SUGAR ILLOVO LIMITED

- Earnings impacted by adverse weather conditions and currency movements
- Cash generation remains strong
- Swaziland expansion and co-generation project commissioned

# AUDITED GROUP RESULTS

## FOR THE YEAR ENDED 31 MARCH 2011

# CONTENTS

# REVIEW

The past year was disappointing for the group. Despite the significantly enhanced production capability of the business, the financial results were adversely affected by a number of external factors. Operating profit of R1 029 million decreased by 31% compared to the previous year, whilst the operating margin declined from 18% to 13%. Headline earnings of R516 million declined by 27% whilst headline earnings per share fell by 35% to 112.2 cents.

The impact of adverse weather and currency movements combined to depress group financial performance. Although sugar production was only marginally below the previous year, the strength of the rand and strong local currencies in Malawi and Zambia, together with a period of Euro weakness, collectively impacted negatively on export earnings and the conversion of foreign subsidiary profits into rand.

The contributions to operating profit were sugar production 72%, cane growing 19% and downstream 9%. By country, contributions were Malawi 41%, Zambia 24%, South Africa 14%, Tanzania 12%, Swaziland 8% and Mozambique 1%.

Cash generation at R1 279 million was strong, further strengthening the group balance sheet, notwithstanding the significant capital investments made by the group in the past five years.

Illovo's drive to increase the supply of cane to the group's sugar factories continued, with various developments in each country of operation. Total cane production of 6.3 million tons was a new record for the group, and compared to the 6.1 million tons produced in 2010, despite unseasonable weather. Notwithstanding a rain-interrupted season in Zambia, record cane production was achieved following the recent major expansion at Nakambala and this, together with increased output in Tanzania, more than offset significant cane supply losses in South Africa, and to a lesser extent, weather-affected reductions in Malawi, Swaziland and Mozambique. The coming year should see the results of several initiatives to increase cane production by 300 000 tons across the group, with a further increase of 200 000 tons expected to be delivered by the group's growers.

Group sugar production in 2010/11 of 1.639 million tons was marginally below last year's tonnage of 1.685 million tons. The loss of tonnage in South Africa was almost fully offset by increased production in other group operations, highlighting the strategic benefit of Illovo's geographic spread of operations. Record sugar production in Zambia of 385 000 tons, despite weather-related disruptions during the year, and increased output in Tanzania, mitigated the down-side. Factory performance across the group was satisfactory.

The major factory expansion and co-generation project at Ubombo in Swaziland was commissioned, within budget and on time, in April 2011 and, in its first year of operation, with increased company and outgrower cane supplies, is forecast to raise production by around 20% compared to last year. Over the longer term, and linked to the ongoing development of the Lower Usuthu Smallholder Irrigation Project, sugar production is forecast to increase from around 220 000 tons of sugar to more than 300 000 tons. The power plant will enable the factory and estates to become self-sufficient in electricity consumption and will supply power into the Swaziland national grid on a commercial basis.

Progress on the capital investment opportunity in Mali continues, with the remaining hurdle being to finalise and secure project funding for the development. This greenfield project continues to receive high priority support from the Government of Mali and will represent a major economic milestone in the industrial transformation of that country. Once commissioned and in steady state, the project will produce 200 000 tons of sugar, 15 000 kilolitres of fuel-blend ethanol and sufficient electrical power to be self-sufficient plus export a small surplus to the national grid. It is anticipated that, subject to funding being secured in terms of current timelines, the project will commence towards the end of 2011, with first sugar production likely in 2014/15.

The group's domestic sugar markets are of major importance and in a year impacted generally by restricted sugar availability, it was encouraging to note that record offtake was achieved in the Zambian local market, whilst domestic sales in South Africa performed strongly and those in Tanzania showed a smaller improvement. Export sales were negatively affected by sugar availability. Sales to the European Union (EU) and the United States of America showed a slight increase over last year, whereas regional sales volumes declined by 11%. EU and regional market prices firmed in line with the higher world price and tight sugar supplies. With the focus on domestic sales, and EU and regional markets, less than 90 000 tons of sugar produced by Illovo was exported out of South Africa to the world raw sugar market.

World raw sugar prices began 2010/11 on a downward trend following a period of sustained growth during 2009/10. This reversed as production expectations deteriorated in Brazil and India, and prices returned to the highs of the previous year. World sugar availability was extremely limited throughout the year as stocks in major consumer countries were replenished, whilst at the same time the increasing demand pipeline was supplied. A high level of speculative activity also supported world sugar prices. Towards the end of the 2010/11 season, news of improving production prospects began to soften demand and sugar futures came under pressure. Predictions of a record crop in Thailand also drove sentiment. Against this background, the South African sugar industry exported 340 000 tons of sugar in 2010/11 and realised an average price of US17.70 cents/lb compared to US16.53 cents/lb in the previous year.

Drought in South Africa and its negative impact on cane supply reduced the raw material throughput of Sezela's furfural plant, resulting in production levels of furfural and furfuryl alcohol falling below those of last year. However, record production of ethyl alcohol was achieved with a good increase in diacetyl production. Lactulose and syrup production were similar to last year's levels. Shortages of furfural and furfuryl alcohol in all major world markets resulted in strong export prices, rising to record levels for furfuryl alcohol whilst alcohol sales volumes remained steady with firmer export alcohol prices prevailing throughout the season. Registration of MultiGuard Protect, a furfural-based nematicide developed by Illovo, was achieved in the United States for use on turf and golf courses in that country, after which the product was launched at the US Golf and Turf Show in Florida in February 2011.

## CAPITAL REDUCTION DISTRIBUTION OUT OF SHARE PREMIUM IN LIEU OF DIVIDEND

Notice is hereby given that a final capital reduction distribution out of share premium of 34.0 cents per share has been declared, in lieu of a dividend, on the ordinary shares of the company in respect of the year ended 31 March 2011. This distribution, together with the interim capital reduction distribution of 22.0 cents per share which was declared on 17 November 2010, makes a total distribution in respect of the year ended 31 March 2011 of 56.0 cents per share.

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

| | |
|---|---|
| Last day to trade cum the capital distribution | Friday, 1 July 2011 |
| Shares commence trading ex the capital distribution | Monday, 4 July 2011 |
| Record date | Friday, 8 July 2011 |
| Payment of final capital distribution | Monday, 11 July 2011 |

Share certificates may not be dematerialised/rematerialised between Monday, 4 July 2011 and Friday, 8 July 2011, both days inclusive.

Relative to this capital reduction distribution, the directors have confirmed that the company will satisfy the solvency and liquidity test immediately after completing such distribution.

## PROSPECTS

The group's prospects for 2011/12 are driven off an anticipated increase in group sugar production compared to the past year. This is constrained by South African sugar output which is forecast to be sharply lower than in 2010/11 following the extreme knock-on impact of the drought experienced in KwaZulu-Natal. In this context, the Umzimkulu factory will not open for the 2011/12 season and the sugar cane from this area will be diverted to Sezela and Eston to better utilise plant capacity. Assuming normal weather conditions elsewhere, the fall in South African sugar production is expected to be offset by increased sugar production in the group's other operations. This follows the recent major production expansions, and a focus on performance optimisation to increase Illovo's sugar production efficiency. Downstream production of furfural will increase due to the diversion of cane to Sezela, and similar levels of alcohol production are estimated for the coming year. Sugar markets will be primarily domestic-market driven, but with increased sales to the EU where sugar prices have improved during the first half of 2011. Continued advantage will be taken of downstream prices which remain at good levels. However, the strength of local currencies will continue to have a negative impact upon revenue realisations for both sugar and downstream exports and the conversion of foreign subsidiary profits. Overall, operating profit is anticipated to improve, but increased financing costs, following the completion of the Swaziland expansion project, are expected to be sharply higher.

## DIRECTORATE

Karin Zarnack, the Financial Director, has resigned and will be leaving at the end of May 2011 to pursue other business interests. We would like to thank her for her contribution over the years and we wish her well in her future endeavours.

On behalf of the Board

| | | |
|---|---|---|
| **R A Williams** | **G J Clark** | Mount Edgecombe |
| *Chairman* | *Managing Director* | 27 May 2011 |

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## CORPORATE INFORMATION

| | |
|---|---|
| **DIRECTORS:** | R A Williams *(Chairman)**, D G MacLeod *(Deputy Chairman)**, G J Clark *(Managing Director) (Australian)*, M I Carr#*, M J Hankinson*, D Konar*, P A Lister#*, P M Madi*, C W N Molope*, A R Mpungwe *(Tanzanian)**, T S Munday*, R N Pike#*, L W Riddle, B M Stuart, K Zarnack  *# British*  ** Non-executive* |
| **REGISTERED OFFICE:** | Illovo Sugar Park, 1 Montgomery Drive, Mount Edgecombe, KwaZulu-Natal, South Africa |
| **CONTACT DETAILS:** | Telephone: +27 31 508 4300<br>Telefax: +27 31 508 4535<br>Website: www.illovosugar.com |
| **AUDITORS:** | Deloitte & Touche |
| **TRANSFER SECRETARIES:** | Link Market Services South Africa (Pty) Limited<br>Rennie House, 13th Floor, 19 Ameshoff Street, Braamfontein, 2001<br>PO Box 4844, Johannesburg, 2000 |
| **SPONSOR:** | JP Morgan Equities Limited |
| **CORPORATE INFORMATION:** | Company registration number: 1906/000622/06<br>Share code: ILV<br>ISIN: ZAE000083846 |

# ABRIDGED GROUP INCOME STATEMENT

| | | Notes | Change % | Year ended 31 March 2011 Rm | 2010 Rm |
|---|---|---|---|---|---|
| **Revenue** | | | (4) | **8 107.9** | 8 467.9 |
| **Operating profit** | | | (31) | **1 029.3** | 1 498.6 |
| Dividend income | | | | **2.1** | 3.9 |
| Net financing costs | | 2 | | **95.5** | 139.0 |
| **Profit before taxation and non-trading items** | | | | **935.9** | 1 363.5 |
| Share of loss from associates | | | | **(3.6)** | (8.4) |
| Material items | | 3 | | **30.2** | (52.4) |
| **Profit before taxation** | | | | **962.5** | 1 302.7 |
| Taxation | | | | **248.6** | 411.5 |
| **Profit for the year** | | | | **713.9** | 891.2 |
| **Attributable to:** | | | | | |
| Shareholders of Illovo Sugar Limited | | | (17) | **546.2** | 662.0 |
| Non-controlling interest | | | | **167.7** | 229.2 |
| | | | | **713.9** | 891.2 |
| **Determination of headline earnings:** | | | | | |
| Profit attributable to shareholders | | | (17) | **546.2** | 662.0 |
| Adjusted for: | | | | | |
| (Profit)/loss on disposal of business | | 3 | | **(19.8)** | 37.3 |
| Impairment of investment in agricultural joint venture | | 3 | | **–** | 15.0 |
| (Profit)/loss arising on disposal of property | | 3 | | **(10.4)** | 0.1 |
| Profit on disposal of plant and equipment | | | | **(0.9)** | (2.9) |
| Total tax effect of adjustments | | | | **1.0** | (10.0) |
| Total non-controlling interest effect of adjustments | | | | **–** | 1.0 |
| **Headline earnings** | | | (27) | **516.1** | 702.5 |
| Number of shares in issue | (millions) | | | **459.8** | 460.2 |
| Weighted average number of shares on which headline earnings per share is based | (millions) | | | **459.8** | 410.3 |
| **Headline earnings per share** | (cents) | | (35) | **112.2** | 171.2 |
| Diluted headline earnings per share | (cents) | | | **112.1** | 170.7 |
| Basic earnings per share | (cents) | | | **118.8** | 161.4 |
| Diluted basic earnings per share | (cents) | | | **118.6** | 160.9 |
| Distribution per share (interim – paid; final – declared) | (cents) | 4 | (35) | **56.0** | 86.0 |

## AUDIT OPINION

The independent auditors, Deloitte & Touche, have issued their opinion on the group's annual financial statements for the year ended 31 March 2011. Their audit was conducted in accordance with International Standards on Auditing. They have issued an unmodified audit opinion. A copy of their audit report is available for inspection at the company's registered office. These abridged financial statements have been derived from and are consistent in all material respects with the group's annual financial statements.

# ABRIDGED GROUP STATEMENT OF FINANCIAL POSITION

| | | Note | 31 March 2011 Rm | 2010 Rm |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | **6 409.4** | 5 722.8 |
| Property, plant and equipment | | | **4 984.5** | 4 262.7 |
| Cane roots | | | **1 087.9** | 1 100.2 |
| Intangible assets | | | **174.0** | 179.1 |
| Investments | | | **163.0** | 180.8 |
| **Current assets** | | | **3 396.3** | 3 925.1 |
| Inventories | | | **739.1** | 679.1 |
| Growing cane | | | **1 155.8** | 1 260.7 |
| Trade and other receivables | | | **768.5** | 639.0 |
| Financial instruments | | | **15.1** | 0.9 |
| Cash and cash equivalents | | | **717.8** | 1 345.4 |
| **Total assets** | | | **9 805.7** | 9 647.9 |
| **EQUITY AND LIABILITIES** | | | | |
| **Total equity** | | | **5 975.3** | 6 314.7 |
| Equity holders' interest | | | **5 191.2** | 5 502.6 |
| Non-controlling interest | | | **784.1** | 812.1 |
| **Non-current liabilities** | | | **960.2** | 1 117.9 |
| Long-term borrowings | | | **235.3** | 432.1 |
| Deferred taxation | | | **687.6** | 685.8 |
| Other liabilities | | | **37.3** | – |
| **Current liabilities** | | | **2 870.2** | 2 215.3 |
| Short-term borrowings | | | **994.7** | 700.1 |
| Trade and other payables | | | **1 871.5** | 1 513.4 |
| Financial instruments | | | **4.0** | 1.8 |
| **Total equity and liabilities** | | | **9 805.7** | 9 647.9 |
| **OTHER SALIENT FEATURES** | | | | |
| Operating margin | (%) | | **12.7** | 17.7 |
| Interest cover | (times) | | **10.8** | 10.8 |
| Effective tax rate | (%) | | **26.6** | 30.2 |
| Net debt:equity ratio | | 5 | **8.6** | ( 3.4) |
| Return on net assets | (%) | | **13.8** | 21.9 |
| Net asset value per share | (cents) | | **1 299.6** | 1 372.3 |
| Depreciation | | | **188.1** | 250.4 |
| Capital expenditure | | | **1 474.3** | 1 328.6 |
| – Expansion capital | | | **1 262.9** | 845.6 |
| – Replacement capital | | | **199.8** | 181.1 |
| | | | **1 462.7** | 1 026.7 |
| – Acquisition of business | | | **–** | 249.9 |
| – Expansion of area under cane | | | **8.2** | 40.9 |
| – Product registration costs | | | **3.4** | 11.1 |
| Capital commitments | | | **2 606.4** | 3 414.5 |
| – Contracted | | | **63.2** | 640.5 |
| – Approved but not contracted | | | **2 543.2** | 2 774.0 |
| Lease commitments | | | **300.3** | 241.2 |
| Contingent liabilities | | | **175.0** | 48.7 |

# ABRIDGED GROUP STATEMENT OF CASH FLOWS

| | Year ended 31 March | |
|---|---|---|
| | **2011** | 2010 |
| | **Rm** | Rm |
| **Cash flows from operating and investing activities** | | |
| Cash operating profit | **1 132.9** | 1 419.9 |
| Working capital movements | **146.3** | (183.2) |
| Cash generated from operations | **1 279.2** | 1 236.7 |
| Replacement capital expenditure | **(199.8)** | (181.1) |
| Financing costs, taxation and distributions | **(735.7)** | (929.5) |
| Net investment in future operations | **(1 274.5)** | (897.6) |
| Acquisition of business | **–** | (249.9) |
| Other movements | **92.3** | 36.1 |
| **Net cash outflow before financing activities** | **(838.5)** | (985.3) |
| Proceeds from rights issue, net of associated costs | **–** | 2 950.5 |
| Borrowings raised/(repaid) | **263.0** | (1 426.6) |
| Other financing activities | **(26.7)** | 262.0 |
| **Net (decrease)/increase in cash and cash equivalents** | **(602.2)** | 800.6 |

# STATEMENT OF OTHER COMPREHENSIVE INCOME

| | Year ended 31 March | |
|---|---|---|
| | **2011** | 2010 |
| | **Rm** | Rm |
| **Profit for the year** | **713.9** | 891.2 |
| **Other comprehensive income** | | |
| Adjustments in respect of cash flow hedges, net of tax | **10.1** | (17.2) |
| Actuarial gains/(losses) on post-retirement obligations, net of tax | **3.2** | (2.7) |
| Hedge of net investment in foreign subsidiary | **(2.1)** | – |
| Foreign currency translation differences | **(482.7)** | (748.4) |
| **Total comprehensive income for the year** | **242.4** | 122.9 |
| **Attributable to:** | | |
| Shareholders of Illovo Sugar Limited | **155.0** | 24.6 |
| Non-controlling interest | **87.4** | 98.3 |
| | **242.4** | 122.9 |

# ABRIDGED STATEMENT OF CHANGES IN EQUITY

| | 31 March 2011 Rm | 2010 Rm |
|---|---|---|
| **Share capital and share premium** | | |
| Balance at beginning of the year | **3 075.7** | 367.5 |
| (Repurchase)/issue of share capital | **(26.7)** | 2 956.7 |
| Transfer to distribution reserve | **(257.5)** | (248.5) |
| Balance at end of the year | **2 791.5** | 3 075.7 |
| **Share-based payments reserve** | | |
| Balance at beginning and end of the year | **13.1** | 13.1 |
| **Non-distributable reserves** | | |
| Balance at beginning of the year | **224.7** | 396.5 |
| Realised profit/(loss) on disposal of property | **9.9** | (0.1) |
| Transfer of debit foreign currency translation reserve | **403.8** | 341.8 |
| Transactions with non-controlling shareholders | **(90.0)** | 121.2 |
| Total comprehensive income for the year: | | |
| – Cash flow hedges | **9.4** | (16.6) |
| – Hedge of net investment in foreign subsidiary | **(2.1)** | – |
| – Foreign currency translation | **(401.7)** | (618.1) |
| Balance at end of the year | **154.0** | 224.7 |
| **Retained earnings** | | |
| Balance at beginning of the year | **1 940.6** | 1 770.4 |
| Realised (profit)/loss on disposal of property | **(9.9)** | 0.1 |
| Transfer of debit foreign currency translation reserve | **(403.8)** | (341.8) |
| Transfer to distribution reserve | **–** | (147.4) |
| Total comprehensive income for the year: | | |
| – Profit for the year | **546.2** | 662.0 |
| – Actuarial gains/(losses) on post-retirement obligations | **3.2** | (2.7) |
| Balance at end of the year | **2 076.3** | 1 940.6 |
| **Distribution reserve** | | |
| Balance at beginning of the year | **248.5** | 226.3 |
| Transfer from share premium | **257.5** | 248.5 |
| Transfer from retained earnings | **–** | 147.4 |
| Distributions paid | **(349.7)** | (373.7) |
| Balance at end of the year | **156.3** | 248.5 |
| **Equity holders' interest** | **5 191.2** | 5 502.6 |
| **Non-controlling interest** | | |
| Balance at beginning of the year | **812.1** | 671.2 |
| Distributions paid | **(106.2)** | (116.5) |
| Acquisition of business | **–** | 41.9 |
| Change in shareholding | **(9.2)** | 117.2 |
| Total comprehensive income for the year: | | |
| – Profit for the year | **167.7** | 229.2 |
| – Cash flow hedges | **0.7** | (0.6) |
| – Foreign currency translation | **(81.0)** | (130.3) |
| Balance at end of the year | **784.1** | 812.1 |
| **Total equity** | **5 975.3** | 6 314.7 |

# SEGMENTAL ANALYSIS

| | Year ended 31 March | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| | **Rm** | **%** | Rm | % |
| **BUSINESS SEGMENTS** | | | | |
| **Revenue** | | | | |
| Sugar production | **5 543.9** | **68** | 5 962.2 | 70 |
| Cane growing | **1 779.3** | **22** | 1 910.8 | 23 |
| Downstream | **784.7** | **10** | 594.9 | 7 |
| | **8 107.9** | | 8 467.9 | |
| **Operating profit** | | | | |
| Sugar production | **742.8** | **72** | 890.3 | 59 |
| Cane growing | **193.9** | **19** | 505.2 | 34 |
| Downstream | **92.6** | **9** | 103.1 | 7 |
| | **1 029.3** | | 1 498.6 | |
| **Total assets** | | | | |
| Sugar production | **4 595.7** | **51** | 4 037.9 | 49 |
| Cane growing | **3 708.1** | **41** | 3 949.9 | 47 |
| Downstream | **360.8** | **4** | 313.8 | 4 |
| Co-generation | **408.2** | **4** | – | |
| | **9 072.8** | | 8 301.6 | |
| Note: *Total assets excludes cash and cash equivalents and financial instruments.* | | | | |
| **GEOGRAPHICAL SEGMENTS** | | | | |
| **Revenue** | | | | |
| Malawi | **1 447.8** | **18** | 1 711.3 | 20 |
| Zambia | **1 829.9** | **23** | 1 468.1 | 17 |
| South Africa | **3 219.2** | **40** | 3 447.0 | 41 |
| Tanzania | **626.1** | **7** | 682.1 | 8 |
| Swaziland | **738.0** | **9** | 799.5 | 10 |
| Mozambique | **246.9** | **3** | 359.9 | 4 |
| | **8 107.9** | | 8 467.9 | |
| **Operating profit** | | | | |
| Malawi | **430.1** | **41** | 637.5 | 42 |
| Zambia | **242.4** | **24** | 264.3 | 18 |
| South Africa | **148.0** | **14** | 255.3 | 17 |
| Tanzania | **128.0** | **12** | 166.8 | 11 |
| Swaziland | **78.2** | **8** | 119.7 | 8 |
| Mozambique | **2.6** | **1** | 55.0 | 4 |
| | **1 029.3** | | 1 498.6 | |

# NOTES TO THE FINANCIAL STATEMENTS

**1. Basis of preparation**

The abridged report has been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the AC 500 standards as issued by the Accounting Practices Board, the information as required by IAS 34 Interim Financial Reporting, and the disclosure requirements of the Listings Requirements of the JSE Limited. The accounting policies adopted are consistent with those applied in the previous financial year except for the adoption of the revised IAS 7 Statement of Cash Flows, IFRS 2 Share-Based Payments, IFRS 3 Business Combinations and the consequential amendments to IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures. The adoption of these revised standards has resulted in certain disclosure reclassifications but has had no impact on the statement of financial position or the income statement.

| | **Year ended 31 March** | |
|---|---|---|
| | **2011** | 2010 |
| | **Rm** | Rm |
| **2. Net financing costs** | | |
| Interest paid | **144.0** | 307.6 |
| Less: capitalised | **(26.1)** | (14.2) |
| | **117.9** | 293.4 |
| Interest received | **(25.0)** | (30.5) |
| Foreign exchange losses/(gains) | **2.6** | (123.9) |
| | **95.5** | 139.0 |
| **3. Material items** | | |
| Profit/(loss) on disposal of business | **19.8** | (37.3) |
| Impairment of investment in agricultural joint venture | **–** | (15.0) |
| Profit/(loss) arising on disposal of property | **10.4** | (0.1) |
| **Material profit/(loss) before taxation** | **30.2** | (52.4) |
| Taxation | **(0.7)** | 10.2 |
| **Material profit/(loss) attributable to shareholders of Illovo Sugar Limited** | **29.5** | (42.2) |

**4. Distribution per share**

The distribution per share of 56.0 cents (2010: 86.0 cents) includes an interim capital distribution of 22.0 cents paid out of share premium and a final capital distribution of 34.0 cents declared out of share premium.

**5. Net debt:equity ratio**

The net debt:equity ratio is calculated as interest-bearing liabilities, net of cash and cash equivalents, divided by total equity. A negative net debt:equity ratio indicates that the group is in a net cash position.


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