	555.6
<b>Total equity</b>	<b>3 484.1</b>	<b>2 457.9</b>	<b>3 309.5</b>	<b>2 322.6</b>	<b>2 928.9</b>

## SEGMENTAL ANALYSIS

	Actual Unaudited Six months ended 30 September 2008		Sugar season basis Unaudited Six months ended 30 September 2008				Actual Audited Year ended 31 March 2008	
	Rm	Rm	Rm	%	Rm	%	Rm	

### BUSINESS SEGMENTS

#### Revenue

Sugar production	2 243.2	1 720.1	3 215.9	72	2 490.6	73	4 859.9
Cane growing	1 151.6	985.1	901.6	20	682.9	20	1 358.2
Downstream	358.8	254.5	351.7	8	254.5	7	576.0
	<u>3 753.6</u>	<u>2 959.7</u>	<u>4 469.2</u>		<u>3 428.0</u>		<u>6 794.1</u>

#### Operating profit

Sugar production	340.3	295.0	380.0	55	325.6	62	602.4
Cane growing	487.5	350.8	224.8	33	148.6	28	317.0
Downstream	88.0	49.5	82.2	12	49.5	10	145.1
	<u>915.8</u>	<u>695.3</u>	<u>687.0</u>		<u>523.7</u>		<u>1 064.5</u>

#### Total assets (excluding financial instruments)

Sugar production	5 672.2	3 997.7	5 672.2	61	3 997.7	64	3 301.1
Cane growing	3 264.6	1 934.8	3 264.6	35	1 934.8	31	2 669.8
Downstream	368.1	342.2	368.1	4	342.2	5	291.9
	<u>9 304.9</u>	<u>6 274.7</u>	<u>9 304.9</u>		<u>6 274.7</u>		<u>6 262.8</u>

### GEOGRAPHICAL SEGMENTS

#### Revenue

South Africa	1 479.1	1 172.7	1 968.7	44	1 594.0	46	3 104.1
Malawi	696.5	489.5	858.1	19	592.1	17	1 162.7
Zambia	510.0	529.4	705.1	16	543.6	16	1 076.1
Swaziland	524.3	428.4	381.6	9	338.8	10	693.0
Tanzania	262.0	165.1	366.0	8	231.2	7	482.8
Mozambique	281.7	174.6	189.7	4	128.3	4	275.4
	<u>3 753.6</u>	<u>2 959.7</u>	<u>4 469.2</u>		<u>3 428.0</u>		<u>6 794.1</u>

#### Operating profit

South Africa	86.7	61.0	109.0	16	110.1	21	263.4
Malawi	453.0	313.4	311.3	45	209.5	40	434.0
Zambia	129.8	184.4	112.5	16	89.1	17	125.1
Swaziland	108.0	73.8	54.6	8	44.5	9	98.2
Tanzania	33.9	27.0	64.5	10	53.5	10	94.2
Mozambique	104.4	35.7	35.1	5	17.0	3	49.6
	<u>915.8</u>	<u>695.3</u>	<u>687.0</u>		<u>523.7</u>		<u>1 064.5</u>



Company Registration no. 1906/000622/06  
Share code ILV  
ISIN ZAE000083846

#### DECLARATION OF DIVIDEND NO. 34

Notice is hereby given that an interim dividend of 41.5 cents per share has been declared on the ordinary shares of the company in respect of the six months ended 30 September 2008.

In accordance with the settlement procedures of Strate, the company has determined the following salient dates for the payment of the dividend :

Last day to trade cum-dividend	Friday, 2 January 2009
Shares commence trading ex-dividend	Monday, 5 January 2009
Record date	Friday, 9 January 2009
Payment of dividend	Monday, 12 January 2009

Share certificates may not be dematerialised / rematerialised between Monday, 5 January 2009 and Friday, 9 January 2009, both days inclusive.

By order of the Board

G D Knox                      Mount Edgecombe  
*Company Secretary*        12 November 2008

#### Directors :

R A Williams (Chairman)\*, D G MacLeod (Managing Director), M I Carr##. G J Clark (Australian), B P Connellan\*, M J Hankinson\*, D Konar\*, D R Langlands##, P A Lister##, P M Madi\*, I N Mkhize\*, C W N Molope\*, R A Norton\*, J T Russell, M J Shaw\*, B M Stuart, K Zarnack

# British      \* *Non-executive*

#### Registered office :

Illovo Sugar Park, 1 Montgomery Drive, Mount Edgecombe, KwaZulu-Natal, South Africa

#### Postal address :

P O Box 194, Durban, 4000

Website : [www.illovosugar.com](http://www.illovosugar.com)

#### Transfer Secretaries :

Link Market Services South Africa (Proprietary) Limited : 11 Diagonal Street, Johannesburg, 2001,  
P O Box 4844, Johannesburg, 2000

#### Auditors :

Deloitte & Touche

#### Sponsor :

J P Morgan Equities Limited