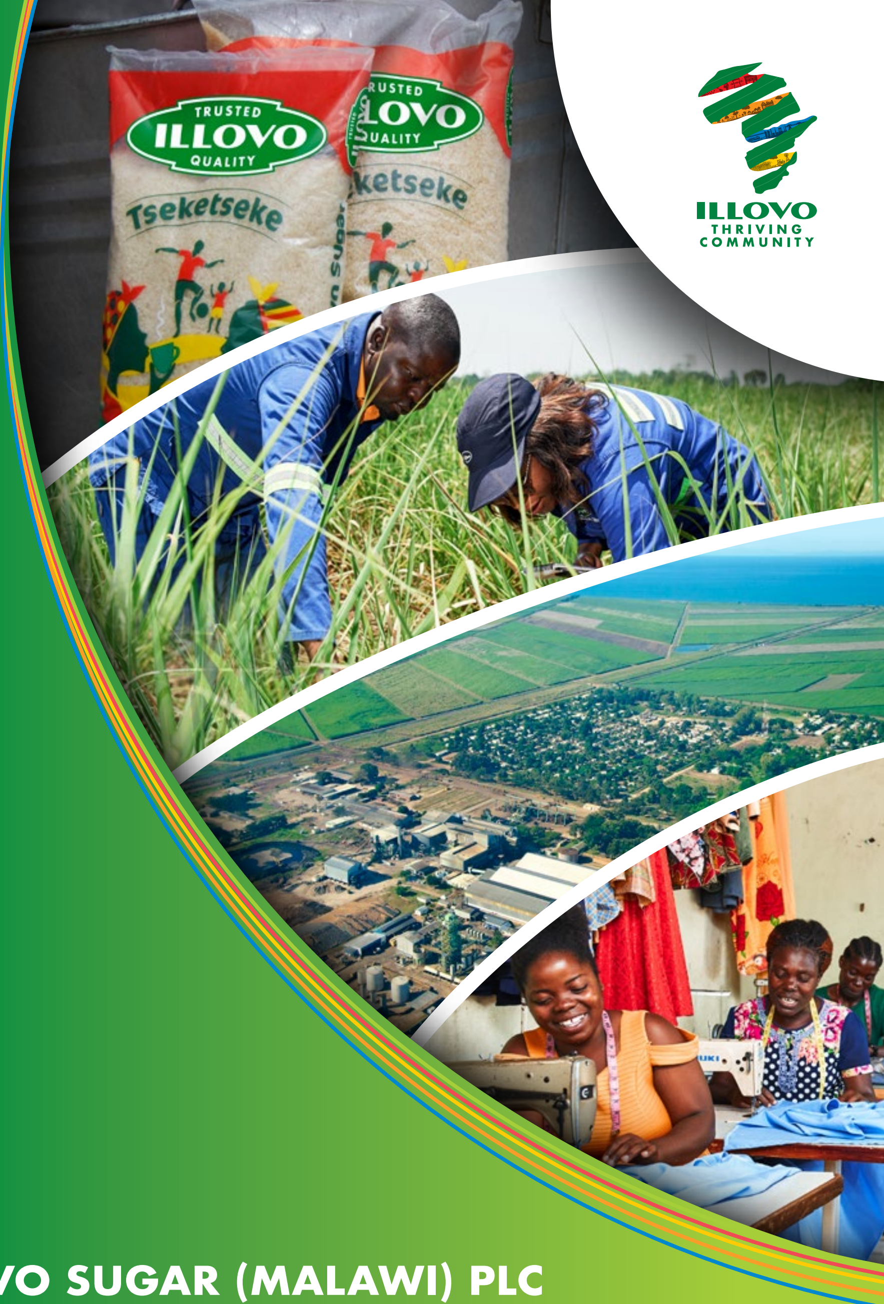


ILLOVO
THRIVING
COMMUNITY

ILLOVO SUGAR (MALAWI) PLC

ANNUAL REPORT FOR THE YEAR ENDED
31 AUGUST 2022

SUGAR ILLOVO MALAWI

AN **ILLOVO SUGAR AFRICA** COMPANY

Our passion lies in the development of community skills through collaborative partnerships and meaningful shared-value projects with community stakeholders.

DACCLA Women's Tailoring group contracted by Nchalo Estate to supply masks as a CSV project.

FOCCAD Women's Tailoring group contracted by Dwangwa to supply masks as a CSV project.

2022
ILLOVO SUGAR (MALAWI) PLC

ANNUAL REPORT FOR THE 12 MONTHS ENDED 31 AUGUST 2022

CONTENTS

Why We Exist

To create a thriving Malawian community through the provision of affordable food and energy

What We Will Be

A sustainable, resilient, consumer and customer centric performance focused business that delivers outstanding value for all our stakeholders

Our Core Values

Accountability

Empowerment

Commitment

Integrity

Inclusiveness


Market


Agriculture


Community


Industry

Our Sustainability Commitment

Illovo Sugar (Malawi) Plc (ISM) recognises that for our business to be successful we must **evolve** alongside the **Malawi market**, whilst creating **shared economic value**.

We will ensure this through our commitment to fulfil our purpose in creating a **thriving Malawian community through the provision of affordable food and energy**. Integral to this is ensuring the long-term sustainability of the business through its practices that will secure the **business's profit while safeguarding the planet and people.**

Our purpose is supported by the four purpose pillars: **Sugar Market Leader, Sustainable Agriculture, Value and quality driven industry and Community connected.**

Our impact on society, environment and economy are embedded within our thriving community purpose pillars and encompass Economic, Social and Governance (ESG) dimensions.

Illovo Sugar (Malawi) Plc

Sugar Market Leader

We will continue to build market preference through rich commercial insights, purpose and working together with production and distribution partners. Whilst constantly serving customers and consumers quality products in the formats they require and price they can afford. This underpins Illovo's market, financial & business sustainability, and license to operate.

ISM is a key contributor to the Malawian economy through the business growing production and improvements in financial performance. These have enabled the business to contribute to national development throughout its value chain by creating employment, business and contribution to national fiscus.

Wages to employees
K32.94 billion

11 631
Direct employment
(opportunities created – permanent, seasonal and casual)

Dividends
K14 billion

K28.208 billion

Payments to Growers
K20.8 billion

Incentives to distributors
K10.2 billion

interest incurred on lease liabilities
K1.094 billion

Payments to supplier
K115.818 billion

Illovo Sugar (Malawi) Plc

Sustainable Agriculture

We will promote rural economic development and growth by sharing agricultural expertise and facilitating community access to resources, including water, power and farming inputs. We prioritize sustainable cane developments through inclusive growth models and shared value in our supply chain to bring mutual benefit to both business and society.

This encompasses all elements of sustainable agricultural practices and natural resource usage and preservation within the organisation operations, growers and suppliers. The business promotes best practices in sustainable farming techniques both on our own land as well as in collaboration with our growers. The business continues to look towards greener sustainable practices that will reduce environmental degradation and combat climate change.

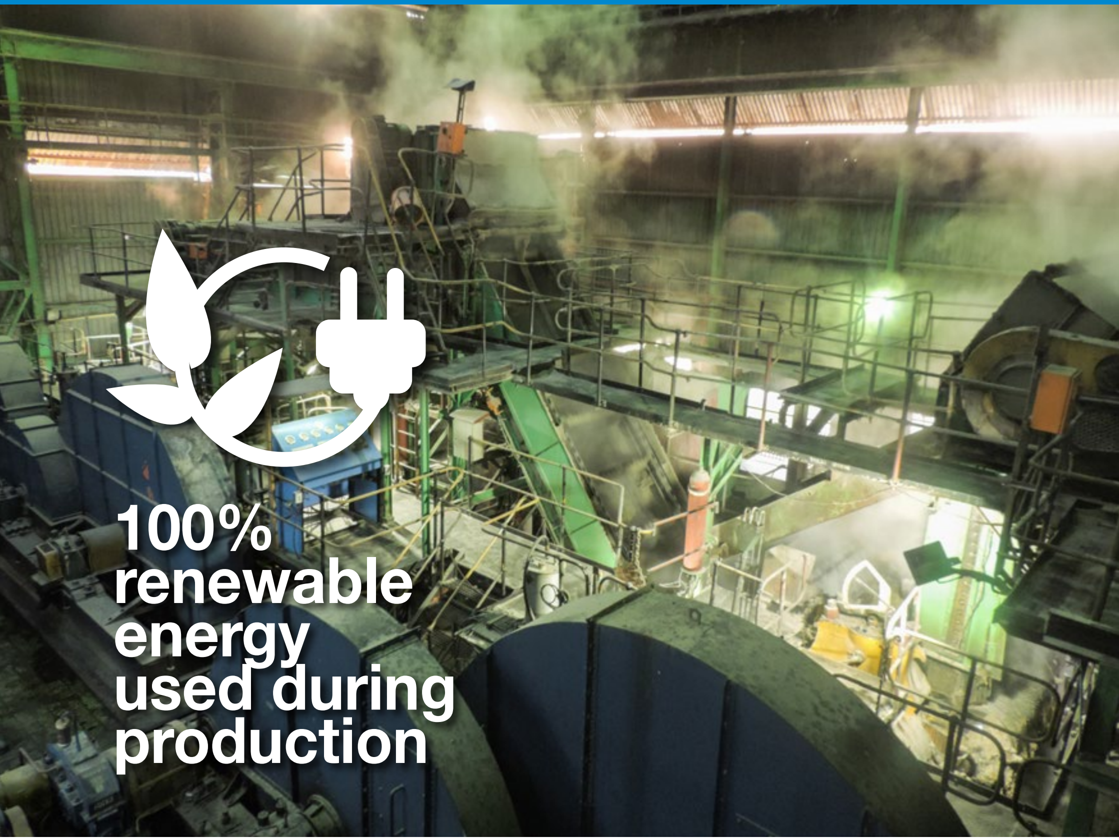
22 461 571 m^3
Recycled water

1 721.6
Hectares of land under drip

K114 million
Spent on grower programmes

340.26 tonnes
green cane mechanised harvesting

Value Driven Industry



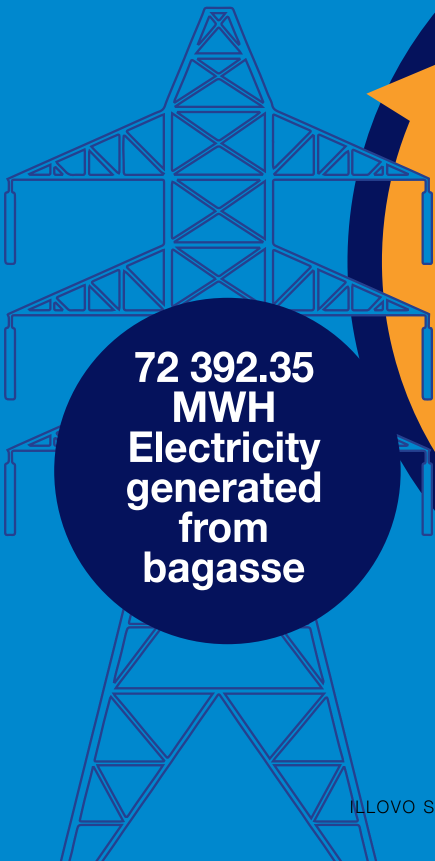
We will encourage innovative commercial community opportunities along our manufacturing value chain. We aim to unlock national growth aligned to the business core agri-business expertise.

This will encompass all elements directly linked to business operations in regard to growing, manufacturing, sourcing and quality assurance. The business aims to adhere to sustainable business practices such as renewable energy production in factories, workplace safety and local sourcing.

K753 million Spent on work place safety

K84.273 billion Spent on local suppliers

95.9% local suppliers



72 392.35 MWH Electricity generated from bagasse

Illovo Sugar (Malawi) Plc

Community Connected

We will collaborate with local communities, government and civic structures to execute new growth opportunities for positive social-economic impact and benefit. The collective community engagement will strengthen the growth and the development of the **THRIVING MALAWIAN COMMUNITY**, evidenced by increased opportunities which bring about positive socio-economic impact and benefit.

This encompasses external community and our people (staff) in relation to business practices and investments that directly impact them. ISM has invested in the provision of medical services, housing, corporate social responbility and other social benefits that have a wider social impact within the communities we operate.

K233 million
CSR spend

19 759
Housing beneficiaries
(employees, dependants, contractors)

97 655
Medical services beneficiaries

K1.597 billion
Spent on medical services

MK

K2.4 billion
Spent on employee benefits

2022 KEY FEATURES

K Results millions

Revenue
K186 642
2021: K163 259

Operating Profit
K39 505
2021: K31 941

Headline earnings
K26 630
2021: K20 469

Net Profit for the year
K26 630
2021: K20 469

Share performance (tambala per share)

Headline earnings
3 733
2021: 2 869

Dividends declared and paid
1 956
2021: 650

Net asset value
14 148
2021: 12 358

Year-end market price (tambala)
50 000
2021: 17 529

Financial statistics

Return on average shareholders' equity (%)
28.2
2021: 25.6

Return on net assets (%)
30.2
2021: 27.2

Interest cover (times)
36.3
2021: 11.9

GROUP PROFILE

Illovo Sugar (Malawi) Plc (Illovo Malawi / the group) was incorporated in Malawi as a private company (The Sugar Corporation of Malawi (SUCOMA) Limited) on 31 May 1965 and then converted to a public company on 15 September 1997. Illovo Group Holdings Limited (Illovo) through Sucoma Holdings Limited, holds 76% of the issued share capital of Illovo Malawi with the balance of the shares being held by the public and other institutional investors. The ultimate holding company is Associated British Foods plc (ABF), in the United Kingdom.

Illovo Sugar Malawi is the country's biggest producer of sugar and plays a significant role within the Malawian economy. It has developed significant agricultural and milling assets at the Dwangwa Sugar Estate in the central region in Nkhotakota and at the Nchalo Sugar Estate situated in the south of the country in Chikwawa. In a normal season, Illovo Malawi grows almost two million tons of sugarcane on both estates which, combined with an average of 500 000 tons of cane grown by Malawian growers, enables the production of 256 357 tons of sugar, on average.

The Dwangwa factory produces refined and brown sugar while the Nchalo factory produces brown and value-added speciality sugars. Both operations also produce molasses, a by-product of the sugar manufacturing process, which is currently sold as a fermentation raw material to the two fuel alcohol distilleries in Malawi.

In the current financial year, almost 213 000 tons of sugar produced was sold into the local direct consumption market through the company's established distribution channels and also into the local artisanal and industrial market, with the balance earning valuable foreign exchange through export sales into regional African markets and into markets in the European Union (EU) and the United States of America (USA).

Illovo Malawi is the country's largest private-sector employer providing employment to 11 631 people, and it is also a major contributor to the Malawian tax revenue through both direct and indirect taxes. In the current financial year, the company's tax charge on the adjusted profit before tax was K11.8 billion at an effective rate of 30.8% (2021 – 30.2%). On behalf of Malawi Government, the Company collected K20 billion in Value Added Tax and other taxes. Many industries are dependent upon Illovo Malawi for their viability and the employment created by these businesses provides an income base for many more families than are directly employed.

Malawi is classified as one of the world's Least Developed Countries on the United Nations Human Development Index. The prevailing low Gross Domestic Product (GDP) per capita results in generally extremely high poverty levels particularly across Malawi's vast rural areas. Recognising the significant development needs of the communities in which it operates and to meet the group's stated objective to ensure the creation of "A THRIVING MALAWIAN COMMUNITY' Illovo Malawi undertakes some corporate social responsibility in the areas of operation but mostly adopts the approach of Creating Shared Value (CSV) initiatives. CSV initiatives are projects that generate sustainable economic benefits for both the targeted communities and the company.

OPERATING LOCATIONS

CORPORATE INFORMATION

Company Secretary / Compliance Officer	M S Kachingwe
Business address and registered office	Illovo Sugar (Malawi) Plc, Churchill Road, Limbe, Malawi
Postal address	Private Bag 580, Limbe, Malawi
Telephone	+265 (0)1 843 988
Fax	+265 (0)1 840 761
E-mail address	illovomalawi@illovo.co.za
Website Address	www.illovosugar.com
Transfer secretaries	Standard Bank Malawi plc Transfer Secretaries, Transactional Products and Services, Kaomba Centre, corner Sir Glyn Jones Road & Victoria Avenue, Blantyre, Malawi
Postal address	P O Box 1111, Blantyre, Malawi
Telephone	+265 (0)1 820 144
E-mail address	custodymalawi@standardbank.co.mw
Auditors	Ernst & Young (EY)
Principal attorneys	Knight & Knight
Principal bankers	Standard Bank Malawi plc

GROUP HOLDING STRUCTURE

Associated British Foods plc
100%

An AB Sugar company
ILLOVO SUGAR AFRICA HOLDINGS LIMITED
100%

ILLOVO GROUP HOLDINGS LIMITED
100%

PUBLIC AND INSTITUTIONAL INVESTORS
13%

SUCOMA HOLDINGS LIMITED
76%

OLD MUTUAL LIFE ASSURANCE COMPANY (MALAWI) LIMITED
11%

AN ILLOVO SUGAR AFRICA COMPANY
ILLOVO SUGAR (MALAWI) Plc
100%

DWANGWA SUGAR CORPORATION LIMITED

The Board

G B Dalgleish (56) – Chairman

BScEng(Chem), MScEng(Chem)

Gavin was appointed as a director of Illovo Sugar (Malawi) plc (Illovo Malawi) in November 2011 and assumed the position of Chairman in August 2013. He holds a master's degree in chemical engineering and first joined the Illovo Sugar Group (Illovo) in 1988 as a postgraduate student. He has since held a number of technical, business-development, operational and general management positions in Illovo. He also spent three years leading the Australia-based global technology unit of AB Mauri, a yeast business which is a subsidiary of Associated British Foods plc, before returning to Illovo in December 2010. Gavin assumed the position of Operations Director of Illovo in 2012, and was appointed Managing Director of Illovo with effect from 1 September 2013.

L L Katandula (47) – Managing Director

BAcc, FCCA, CA(Mw), CFA, CISA, MBA

Lekani joined Illovo Sugar (Malawi) plc (Illovo Malawi) in August 2015 as Financial Director and served in this capacity until 1 December 2017 when he was appointed Human Resources Director. Effective 1 April 2020 Lekani was appointed as the first Malawian Managing Director for the Malawi business. Prior to joining the group, Lekani was employed by Deloitte Malawi for 19 years, where he was Audit and Advisory Partner in the final 11 years. He has a wealth of knowledge and experience in financial management, reporting and control, and leadership having operated in senior managerial and partnership levels in a reputable external audit practice. He currently also serves as a non-executive director at First Capital Bank Malawi where he chairs the credit committee, Telkom Networks Malawi where he chairs the audit committee. He also chairs the Public Private Partnership Commission and serves as President of the Malawi Confederation of Chambers of Commerce and Industry. He also served as Chairman of the board of Trustees at Phoenix International School until June 2019 when he relinquished this role.

K Ntambo-Banda (34)

BSoc, BA(Psych), MA(HRM), CTP, MCIPD

Khumbo joined Illovo Sugar (Malawi) plc on 1 August 2018 as Organisation Development Specialist and was later appointed into the role of Organisational Effectiveness Manager as part of the Business Improvement team. Khumbo was appointed Human Resources Director in April 2020.

Prior to joining Illovo, Khumbo was employed by Unilever for a period of 6 years, as Human Resources Business Partner for the Supply Chain function for the South African Business. Prior to this, Khumbo served as a member of the Southern African Leadership team for the Unilever Southern African Business covering Malawi, Mozambique Zimbabwe and Zambia as Human Resources Business Partner for the region. She also worked in several other Multinational organisations such as Airtel Malawi and Carlsberg in Malawi prior to joining Unilever in various capacities in the Human Resources and Management Field.

Khumbo is a chartered member of the Chartered Institute of People Development (CIPD),and a Certified Talent Practitioner (CTP); a holder of a Masters in Global People Management from the University of Liverpool, a Bachelor of Arts - Industrial Psychology Degree from the University of Kwa- Zulu Natal and Bachelor of Social Science Degree from the University of Malawi.

D N Kasambala (52)

BSC, MBA (FINANCE), CGMA, ACMA

Doug joined Illovo Sugar Africa Proprietary Limited (Illovo Africa) in February 2019 from KPMG UK where, as a Director in their Corporates - Finance transformation practice, he led the manufacturing finance capability. Doug spent five years with KPMG, and prior to that, was a Finance transformation consultant with IBM for three years. Doug is CIMA-qualified, with a Bachelor of Science degree in Computer Science (University of Malawi), and an MBA in Finance (University of Nottingham).

Prior to becoming a Finance transformation consultant, Doug gained extensive industry Finance experience in the FMCG sector having spent thirteen years with Unilever Plc working in roles that supported different regions including Europe, Africa and Asia in various functions including corporate audit, supply chain finance and enterprise services working as Finance Manager progressing to Finance Director

Before moving to the UK, Doug started his career in the banking industry in Malawi, working with the two largest banks, Commercial Bank (now Standard Bank plc) and National Bank plc in their treasury and leasing departments.

A R Mpungwe (71)

BA(Hons), PGD International Law and Diplomacy, SMP, LCP

Ami has spent 25 years in the Tanzanian diplomatic service and has consequently during this time accumulated a wealth of political and commercial experience from operating on the African continent. He was the first Tanzanian High Commissioner to South Africa and retired from the service in 1999. He was a previous non-executive director of Illovo Sugar Africa Proprietary Limited and in addition to being appointed as a non-executive director of Illovo Malawi in October 2006, he also still remains on the boards of Illovo's operating subsidiaries in Zambia, at Zambia Sugar Plc which is listed on the Lusaka Stock Exchange and in Tanzania, at Kilombero Sugar Company Limited. He is also a director of a number of other companies in Tanzania.

R Savjani (33)

BSc(Hons) Economics, ACMA, CGMA

Ravi was appointed as a director of Illovo Malawi in May 2018. He holds a BSc First Class Honours degree in Economics from the University of Warwick. He trained in finance and corporate finance at Deloitte in London where he also commenced his accountancy qualification, which he completed soon thereafter. Ravi subsequently held a number of roles in the private equity and financial services industries, primarily in London. He is currently acting CEO for LifeCo Holdings Limited.

K Msimuko (39)

FCCA, CA (M)

Kondwani joined Illovo as Finance Head on 1st September 2021. Before joining Illovo, he worked for Deloitte Malawi as Audit Partner and Professional Practice Director. As an Audit Partner, he was responsible for delivering audit and assurance services in various industries of the economy and as a Professional Practice Director, he was responsible for driving quality financial reporting and audit through various formal initiatives and acted as a focal point for accounting, audit and regulatory consultation for the firm. He spent over 11 years with the firm.

In 2016, he was seconded to Accounting & Audit Technical Department for Deloitte Africa where he was responsible for advising and training audit team across Africa on technical and audit quality matters.

Kondwani is a Fellow member of the Association of Chartered Certified Accountant (FCCA), Practising Resident Member of Institute of Chartered Accountant in Malawi (ICAM) and the Malawi Accountants Board (MAB) and a Certified Information Systems Auditor (CISA).

A Lubbe (59)

B.Com (Marketing) Bus Admin (Hons)

Andre was appointed to the board of Illovo Sugar Malawi (plc) in February 2020. He holds an honours degree from the University of Stellenbosch (SA) in business administration and first joined Illovo Sugar Africa in January 2017 as Group Commercial Director, a position he still holds. Prior to joining Illovo Sugar he spent over 25 years with SABMiller in South Africa and Africa holding various senior leadership positions. Before re-joining SABMiller Africa in 2011, he spent 3 years as Divisional Manager at Parmalat (SA). He also had the opportunity to work as Commercial Director for SABMiller in Nigeria for two years before returning to South Africa, where he joined the Africa office in Johannesburg as Head of Distribution and Route-to-Consumer Development with SABMiller Africa. Andre has extensive commercial & general management experience in FMCG and is passionate about brands and consumers.

J K Lipunga (59)

FCCA , CA, Certified PPP Specialist

Mr Jimmy Lipunga was appointed as a Director of Illovo Malawi on 19 August 2021. As a Chartered Accountant, Jimmy joined Deloitte and Touche (previously known as Deloitte Haskins and Sells) in July 1983. He worked in various roles including the final position of Supervising Senior. In March 1993, he joined Ethanol Company Limited as its Finance Manager providing leadership to the entire finance department. In August 1996, he transitioned into the public sector and joined the then Privatization Commission as a Director of Finance. In this role, Jimmy was responsible for financial analyses and due diligence reviews for state owned enterprises earmarked for privatization. He was a key player in valuation of shares and assets for enterprises earmarked for privatization. Jimmy oversaw the first five IPOs on the Malawi Stock Exchange including Illovo Sugar (Malawi)Plc. In 2004, he was promoted to Transactions Director a position he served for one year before ascending to the position of Chief Executive Officer in 2006. He was the key player in the transition from the privatization framework to the public private partnership paradigm. He retired in August 2019 after serving as Chief Executive Officer for a period of 14 years.

Jimmy is a Past President of the Institute of Chartered Accountants in Malawi (2004-2006). He is also a past Chairman of the Malawi Accountants Board. He has served on several high profile boards including Old Mutual Malawi Plc, Reserve Bank of Malawi, Malawi Revenue Authority, Competition and Fair Trading Commission, Malawi Airlines, Lafarge Malawi Limited, Sunbird Tourism, MPICO Limited.

V Chanza-Santhe (50)

Violette Chanza-Santhe is an experienced Development Finance Consultant, Digital Finance Specialist, Banker and Chartered Accountant. She joined the board on 22nd February 2022. She is a holder of Master of Philosophy in Development Finance with the University of Stellenbosch Business School and a Bachelor of Accountancy Degree from the University of Malawi, The Polytechnic. She is a fellow of the Association of Chartered Certified Accountants (UK) and is also part of the European Centre of Technology (ECT) Professional Membership Programme having attained the Galileo Master Certification (GMC) in Renewable Energy Management and Finance. She also holds European Energy Centre (EEC) Membership of the EnergyCPD Renewable Energy Professional Membership programme. As a Digital Finance specialist, Violette has attained certification in Blind Spots: Gender in Digital Financial Services, Instant and Inclusive Payments and Digital Money with Digital Frontiers Institute and is working on research papers which are geared towards driving the development of instant and inclusive payment systems in order to help change Malawi's financial landscape.

Violette has over 20 years of professional experience in both the public and private sectors, particularly the financial industry. She has worked in various institutions in the financial industry, such as Leasing and Finance Company, INDEfinance, INDEbank, Standard Bank and African Alliance and Bankers Association of Malawi (BAM) in the following portfolios: Executive management, Finance, Credit, Treasury management and international banking, Internal audit, Trade Finance, stockbroking and project management. In the public sector, she has worked as Director of Finance for Malawi Housing Corporation and a lecturer at the Malawi College of Accountancy.

Violette has also carried out a number of consultancy assignments in various set ups both in the private and public entities including NGOs. She is currently Malawi's Country Coordinator for The Renewable Energy and Energy Efficiency Partnership (REEEP) in conjunction with Private Finance Advisory Network – Vienna, Austria.

Violette has provided strategic leadership as a board director for the following institutions: Sunbird Malawi Ltd, Broll Malawi, Easy Loans Ltd, the SADC Banking Association-RSA and the International Organization for Standardization (ISO)'s financial services committee-Switzerland. She is also a member of the Core Advisory Panel (CAP) of the National Planning Commission of Malawi which developed the Malawi 2063 vision as the successor to Vision 2020. In addition, she has also sat on a number of different technical committees in the Ministries of Finance, Trade, Agriculture and the Reserve Bank of Malawi.

Key Management Personnel

L L Katandula (47) – Managing Director

BAcc, FCCA, CA(Mw), CFA, CISA, MBA

Lekani joined Illovo Sugar (Malawi) plc (Illovo Malawi) in August 2015 as Financial Director and served in this capacity until 1 December 2017 when he was appointed Human Resources Director. Effective 1 April 2020 Lekani was appointed as the first Malawian Managing Director for the Malawi business. Prior to joining the group, Lekani was employed by Deloitte Malawi for 19 years, where he was Audit and Advisory Partner in the final 11 years. He has a wealth of knowledge and experience in financial management, reporting and control, and leadership having operated in senior managerial and partnership levels in a reputable external audit practice. He currently also serves as a non-executive director at First Capital Bank Malawi where he chairs the credit committee, Telkom Networks Malawi where he chairs the audit committee. He also chairs the Public Private Partnership Commission and serves as President of the Malawi Confederation of Chambers of Commerce and Industry. He also served as Chairman of the board of Trustees at Phoenix International School until June 2019 when he relinquished this role.

K Ntambo - Banda (34) – Human Resources Director

BSoc, BA(Psych), MA(HRM), CTP, MCIPD

Khumbo joined Illovo Sugar (Malawi) plc on 1 August 2018 as Organisation Development Specialist and was later appointed into the role of Organisational Effectiveness Manager as part of the Business Improvement team. Khumbo was appointed Human Resources Director in April 2020.

Prior to joining Illovo, Khumbo was employed by Unilever for a period of 6 years, as Human Resources Business Partner for the Supply Chain function for the South African Business. Prior to this, Khumbo served as a member of the Southern African Leadership team for the Unilever Southern African Business covering Malawi, Mozambique Zimbabwe and Zambia as Human Resources Business Partner for the region. She also worked in several other Multinational organisations such as Airtel Malawi and Carlsberg in Malawi prior to joining Unilever in various capacities in the Human Resources and Management Field.

Khumbo is a chartered member of the Chartered Institute of People Development (CIPD),and a Certified Talent Practitioner (CTP); a holder of a Masters in Global People Management from the University of Liverpool, a Bachelor of Arts - Industrial Psychology Degree from the University of Kwa- Zulu Natal and Bachelor of Social Science Degree from the University of Malawi.

K Msimuko (39) – Finance Director

FCCA, CA (M)

Kondwani joined Illovo as Finance Head on 1st September 2021. Before joining Illovo, he worked for Deloitte Malawi as Audit Partner and Professional Practice Director. As an Audit Partner, he was responsible for delivering audit and assurance services in various industries of the economy and as a Professional Practice Director, he was responsible for driving quality financial reporting and audit through various formal initiatives and acted as a focal point for accounting, audit and regulatory consultation for the firm. He spent over 11 years with the firm.

In 2016, he was seconded to Accounting & Audit Technical Department for Deloitte Africa where he was responsible for advising and training audit team across Africa on technical and audit quality matters.

Kondwani is a Fellow member of the Association of Chartered Certified Accountant (FCCA), Practising Resident Member of Institute of Chartered Accountant in Malawi (ICAM) and the Malawi Accountants Board (MAB) and a Certified Information Systems Auditor (CISA).

M Njowoka (38) – Commercial Head

BBA

Maurice joined Illovo Sugar Malawi as Commercial Head from 1st March 2020.

Prior to joining Illovo Sugar Malawi, Maurice worked with Illovo Sugar Africa (Pty) Ltd Group office in Durban, South Africa as Group Route-To-Consumer Manager where he championed development of multi country Route-To-Consumer strategies based on data and insights from a range of market potential surveys thereby supporting top-line revenue growth. He also supported a change process that will bring about major improvements to the way the company sells, distributes and makes products available to customers and consumers across Zambia, Malawi, Tanzania and South Africa.

Before joining Illovo, Maurice worked with Coca-Cola East & South Africa Business Unit and Serengeti Breweries Ltd (a Diageo Plc and East Africa Breweries Plc affiliate in Tanzania) in areas of Commercial execution, Sales and Marketing. He has over 13 years of hands on Commercial execution experience.

Maurice is a holder of Bachelor of Business Administration degree (Economics major), from University of Iringa (Tanzania) and he is currently an MBA candidate at East & Southern African Management Institute (ESAMI). Maurice has attended leadership development programs at both Georgia Institute of Technology (USA) & Gordon Institute of Business Science (GIBS) Business School (South Africa).

S Cuthbert (59) – Business Improvement Head

QFC (Level 7), HNC (Mechanical & Production Engineering)

Steve was appointed as Head of Business Improvement for Illovo Sugar (Malawi) plc on 8th Novemember 2019 having joined the Malawi team in 2017 as Organisation Effectiveness Manager.

A senior leader with a broad experience in manufacturing and supply chain management across the food industry, Steve has over 35 years' experience in various technical, management and leadership positions with Associated British Foods including AB Sugar China where he worked as Continuous Improvement Director/ Operations Development Director. He was responsible for the delivery of Agricultural and Operational Continuous Improvement across multiple sugar beet and sugar cane sites in both the North and South of China and was accountable for all aspects of Health & Safety, Environment & Quality. Prior to this post in China, he was Head of Operational Capability at British Sugar and Factory Manager for British Sugar (Bury Factory).

Steve holds a CMI Level 7 Certificate in Strategic Management & Leadership (QFC) and a HNC in a Mechanical & Production Engineering from Peterborough Technical College.

M Kachingwe (56) – Company Secretary, Legal Council and Head of Corporate Affairs

LLB, MBA

Maureen is currently Company Secretary, Legal Counsel & Corporate Affairs Head of Illovo Sugar (Malawi) plc since December 2019 having joined Illovo in July 2017 as Company Secretary.

In her current role Maureen heads the legal department, stakeholder engagement and industry affairs and is a member of the executive management team. Maureen previously worked for Sunbird Tourism Limited where she had a successful career for 23 years in the areas of compliance, securities law, corporate law, governance, risk management and Company Secretarial with responsibilities over Human Resources and Procurement. In 2002 Maureen was part of a team of experts which successfully delivered the listing for Sunbird.

Over the years Maureen has served on the boards of financial institutions, pension trusts, parastatals, insurance company, as well as serving as Secretary for the Malawi Law Society, President for the Women Lawyers Association and Council member of the Council for Higher Education among other responsibilities.

N Msowoya (52) – Export Manager Refined & Speciality Sugar

BBA, MBA

Nestor was appointed into his current role as Export Manager Refined & Speciality Sugar in 1st September 2017 having joined Illovo in October 2016 as Regional Commercial Manager.

Prior to joining Illovo, Nestor worked at Larfargeholcim Malawi as Business Development Manager where he was responsible for strategy development aimed at generating new business ad driving the business to uncontested market which also included capacity extension and investment projects. He was also previous a Commercial Director for Air Malawi Ltd where he was responsible for all commercial activities of the airline which included interlining, ticketing, planning and scheduling, sales and marketing including outstation destination management.

Nestor holds a Master's Degree in Business Administration obtained from Bradford University School of Management, a Postgraduate Diploma in Marketing with the Chartered Institute of Marketing and a Bachelor of Business Administration.

R Pillay (52) – Supply Chain Head

BCOMM, NDIPP CIMMA

Ricky joined Illovo Sugar (Malawi) plc in 2016 as Supply Chain Manager and was appointed into his current role as Supply Chain Head in November 2019. He has been with the business for over 30 years holding different positions across the Illovo Sugar Africa Group. He worked as Operations/ Supply Chain Manager- Commercial for Illovo Sugar South Africa-Head Office where he was responsible for Sales and Operations Planning activities by developing, leading and executing Illovo's SIOP (Sales, Inventory and Operations Planning) strategy as Master Planner. Prior to this post, he was Production Planner responsible for production and planning of sugar across the mills in Umzimkulu, Sezela, Easton, Noodsberg, Gledhow and Pongola. Ricky was also once the Business Development Planner and Management Accountant, all positions held at Head Office.

Ricky holds a Bachelor's Degree in Commerce obtained from the University of South Africa and an NDipp Information Technology from ML Sultan Technikon.

J Ndlovu (61) – General Manager Dwangwa Mill

BBA, BSc (Agriculture), MSc (Agriculture)

Jeremiah joined Ubombo Sugar Limited in Swaziland (part of Illovo Sugar Africa) in November 2009 as Agriculture Development Manager and was later appointed into the role of Agriculture Head. Jeremiah has been in the sugar industry since 1986. With vast experience he brings a wealth of knowledge and expertise in the cane growing and sugar manufacturing operations. Jeremiah was appointed as General Manager of Illovo Sugar Malawi Dwangwa Estate in April 2020.

G Trott (54) – General Manager Nchalo Mill

B.Sc. Engineering (Agric)

Geoff was appointed General Manager for Illovo Sugar Malawi Nchalo estate in February 2021 after serving 22 years performing various senior management roles within the Illovo Sugar Africa Group. He has a wealth of expertise in the Sugar & Logistics industry operational and technical environment and also has experience across multiple African countries and companies.

DIRECTORATE ATTENDANCE

Attendance at board and committee meetings during the year ended 31 August 2022

Director	Board Meeting		Audit Committee Meeting	
	A	B	A	B
K Ntambo-Banda	4	3	N/A	N/A
G B Dalgleish	4	4	2	2
P W Guta	4	3	2	4
D N Kasambala	4	4	2	2
L L Katandula	4	4	2	3
G Kumchulesi	4	1	N/A	N/A
A Lubbe	4	4	N/A	N/A
P A Madinga	4	2	2	2
A R Mpungwe	4	4	N/A	N/A
K Msimuko	4	4	2	2
N A Ngwira	4	4	2	2
R Savjani	4	3	N/A	N/A
J Lipunga	4	4	N/A	N/A
V Chanza-Santhe	4	3	N/A	N/A

Column A indicates the number of meetings held during the year and column B indicates the number of meetings attended by the Director whilst a member of the board/committee. N/A means the Director was not a member of that committee.

Risk Committee Meeting		Remuneration and Nomination Committee Meeting		Annual General Meeting	
A	B	A	B	A	B
N/A	N/A	3	2	1	0
2	2	3	3	1	1
N/A	N/A	N/A	N/A	1	1
2	2	3	3	1	1
2	3	3	3	1	1
2	1	N/A	N/A	1	0
2	2	N/A	N/A	1	1
N/A	N/A	N/A	N/A	1	0
2	2	3	3	1	1
2	2	N/A	N/A	1	1
N/A	N/A	3	1	1	1
2	1	N/A	N/A	1	1
N/A	N/A	3	3	1	1
N/A	N/A	N/A	N/A	1	1

Note

1 Naomi Ngwira resigned in November 2021
2 Grace Kumchulesi resigned in February 2022
3 Violette Chanza-Santhe was appointed in February 2022
4 Paul Guta resigned in August 2022
5 Phillip Madinga resigned in August 2022

"Our PEOPLE: We RECOGNISE our people for their COMMITMENT to the BUSINESS, and pushing beyond being able to explain why not!"

Gavin Dalgleish
Illovo Sugar (Malawi) Plc
Chairman

Overview

The fiscal year ended 31st August 2022 presented various challenges and opportunities which the group embraced as further discussed below, which impacted the results as depicted in the financial report.

The group achieved 14 per cent growth in turnover to K186.6 billion, 24 per cent growth in operating profit to K39.5 billion and 31 per cent growth in profit before tax to K38.4 billion over the prior year. The group experienced significant growth in domestic market and sold 213 550 tonnes from 172 578 tonnes in the prior year. The group contributed to the Malawi fiscus by paying and collected tax on behalf of government amounting to K28.2billion (2021: K16.8billion). The group also managed to fully repay debt and achieve a net cash posistion in the year despite the challenges it faced.

The country experienced cyclones Ana and Gombe, that came along with heavy rains and subsequent flooding in the first quarter of the calendar year 2022. This delayed commencement of cane crushing for the 2022 season by a few weeks as the wet fields could not be accessed for cane harvesting and haulage. The persistent rainfall negatively impacted cane quality and sucrose content in the sugarcane, and this manifested through lower sucrose recoveries and high ash content which caused plant mechanical problems resulting in high incidences of downtime.

The two factories planned to start production mid-April 2022 but could not achieve this due to the muddy cane, especially at Nchalo, and general plant downtime. Both factories eventually commenced production albeit initially at low throughput rates particularly in the first week of May 2022. Factory throughput was affected by plant mechanical problems resulting from the poor quality of the cane. Continuous mitigating initiatives were deployed to improve output from the factory against this background as a result of which production improved slowly but progressively. Significant rainfall continued in the period from May to July 2022, which affected delivery of both group-produced and grower produced cane and therefore significantly undermined achievement of production targets. The rain breaks provided opportunity for factory maintenance to ensure better plant performance when the cane fields dried out. The group continues to invest in major capital projects in all operational areas to ensure improved efficiency and business growth. Grower support remains another key focus area for the group.

Domestic sales continued to register growth despite the reduced inventory levels in the period from late March to mid-May 2022 resulting from the delayed crushing of cane as explained above. The Iponyeleninso Kwakuya, Every-Day Chef and other sales activation initiatives contributed to further growth in domestic sales volumes, further supporting the Route to Consumer initiative aimed at delivering sugar to the last mile customer. To support and meet the country's demand for sugar, the group will continually optimise the sales mix to best serve the group's interests. The Malawi Kwacha depreciated in the period and was then devalued by twenty-five percent on 27 May 2022, against the US Dollar and other major trading currencies. This increased our operating costs significantly, most notable being the prices for fertilizer and chemicals. The dynamics on currency price arbitrage at the borders between Malawi and its neighbouring countries resulted in illegal outflow of sugar into those countries, which further contributed to pressure on the stocks allocated for domestic sales. We voluntarily suspended sugar exports to ensure adequate sugar availability in Malawi, but long term we remain committed to export sugar to the deep water and regional markets and therefore contribute to the country's foreign currency generation.

The group welcomed the huge decline in COVID-19 infections across the world and accelerated efforts to ensure normal operations and achieve further efficiency and growth in business. Revenue and profit growth, cost reduction, and operational excellence remain primary focus areas for the business. The endeavour to maintain trusted quality in all product formats and pack sizes and achievement of ultimate customer satisfaction continue to drive the passion that underlies and sustains the Illovo brand promise.

The group commits to continue contributing to the development of the country through significant employment, trade opportunities, tax contributions, and various statutory payments apart from the noteworthy 'creating shared value' investments.

The sparkling financial results and considerable achievements of the teams of Illovo Sugar Malawi are deservedly recognised across the pages of this report. The safety performance of the business does however cast a shadow across our performance, and we should call this out to ensure that the leadership commitment to deliver an improvement is realised in the year ahead.

The upward trend in total lost time injuries over the last three financial years of 6, 12 and 14 respectively is of real concern. Through collaborative work with the Malawi Police Service in Nchalo we successfully eliminated what had become rampant assaults on security guards by effective de-escalation of criminal incidents on the estate. Sadly, these specific injuries have been replaced in number by trips, falls, vehicle incidents and contact with hot fluids across our factories.

We live our safety mantra of "our brother's and sister's keepers" and our intention is to return all of our employees home each night with zero harm. It is only through increased personal accountability to self and each other (Safety Chisanko Changa) and disciplined adherence to workplace safety standards that we will reverse this upward trend. I have every faith in the leadership and people of Illovo Sugar Malawi to dramatically reduce harm to our people.

During the year we implemented the Prepack Strategy aimed at addressing affordability concerns for the majority of our consumers with less disposable income. Currently in order to address the issue of affordability some of our traders buy Illovo Sugar and decant it into smaller packs to serve the needs of consumers mostly those sitting in the lower segment of the economy. The process of sugar decanting involves manual handling with bare hands which is not only unhygienic but also lends itself to contamination of the sugar. The 90g mini pack will not only offer consumers a quality product but safeguard them from diseases that are transmissible through unhygienic handling. Additionally, this project bears testimony to our vision towards creating a thriving Malawian community through the provision of affordable food and energy.

Secondly the first Vitamin A Premix in Malawi was installed at Dwangwa, and the first audit was successfully carried out by the Malawi Bureau of standards (MBS). The plant has now achieved certification to produce and distribute the Vitamin A Premix. Fortification of sugar with Vitamin A is part of Illovo's commitment to create a thriving Malawian community and since 2012, Illovo Sugar (Malawi) has been fortifying its sugar with Vitamin A to help support the elimination of micronutrient deficiency, particularly in children under five years old. In fact, through its sugar programme, it is estimated that over two million people have been reached. High-dose supplementation with this essential vitamin improves a child's chance of survival by 12 to 24 per cent in some parts of the world; it bolsters the immune system, helps protect against life-threatening infections like measles and diarrheal disease, and is needed for vision and bone growth. Needless to add that this project will help us to conserve the much needed forex for the country, as previously we were importing Vitamin A.

Thriving African Community Purpose

As Illovo Sugar (Malawi) plc we live by our core purpose to create a thriving African, and specifically for Illovo Malawi, a Thriving Malawian community. In pursuance of this ambition we are forming the Thriving Community Foundation (The Foundation) which will test a new social development approach in which the Foundation will act as a catalyst for development by attracting and facilitating partners to work together on projects that would yield significant social and economic benefit for the communities surrounding the estates. In this model the Foundation will act as a capacitated conduit for facilitating the delivery of social development and shared value projects. While some funding will be provided to the Foundation by Illovo Malawi for operational expenditure Illovo Malawi will also attract other partners in order to create a multiplier effect on Illovo Malawi's social investments through co-funding, and gather interest from other developmental agencies for future projects.

Although the Foundation will be established as a separate entity, it will maintain close management ties with Illovo Malawi who will monitor it as a pilot project with ongoing review periods to facilitate its transition from incubation to maturity. The Foundation will establish a presence at both Dwangwa & Nchalo estates by establishing a formal chapter at each.

Creating Shared Value (CSV) / Corporate Social Investment (CSI)

During the year, Illovo Malawi continued CSV and CSI support directed at its proximate communities. These projects most notably included Cyclone Ana flood related support including supply of drinking water, rebuilding of roads and dykes and provision of land and shelter to many of the impacted communities. Illovo donated the only blood bank fridge in the Shire Valley to the Malawi Blood Transfusion Services and upgraded the associated facilities to position the new blood bank centrally at the Ngabu District Hospital.

Illovo Malawi also worked with several partners in Nchalo including Agricultural Diversification Resilience Challenge Fund (RCF) of USAID, Shire Best and Catholic Relief Services on community resilience and reducing the risk of flooding. We collaborated with the Southern Region Water Board (SRWB) on the potable water project which aims at enhancing and upgrading potable water supply.

Planning and preparation for the Kakuyu Community Farming project commenced in Dwangwa. A total of 270 hectares of unutilized land owned by Illovo Malawi will be subleased to the community for purposes of growing food for their families.

Share Price

In terms of share price gains, at the close of the year the price closed at K500.00 per share. The share price at year-end represented a market capitalisation of K356.7 billion from K125 billion at the beginning of the year.

Dividends

The Board has given much consideration to the payment of a dividend for this financial year, and I am pleased to report that a final dividend of K3.9 billion representing K5.44 per share for the year ended 31 August 2022 has been proposed for the shareholders' approval at the next Annual General Meeting. An interim dividend of K4.0 billion representing a dividend per share of K5.56 per share was paid in June 2022 in addition to a second interim dividend of K7.1 billion representing K10.00 per share. When approved this will represent a total dividend for the year of K14.9 billion representing K21.00 per share against the prior year full dividend of K18.00 per share an increase of over 16%.

We remain committed to the objective of delivering sustainable value to shareholders and hope that the economic environment will continue to improve so that the trend on payment of meaningful dividends can continue.

Board & Key Management Personell and Staff

During the year two Directors namely Phillip Madinga and Paul Guta who had faithfully served on the Board since 2017 resigned from the board. Both Phillip and Paul came from the financial sector and the board drew great value from their insights on the micro economic environment. We will miss them for their stimulating conversations and general contributions to the board but wish them well in their future endeavours.


ILLOVO
SUGAR
ILLOVO
MALAWI
AN ILLOVO SUGAR AFR
TORRENT
Primo Star
ILLOVO
DWANGWA 2021
DWANGWA ESTATE
UKASI CLINIC

However, we have been joined by two great Malawians. Subject to their confirmation at the next Annual General Meeting to be held in February 2023, Dr Grant Kabango and Professor Address Malata have replaced Phillip Madinga and Paul Guta with effect from October and August 2022 respectively. We look forward to their contributions on the Board. Given both their backgrounds and experiences I am proud to report that we have once again demonstrated our commitment to diversity and inclusion at the Board. With the coming in of Professor Malata we now have three ladies on the Board in addition to the Company Secretary.

On behalf of the Board, I would also like to extend my sincere gratitude to our shareholders, customers, suppliers, bankers, and professional advisors for their continued support.

But, on the overall, I must pay tribute to our staff. It was a year full of events requiring additional effort which is why I would like to express my gratitude to the staff. I was impressed by their desire to find solutions for the problems at hand as well as their candidness when engaging with the board.

At other levels of our staff, it has been very gratifying to see the level of staff engagement with the business. I have also witnessed growing levels of staff commitment to the business as well as their fortitude despite the many challenges faced during the year. While the devastating effects of Cyclones Ana and Gombe were enough to test the limits of one's resolve, I was proud to witness their admirable physical and mental agility which made them cope well with the challenges as they developed.

Future Priorities

The Russian invasion of Ukraine has fundamentally changed the geopolitical situation and caused extensive consequences for the global economy. The Group therefore expects continued impacts on global supply chains, very high energy price levels, high inflation and weaker growth in the global economy. Nonetheless we are positioned well to manage the market dynamics and we expect to deliver a resilient financial performance in the year ahead. Our long-term energy strategy that reduces our reliance on ESCOM and provides opportunity to generate additional revenue will be a game changer in addition to building capability across our people, processes, and technology. We will intensify our engagement with the government, employees and other stakeholders and deliver on our sustainable environmental, social and governance commitments (ESG) .

Prospects

It is expected that better weather patterns and a return to normal power generation by the Electricity Generation Company Limited (EGENCO) will improve the output from the agricultural operations, and therefore positively impact production efficiency and factory throughput. More efforts on drip irrigation and other elements of the agricultural recovery plan replete with excellent agronomic practices, continued grower support, a proactive approach at plant maintenance and efficient production initiatives and embedding of the overall performance improvement initiatives throughout the entire business value chain should result in even further growth in the group results.

The group will continue pursuing various initiatives in commercial and logistical operations, that are expected to contribute to better delivery of excellent quality product pack sizes at affordable prices to the ultimate consumer. Efforts at growth will also be engaged further in the export markets to assist us counter the impact on the business of the scarcity of foreign currency, and further ensure maximisation of the value from every ton of sugar sold.

Depreciating exchange rates for the Malawi Kwacha against major trading currencies, increasing inflation and interest rates, the scarcity of foreign currency and fuel continue to militate against the delivery of cost optimisation efforts for the business. The group will therefore continue to actively engage significant effort at cost reduction, improvement of operational efficiency, export revenue enhancement, and domestic market growth to drive delivery of good results for the business and all stakeholders into the foreseeable future.

Gavin Dalgleish

Chairman

"We remain committed to do our best in our desire to create a thriving Malawian community through the provision of affordable food and energy. In FY 23 we are determined to kick start major investments that will strongly support this business purpose for the benefit of our many stakeholders."

Lekani Katandula
Illovo Sugar (Malawi) Plc
Managing Director

Overview

The Financial year ended 2022 was a memorable year that saw us win a remarkable 6 Illovo Group awards out of 10 that are competed for by the 7 African countries where Illovo operates. These awards are: Best Agricultural performance award for Dwangwa; Best Values award for Nchalo; Best Human Resources Management award; Best Financial Management award; Best Commercial Performance award; and the overall Best country performance award. This tells a story in itself and our challenge now is to build on this remarkable performance as we go forward.

Macroeconomic Environment

The global economic outlook remains uncertain due to several factors among them Russia's invasion of Ukraine which continues to destabilize the global economy and has led to a global energy crisis hampering economic growth due to an increase in the cost of living, the resurgence of the COVID-19 pandemic in China, tight financial conditions due to monetary policy reaction to the mounting inflation pressures, and persistent supply chain disruptions. The dominance of these downside risks has led the International Monetary Fund (IMF) to revise downwards Malawi's economic growth projection for 2022 to 0.9 percent from an earlier 2.7 percent projection which is 0.8 percentage points lower than the government's growth projection. Additionally, the 2022 global real economic growth forecast has been revised downwards to 3.2 percent.

In July 2022, a month before our year end, the Monetary Policy Committee (MPC) of the Reserve Bank of Malawi (RBM) decided to maintain the Policy rate at 14.0 percent, the Liquidity Reserve Requirement (LRR) ratio on domestic and foreign currency denominated deposits at 3.75 percent, and the Lombard rate at 20 basis points above the Policy rate. This came hot on the heels of RBM's decision in April 2022 to raise the Policy rate by 200 basis points to 14.0 percent. In arriving at its July 2022 decision, the Committee had noted that inflation pressures continued to mount following persistence of the COVID -19 pandemic, induced supply-demand imbalances, supply-chain disruptions, and rising global energy and food prices, which had been compounded by Russia's invasion of Ukraine. The July decision was therefore predicated on the need to allow more time for the impact of the April 2022 Policy rate increase to transmit through the economy.

During the year Exchange Rate problems persisted as the persistent merchandise trade deficits resulted in domestic supply of foreign exchange being perpetually lower than demand. As the supply-demand imbalances continued to deepen this necessitated that the RBM takes corrective measures. The RBM devalued the exchange rate by 25.0 percent effective 27th May 2022 which resulted in an increase in Kwacha input costs.

At year end in August 2022 headline inflation had risen to 25.5 percent from 24.6 percent in July 2022 and 8.4 percent in August 2021. The outcome in August 2022 was the highest since January 2014 and was reflective of persistent pressures from both food and non-food prices. MERA increased the prices of fuel substantively and overall fuel went up by 115 % during the year. All these factors, alongside the prevailing high fertiliser and international shipping costs continued to exert cost pressures on our business.

Performance

At our Nchalo estate the reporting period was dominated by extreme weather conditions negatively affecting agricultural yield and crop removal performance. Nchalo started off with a record dry month of December 2021 with radiation levels above average while Alumenda Estate received no rain at all. This was followed by Tropical Storm Ana in January 2022. Two further tropical depressions namely Batsirai and Gombe followed Storm Ana causing further flood related infrastructure damage. The crop yield was negatively impacted by 5% due to both effects of the flooding as well as the time taken to repair the damaged irrigation infrastructure. The cane fields that were submerged during the floods covered around 20% of the fields for Nchalo. The fields accumulated abnormal silt deposits, mud, and sand deposits on the cane stalks badly affecting cane quality. The cane quality challenges were to some extent mitigated by burning in the heat of the day and using cutters to clean the cane stalks at an extra cost. This was done in order to mitigate the impact of wear and tear in the factory but also to protect the boilers and to reduce any negative impact on recoveries. Due to the extended wet conditions land preparation and planting of commercial replant had to be delayed.

Unfortunately, the wet conditions meant that the factory could not start crushing in April 2022. It is likely that it may take more than a year to recover from some of the damage caused by these events including the delay of ratoon and replant activities and also the resultant wet weather field damage from haulage.

For Dwangwa the estate experienced less than normal rainfall between September 2021 and February 2022 but significantly higher than normal rainfall in March and April 2022 reaching a total of 1,242 mm against a long-term mean of 1,347 mm. The higher-than-normal rainfall caused flood bund damage. With the 2022 floods the river ran at 1499 cusecs, just under the designed flood bund capacity of 1500 cusecs fortunately with no significant damaged to the bund and the estate. The planned annual maintenance for both the bund and the Dwangwa Riverbed have been revised and upgraded to mitigate the increased risk and frequency of flooding.

For Dwangwa the FY22 crop yield closed at 110 tonnes cane per hectare compared to the budget of 105.6 tons per hectare. The September to December 2022 crop benefited from the extended season and crop age at the end of 2021 and the delay in the start of the 2022 crushing season which resulted in higher yields. The impact of the drought however may translate into lower yields in the first part of the coming financial year. This is already reflecting in the rainfed grower yields for FY22 which closed at 54.0 tons per hectare compared to the budget of 57.6 tons per hectare.

The group has continued to expand its investment in drip irrigation as a driver of yield and efficiency with the additional purpose of releasing low yielding fields for alternative crops. To that extent there was good irrigation conversion progress at both estates. Nchalo was able to convert 330 hectares of additional sprinkler irrigated fields to drip while a further 550 hectares of drip irrigation conversions commenced in the first half of 2022. This should bring the total area converted from sprinkler to drip irrigation to 2000 hectares by the end of 2022. At Dwangwa the estate developed and installed its first 80 hectares under drip irrigation. Going forward, the five-year plan has a phased furrow to drip conversion program. This will not only help to improve the water footprint but will also increase yields while reducing production costs.

We are in the inception stages of trying to identify and implement other agricultural diversification opportunities of crops that can be viable on our land. We are evaluating options to enable us to make a decision based on the long-term viability of the explored options for commercial food crops that can blend well with the cane growing operations and add value. During the year, soyabeans and cowpeas were tested at a small scale and the agronomic results are promising.

As part of Illovo Sugar Malawi's diversification strategy we started implementing our long-term energy ambition aimed at transforming Illovo Sugar Malawi from a net electricity importer from the national grid to a net exporter to the grid. Two energy projects are being worked on at the two estates. Illovo Sugar Malawi intends to jointly invest in Nchalo with AB Sugar being the majority shareholder, to accommodate the substantial capital requirement on this project while the Dwangwa project will be fully funded by Illovo Sugar Malawi. Both projects are expected to produce more electricity than currently required by our operations. The projects will thus benefit the mills and agricultural operations by providing steady and reliable power supply enabling more reliable irrigation while improving overall Health & Safety Environment (HSE).

The Government of Malawi ("GoM") through the Ministry of Agriculture with support from the World Bank, the African Development Bank and the Global Environment Facility ("GEF") started implementing the Shire Valley Transformation Programme ("SVTP) (previously known as the high -level Canal) in 2018. The Programme is expected to increase agricultural productivity and commercialisation in the Shire Valley and improve the sustainable management and utilisation of natural resources. Illovo Sugar Malawi is participating in the project as an offtaker. The high-level canal promises to be a strategic game changer for Nchalo agriculture by removing most of the electrical energy used for irrigation. The project entails reversing the existing on-farm pumping infrastructure (from east to west) to a distributed gravity fed pipeline from the Shire Valley Irrigation Project (SVIP). The SVTP represents an opportunity to reduce the cost of production for Nchalo by replacing the existing irrigation pumping system from an electricity intensive lift pumping system to a gravity water fed system with potential savings of over 80% of the current electricity consumption.

Factory

The three main areas of focus supporting factory optimisation during the year were: implementation of recovery improvement plans, plant reliability, and sugar quality which included the rolling out of the Illovo Quality Way project.

In addition, the first half of the year was spent on identifying the recovery improvement areas with support from Illovo Sugar Africa and external consultants and implementation of the same followed in the January 2022 off-crop period. A full evaluation of the individual projects has not been possible due to erratic operations imposed by the impact of Tropical Storm Ana.

Tropical Storm Ana affected cane quality with submerged cane stalks accumulating high levels of ash/mud that were inadvertently delivered to the factory despite special harvesting mitigation measures. This mud impacted boiler operations, in turn causing low and varying steam pressures, which led to inconsistent factory operations with poor sugar recovery. The mill has since come up with strategies leading to modifications of some operations as well as adjustment of standard operating procedures to better equip the estate to cope with any future flood related challenges.

As part of an Illovo Sugar Malawi drive to continuously enhance production performance, Nchalo factory also targeted sugar recovery optimisation. With assistance from design and operational consultants including experts from the Illovo Sugar Africa Group. Nchalo developed a detailed recoveries improvement roadmap which includes technology, process and people focused capability actions that are being implemented and will be supported with capex and opex budgets. The planned actions will be deployed over the next few years to deliver targeted improvement.

Nchalo led the development and implementation of the Illovo Quality Way. This program of work has been enabled by 6 capabilities, namely, customer focus, evidence-based decisions, system thinking, continual improvement, people engagement and strong leadership support. The quality improvement journey aims to support the commercial strategy to build a trusted brand that fetches improved pricing.

We closed the year with domestic sales higher than budget and when compared to similar period last year which could be described as a new record. Domestic sales were 213 550 tons compared to budget of 166 368 tons representing 28% improvement. This record performance was largely attributed to a stable market environment not pressured by infiltration of illegal sugar inflows. Both our western (central and northern regions) border towns with neighbouring Zambia as well as our eastern (southern region) border towns with neighbouring Mozambique had negligible traces of illegal sugars. This situation was supported by derived positive arbitrage when Illovo Sugar Malawi selling prices were compared to those of the two neighbouring countries. Additionally, we also benefitted from high consumption by domestic consumers which was sustained within the year buoyed by improved cash circulation amongst consumers from proceeds of the year's harvests. The elongated winter season also drove direct consumption and accelerated shelf offtake as consumers tended to spend more time indoors.

Regional sales registered 39 529 tons, which was 11 600 tons and 39 420 tons behind latest estimates and budget respectively. The underperformance was mainly attributed to unavailability of stocks due to a deliberate move to stifle regional markets in order to satisfy the growing domestic demand.

The world sugar market price held around 18.5- 20c/lb rallying on tighter supply from major world exporters, high oil prices which kept ethanol parity at premium, appreciation of Brazilian Real (BRL) and capping by Indian Government on exports volumes. The buoyant world sugar price effects continued to positively drive pricing up in all our active non -preferential markets which also had the impact of lifting our overall x-mill prices largely driven by positive pricing in the Rwandan market. FY 2023, world sugar prices are expected to gradually drop below 16c/lb on account of improved global logistics and better world sugar supply.

At the close of the year total export sales were 65 732 tons against the budgeted target of 115 092 tons representing a negative variance of 49 360 tons. The underwhelming performance is attributed to stock unavailability driven by the above explained growth in the domestic market and constrained supply due to unseasonal weather conditions mostly affecting Nchalo mill.

Our strategic imperative is to remain agile and flexible to ensure that we can adapt and take advantage of changes and opportunities in the market environment. This will require us to have accessibility to established regional and deep-water markets that we can tactically and selectively serve so that we optimise value delivery to our stakeholders.

On the domestic market we continue to reinforce our Route to Consumer (RtC) and trade marketing initiatives and our targeted sales execution amongst others by growing our footprint and adding depth and reach as we get closer to customers and consumers, increasing our secondary deliveries universe (70% of our total universe receiving direct deliveries) and improving our speed to market, and finally increasing customer touchpoints and experience through recruitment of more grocers and hawkers.

In spite of the challenges faced during the year the positive 2022 financial performance was the direct result of concerted efforts by everyone and commitment to deliver value to our stakeholders and customers. This led to a revenue increase from K163 billion to K187 billion representing a 14% growth and profit after tax growth from K20.5 billion to K26.6 billion which is 30% above same period prior year.

Human Resources - People, Ways of Working and Engagement

Early in the year we completed the review of the operating model implementation and some takeaways from the review were built into the building blocks on the embedding plan process which was the final stage of the operating model implementation.

Although the Omicron variant of COVID -19 was less brutal compared to earlier variants we continued to encourage staff and their families to access both first and second vaccinations as well as booster vaccination when it became available. Through our efforts and the COVID-19 communication and sensitisation projects we were able to gradually demystify the myths associated with vaccines with good results. Close to 4 000 employees have been fully vaccinated although we would have hoped to achieve even higher numbers.

In order to enhance staff environment, motivation and engagement some of the projects undertaken during the year were the review of Human Resources minimum standards to bring HR standards up to the acceptable minimum industry standards and to standardise processes and polices, the Benefits and Allowances Rationalisation Project, the Reward and Benefits structure project that holistically reviewed the Illovo benefits and pay structure, the fourth shift implementation project. We also undertook the Wining Outbound Logistics Organisation (WOLO) Project which was aimed at driving a 'Best Practice' and "Fit for Purpose" culture throughout the entire Outbound Supply Chain. We also implemented the Talent Management and Talent Pipeline projects. We had an intake of 32 trainees and apprentices and 22 Management in various development programs with an average talent cover ratio for critical roles of 2:1.

Inclusion is one of Illovo's core values however we are mindful that for a long time our staff complement has been dominated by men and it is both Illovo group's as well as Illovo Sugar Malawi's desire to gradually and systematically address this legacy issue. As we reflect on our diversity and inclusion effort we recognise that the most successful diversity and inclusion initiatives are those which are supported by the entire organisation, are measurable over time and are integrated into our work and processes and we have adopted such an approach.

In one of her addresses Kim Usher, Group Human Resources Head said that as a business, the group has a goal that by 2025 we will have 30% female representation across all managerial ranks. That may sound like a big ask, but we've made great progress already – currently 23% of all our managers are women. Quoting a 2018 McKinsey study Usher stated that even though women account for more than 50% of Africa's combined population, women only generated 33% of the continent's collective GDP (Gross Domestic Profit); reinforcing inequality across the board and compromising Africa's economic promise. So of course, there is a business case for this, but there's a human case too said Usher.

We take safety issues very seriously in our business. We had more safety incidences during the year compared to the previous year and we are determined and committed to reverse this trend. Our commitment is to safely produce sugar and to make sure that our employees safely return home to their families at the end of each working day. Our commitment to creating a safe working environment does not just end at the work place that is why after 21 family members of some of our colleagues perished in a road accident in Ntcheu our Board instructed us to team up with the Directorate of Road Traffic And Safety Services to provide financial support to go towards road safety initiatives within our estates, surrounding areas and the country. We have set aside close to K70 million to support this initiative.

Compared to the previous financial year we improved in terms of quality complaints from our customers although a single incident of product liability was recorded. In order to address this we have implemented the Illovo Quality Way which is aimed at building a holistic and sustainable quality and food safety system through many focus areas including employee engagement, training, improved processes, infrastructure re-design and in general focus on building a quality culture.

Outlook

Being mindful of potential risks such as unregulated competition, new variants of COVID -19, adverse legislative reforms, currency misalignment arbitrage trades at the borders impacting domestic volumes, our 5 Year Strategic Plan for 2023 to 2027 will focus on the key areas of growing our domestic sugar market share with a fit-for-purpose product and service portfolio, growing the export market value with products, formats and customers that optimize our long-term profitability, progressively reducing our power import from the national grid (which will release the much needed power to other industries) and investigating the potential to generate alternative revenue streams through the diversification drive and focus. With our people agenda we will also focus on our goal of building capability to support, develop and sustain agile high-performance teams as well as making our teams more diversified and inclusive.

Having seen the benefits of targeted and deliberate stakeholder engagement we will scale up our stakeholder engagement initiatives targeting areas such as grower engagement, law reforms, the Shire Valley Transformation Project (SVTP) and our Dwangwa and Nchalo energy projects. Internally having seen the benefits of employee engagement where Illovo Malawi registered a sustainable engagement score of 94% in the 2022 survey compared to 93% in the 2020 survey we will actively intensify staff engagement, among others, using the sustainable engagement model. In addition, we launched the Tiwale Project in August 2022. The preceding Tisinthe Project primarily focused on ensuring cost reduction and a performance turnaround for our business. I am proud that we successfully delivered on the Tisinthe Project and were able to achieve significant milestones including reducing our costs by over K30 billion, reduction of our debt to much manageable levels, implementation of the new operating model and the new commercialisation agenda that improved the way we sell sugar and how we get our sugar to our customers and most importantly a resumption of payment of meaningful dividends to our shareholders. Tiwale will build on the great achievements of Tisinthe as we start thinking of new ways to enhance our business further. The project is based on 5 gears that work together to deliver on our vision. The 5 gears of Tiwale are: Employee Engagement; Technology; Export sales; Investment and People. Tiwale will be delivered through tapping from our collective genius in order to come up with initiatives that will position Illovo Malawi for growth and ensure a vibrant and sustainable future despite the ever more challenging environment.

Conclusion

The past year has shown once again that there are no substitutes for clear analysis and actionable insights in a world which continues to be volatile and uncertain.

And, once again, everyone at Illovo Sugar Malawi should be proud of the lengths they have gone to in order to creatively come up with solutions to the many challenges we faced so that we could still deliver our trusted quality sugar and great results.

I am indebted to the board of directors for their support and guidance as well as dedication. Our directors' insights, ideas and commitment made it possible for us to deliver these financial results and business growth that we are reporting on. In turn this enabled Illovo Sugar Malawi to continue making a positive and significant contribution to the social economic development of our country. I look forward to more support as we continue on our journey of creating a Thriving Malawian Community.

I would also like to thank my EXCO and wider leadership team for their unwavering support and tireless efforts and the excellent working relationships that I have with each one of them. Even during challenging moments, we have remained united in action and commitment for the sustainability of our business. As for the whole Illovo family your dedication and drive are essential to all that we do. In the face of very testing situations your commitment has proven that whenever there is a unity of purpose and consensus we have the capacity together to act to address any situations in a timely and constructive manner. But still, we need to do more. I look forward to the coming financial year with excitement and anticipation. Let us "GROW TOGETHER AND IMPACT PEOPLES' LIVES POSITIVELY"

Lekani Leslie Katandula

Managing Director

Compliance / Governance

Since our Company is listed on the Malawi Stock Exchanges there is a huge responsibility on account of interests of all stakeholders. The Company endeavours to protect the interests of all its stakeholders by implementing and complying with best corporate governance practices as enshrined in the Companies Act 2013 (The 2013 Act) and regulations made thereunder, the Malawi Code II Sector Guidelines for Listed Companies (The Code) (now incorporated into the 2013 Act) and the Malawi Stock Exchange Listing Requirements (MSELR). The directors have implemented all the statutory codes and policies to ensure better corporate governance in all the spheres of the organisation and as far as it concerns the business of the group the directors have adhered to the 2013 Act, the MSELR and The Code in all material respects for the year ended 31 August 2022.

Annual financial statements

The following statement, which should be read in conjunction with the Auditor's Report, is made for the purpose of clarifying to members the respective responsibilities of the directors and the auditors in the preparation of annual financial statements.

The directors are required by the Companies Act, 2013, to prepare financial statements for each financial year, which give a true and fair view of the state of affairs and profit or loss of the group. The directors consider that, in preparing the financial statements, appropriate accounting policies are consistently applied and supported by reasonable and prudent judgements and estimates and confirm that all applicable accounting standards have been followed.

After making appropriate enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence in the year ahead. For this purpose, they continue to adopt the going-concern basis in preparing the financial statements. The external auditors concur with this opinion.

The directors have responsibility for ensuring that the group maintains accounting records which disclose with reasonable accuracy at any time the financial position of the group and which enable them to ensure that the financial statements comply with the requirements of the Companies Act, 2013.

The directors also have responsibility for safeguarding the assets of the group and for the prevention and detection of fraud and other irregularities.

Board of directors

The group has a unitary board of directors that is balanced between executive and non-executive directors. The board directs the affairs of the company and is committed to sound principles of corporate governance.

In doing so, the board acts at all times in the best interest of the group. The board provides effective leadership and exercises enterprise integrity and judgment in directing the group so as to achieve its Strategic Intent, goals and objectives in a manner based on accountability and responsibility and an ethical foundation.

The board meets at least once in each quarter with additional meetings held when appropriate. At each board meeting a complete update on the affairs and business of the group is presented by executive management.

In addition, the articles of association provide for decisions taken between meetings to be confirmed by way of directors' resolutions.

The roles of the Chairman and the chief executive are separated and the Chairman is a non-executive director. The board has three executive directors and nine non-executive director's six of whom are independent.

The Board recognises that Boards that are diverse in experience, skills, gender, age, and qualifications, have a positive effect on the quality of governance, and such boards often present a good indication of a well-run company. The Board is well balanced in terms of diversity however the Board continues to engage itself in conversations on diversity and inclusion issues mainly focusing on gender with the aim of achieving gender diversity in its Board composition. Competencies of the Board of Directors, is provided on pages 20 to 24 of this report.

The list of key skills, expertise and core competencies of the Board of Directors, is provided in the Report on the composition off the Board forming part of this report. The shareholding status of directors in the Company are furnished on page 63 of this report.

Executive management

There were no changes to the executive management team Profiles of the team are contained in this report on pages 25 to 29.

The Executive management meets regularly to discuss issues material to the operations of the group. The group's strategy and business model are developed by the executive team and approved by the Board. The management team, led by the Managing Director, is also responsible for implementing the strategy and managing the business at an operational level.

To ensure that there is adequate interaction between management and the board, three members of executive management are directors.

Audit committee

The audit committee comprises of four directors, all of whom are non-executive. The committee meets twice a year with management and has both external and internal auditors in attendance.

The committee sets materiality and reviews annual audited financial statements, the interim financial results and the external and internal auditors' reports and details its findings to the board for consideration when approving the financial statements for delivery to the shareholders.

The audit committee, on behalf of the board, reviews the scope and coverage of internal audit together with its findings.

In terms of section 4 103(e) of the Malawi Stock Exchange listing requirements the audit committee has considered the appropriateness of the experience and expertise of the Financial Director and will report at the annual general meeting of members that they are satisfied that Kondwani Msimuko has the relevant experience and expertise in this role.

Risk management committee

The risk management committee is chaired by a non-executive director. A comprehensive risk assessment audit is undertaken twice per annum of factors which could have a material impact on the group results.

The role of the Committee is to assist the board to ensure that the group has implemented an effective policy and plan for risk management that will enhance the group's ability to achieve its strategic objectives and also that the disclosures made by management with regard to the group's risk management processes are comprehensive, timely and relevant. A comprehensive enterprise risk management strategy has been adopted by the group with robust risk improvement plans developed and business continuity planning and testing regularly undertaken.

Nomination/Remuneration committee

The remuneration and nomination committee comprises four non-executive directors. The committee is responsible for reviewing compensation of the executive directors and executive management of the group and recommending the appointment / reappointment of directors.

Ethical standards

The group has adopted a code of management practices that applies to the group's management and staff. The code provides a benchmark against which employee conduct can be assessed to ensure that the highest ethical standards are met.

Fraud control

The group has an established and well-publicised fraud hotline that enables employees and members of the public to raise evidence of irregular activity directly with an independent entity.

The group has implemented a comprehensive anti-bribery and corruption policy which has been implemented throughout the organisation to all officers and employees and has adopted a zero-tolerance approach to corruption and fraud.

Internal control

The board has overall responsibility for the group's systems of internal control and for monitoring their effectiveness. The systems are designed to safeguard the group's assets and shareholders' investments.

The group's external auditors are granted unrestricted access to all information that may be required in the execution of their duties. Reports from the external auditors are regularly monitored to assess the effectiveness of the group's systems of internal control.

The directors and external auditors have not detected any adverse information that would indicate a material breakdown in systems of internal control during the year under review.

Performance evaluation of the Board

In order to ensure that the Board and Board Committees are functioning effectively and to comply with the statutory requirements, the annual performance evaluation of the Board, Board Committees and Individual Directors are conducted during the year.

VALUE ADDED STATEMENT

The value added statement shows the wealth the group has been able to create through manufacturing, trading and investing operations and its subsequent distribution and reinvestment in the business.

	2022 K million	2021 K million
Wealth created		
Revenue	186 642	163 259
Income from investments	60	71
Paid to growers for cane purchases	(20 816)	(18 542)
Cane growing and manufacturing costs	(80 329)	(78 845)
	85 557	65 943
Wealth distributed		
To employees as salaries, wages and other benefits	32 949	28 634
To lenders of capital as interest	1 087	2 674
To shareholders as dividends	13 955	4 281
To the government as taxation	12 567	5 932
	60 558	41 521
Wealth reinvested		
Retained profits in holding and subsidiary company	12 675	16 188
Depreciation	6 819	6 181
Deferred taxation	5 505	2 053
	24 999	24 422
	85 557	65 943
Analysis of taxes paid to and collected on behalf of the government		
Central and local government		
Current taxation	8 325	2 967
Customs duties, import surcharges and other taxes	4 242	2 965
Total contribution to central and local government	12 567	5 932
The above amount contributed excludes the following:		
- employees taxation deducted from remuneration	4 529	3 978
- net VAT amount collected on behalf of the government	8 541	5 352
- withholding taxes	2 571	1 538
	15 641	10 868
Total contributed to government	28 208	16 800

REVIEW OF FIVE PERIODS

K million

Statements of profit and loss and other comprehensive income	
Revenue	
Operating profit	
Dividend income	
Net finance costs	
Profit before taxation	
Net profit for the period	
Headline earnings	
Dividends paid	
Reconciliation of headline earnings	
Net profit for the period	
Headline earnings	
Statements of financial position	
Shareholders' equity	
Deferred tax	
Malawi government vitamin A grant	
Interest-bearing debt	
Total funding	
Property, plant and equipment	
Right of use assets	
Investments	
Current assets - cash	
Current assets - other	
Total assets	
Other current liabilities	
Net assets	

12 month ended 31-Aug -22	12 month ended 31-Aug-21	12 month ended 31-Aug-20	12 month ended 31-Aug-19	12 month ended 31-Aug-18
186 642	163 259	146 953	129 676	141 760
39 505	31 941	8 137	20 047	30 197
60	71	28	2	31
(1 087)	(2 674)	(3 880)	(5 367)	(5 901)
38 478	29 338	4 285	14 682	24 327
26 630	20 469	2 739	10 083	16 449
26 630	20 469	2 739	10 083	16 449
(13 955)	(4 281)	(357)	-	-
26 630	20 469	2 739	10 083	16 449
26 630	20 469	2 739	10 083	16 449
100 935	88 171	71 874	71 298	60 939
26 792	21 273	19 059	21 420	19 212
198	205	212	220	227
9 849	13 890	20 313	30 389	22 194
137 774	123 539	111 458	123 327	102 572
67 989	58 190	55 498	56 144	50 481
8 991	9 458	2 558	-	-
739	604	494	463	-
15 160	3 922	318	722	249
104 511	92 351	87 505	103 343	88 126
197 390	164 525	146 373	160 672	138 856
(59 616)	(40 986)	(34 915)	(37 345)	(36 284)
137 774	123 539	111 458	123 327	102 572

REVIEW OF FIVE PERIODS
(continued)

Earnings and dividends	Note	
Basic and diluted earnings per share	1	tambala
Headline earnings per share	2	tambala
Dividends declared and paid per share		tambala
Dividend cover on headline earnings	3	times
Financial statistics		
Return on average shareholders' equity	4	%
Return on net assets	5	%
Debt to equity	6	%
Gearing	7	%
Interest cover	8	times
Net asset value per share	9	tambala

Notes

1 **Basic and diluted earnings per share**
Net profit for the year divided by the weighted average number of ordinary shares in issue.

2 **Headline earnings per share**
Headline earnings divided by the weighted average number of ordinary shares in issue.

3 **Dividend cover on headline earnings**
Headline earnings per share divided by dividends per share.

4 **Return on average shareholders' equity**
Net profit for the year expressed as a percentage of average shareholders' equity.

5 **Return on net assets**
Operating profit expressed as a percentage of average net operating assets.

12 month ended 31-Aug -22	12 month ended 31-Aug-21	12 month ended 31-Aug-20	12 month ended 31-Aug-19	12 month ended 31-Aug-18
3 733	2 869	384	1 413	2 306
3 733	2 869	384	1 413	2 306
1 956	600	50	-	-
2	478	767	-	-
28.2	25.6	3.8	15.2	31.4
30.2	27.2	7.0	17.8	32.6
(5.3)	11.3	25.2	41.6	36.0
(5.6)	10.2	21.8	29.4	26.5
36.3	11.9	2.1	3.7	5.1
14 148	12 358	10 074	9 994	8 542

6 Debt to equity
Interest-bearing debt (net of cash) expressed as a percentage of shareholders' equity.

7 Gearing
Interest-bearing debt (net of cash) expressed as a percentage of Interest-bearing debt plus shareholders' equity.

8 Interest cover
Operating profit divided by net financing costs.

9 Net asset value per share
Shareholders' equity divided by the number of shares in issue at the end of the year.

Operational statistics

Cane harvested (hectares)	
Nchalo	
Dwangwa	
Tons cane per hectare (weighted average)	
Nchalo	
Dwangwa	
Cane crushed (tons)	
Nchalo	
Dwangwa	
Growers	
Sucrose percent (weighted average)	
Nchalo	
Dwangwa	
Growers	
Sugar produced (tons)	
Nchalo	
Dwangwa	
Analysis of sugar sales by destination (tons)	
Domestic market	
Export market	

12 month ended 31-Aug -22	12 month ended 31-Aug-21	12 month ended 31-Aug-20	12 month ended 31-Aug-19	12 month ended 31-Aug-18
15 358	19 089	17 579	18 656	17 758
9 289	13 178	11 087	12 399	11 764
6 069	5 911	6 492	6 257	5 994
98	98	100	94	92
92	94	93	85	82
110	107	115	114	112
1 970 279	2 410 529	2 205 560	2 165 085	2 006 423
850 273	1 242 324	1 027 073	1 051 506	970 061
659 619	624 303	737 370	707 213	662 533
460 387	543 902	441 117	406 366	373 829
14.25	14.10	14.29	14.14	14.02
13.74	13.76	14.01	13.85	13.78
14.91	14.69	14.71	14.52	14.42
14.24	14.19	14.25	14.26	13.97
229 658	279 278	263 634	252 375	230 020
115 354	167 713	139 914	135 950	122 203
114 304	111 565	123 720	116 425	107 817
279 282	297 010	272 788	215 141	227 321
213 550	172 578	147 242	137 716	170 792
65 732	124 432	125 546	77 425	56 529


NO
EATING

ILLOVO SUGAR (MALAWI) PLC

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2022

1. NATURE OF BUSINESS

The principal activities of the group are the growing of sugar cane and the manufacture of sugar. This is more fully described under the group profile appearing on page 15.

2. REVIEW OF OPERATIONS

Detailed commentary is given in the directors' report on pages 32 to 48.

3. ACQUISITIONS

There were no acquisitions of investments in the current year.

4. SHARE CAPITAL

Full details of the current authorised and issued share capital are set out in the consolidated and separate statements of changes in equity on pages 104 to 107 of the financial statements. There have been no changes in the current year.

5. SHAREHOLDERS

An analysis of shareholders and their shareholdings is given on page 157.

The register of members reflects 5 beneficial shareholdings equal to or greater than 1% of the issued ordinary share capital. Details are given on page 157.

6. DIVIDENDS

During the year the Company paid the first interim dividend of K4 billion representing K5.56 per share in relation to the year ended 31 August 2022. The company will also pay in December 2022 a second interim dividend of K7.1 billion representing K10 per share. A final dividend of K3.9 billion representing K5.44 per share for the year ended 31 August 2022 will be proposed for the shareholders' approval at the forthcoming annual general meeting on 23 February 2023. Total distribution for the year will be K21.00 per share (2021: K18.00 share).

The directors of the wholly owned and only subsidiary of the company, Dwangwa Sugar Corporation Limited, did not pay any dividends (2021: K nil) to the company during the year.

7. SUBSIDIARY COMPANY

Information concerning the subsidiary of the company is set out in note 7 to the financial statements.

8. SECRETARIES AND DIRECTORATE

The names of the secretaries and compliance officer together with the company's business and postal addresses and the directors in office at the date of this report, are set out on pages 18 and 20 to 24 respectively.

Directors Phillip Madinga and Paul Guta resigned during the year.

Dr. Grant Peter Kabango and Professor Address Mauakowa Malata were appointed to the board as non-executive directors.

In terms of the company's articles of association, a third of the non-executive directors retire by rotation at the forthcoming annual general meeting. Accordingly, Messrs. Gavin Dalgleish and Ami Mpungwe will retire and being eligible, and after consideration and recommendation by the Nomination/Remuneration Committee, they offer themselves for re-election.

In terms of Section 169 (4) of the Companies Act 2013 the office of a director of a public company or subsidiary of a public company shall become vacant at the conclusion of the annual meeting commencing next after the director attains age of seventy years.

However by Section 169 (6) the director shall by ordinary resolution be reappointed to hold office until the next annual meeting of the company. Director Ami Mpungwe attained the age of seventy years during the year. At the forthcoming annual general meeting the directors will seek the approval of the shareholders that Ami Mpungwe should be re-appointed for another year.

The beneficial interests of the directors holding office in the issued ordinary share capital of Illovo Sugar Malawi plc were as follows:

	2022		2021	
	Direct	Indirect	Direct	Indirect
L L Katandula	320 000	-	286 000	-
K Ntambo-Banda	10 000	-	-	-
D N Kasambala	-	533	-	533

The register of shares of the company is available for inspection at the registered office.

9. DIRECTORS' FEES

At the forthcoming annual general meeting it will be proposed that director's fees payable to each non-executive director be increased from K6 000 000 per annum to K6 900 000 and that the sitting allowance of K300 000 for each committee and/or board meeting attended be increased to K345 000.

10. HOLDING COMPANY

SUCOMA Holdings Limited (incorporated in Mauritius) is the holding company of Illovo Sugar (Malawi) plc (incorporated in Malawi) with a 75.98% interest in its issued share capital. Illovo Sugar Africa Holdings Limited (incorporated in the UK) owns 100% shareholding in Illovo Group Holdings Limited which in turn, owns 100% shareholding in SUCOMA Holdings Limited. The ultimate holding company is Associated British Foods plc (incorporated in the United Kingdom).

11. AUDITOR

Ernst & Young will continue in office in accordance with the provisions of the Companies Act, 2013.

12. SPECIAL RESOLUTIONS

During the financial year there were no special resolutions adopted.

13. POST BALANCE SHEET / YEAR END EVENTS

The Monetary Policy Committee of the Reserve Bank of Malawi revised the policy rate to 18% from 14%. The policy rate change will impact results for the year ending 31 August 2023.

On 23 November 2022, the board approved second interim dividend of K7.1 billion representing K10 per share in relation to the financial year ended 31 August 2022.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The directors of Illovo Sugar (Malawi) plc are responsible for the preparation and the integrity of the annual financial statements of the group and the company and the objectivity of other information presented in the annual financial statements. In order to fulfil this responsibility, the group maintains internal accounting and administrative control systems designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with the group's policies and procedures.

The going-concern basis has been adopted in preparing these financial statements. The directors have no reason to believe that the group and the company will not be a going-concern in the foreseeable future.

The group's external auditors, Ernest & Young (EY), audited the financial statements and the auditor's report is represented on pages 66 to 71.

The annual financial statements of the group and the company which appear on pages 72 to 156 were approved by the board of directors on 23 November 2022 and are signed on its behalf by:

G B Dalgleish
Chairman
23 November 2022

L L Katandula
Managing Director

Chartered Accountants (Malawi)
Apex House
Kidney Crescent
PO Box 530
Blantyre, Malawi

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ILLOVO SUGAR (MALAWI) PLC

OPINION

We have audited the consolidated and separate financial statements of Illovo Sugar (Malawi) plc (the Group) set out on pages 72 to 156 which comprise the consolidated and separate statements of financial position as at 31 August 2022 and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and Company as at 31 August 2022, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act 2013.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate Financial Statements section of the report. We are independent of the Group and Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and other independence requirements applicable to performing audits of financial statements in Malawi. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. The matter noted below was addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter. For the key audit matter noted below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report, including in relation to the key audit matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements.

The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

KEY AUDIT MATTER

GROUP AND COMPANY: GROWING CANE VALUATION

The Consolidated and Separate Statement of Financial Position carries growing cane of K37.1 billion and K25.0 billion respectively.

This represents 18.83% of total assets and 31.05% of current assets for the consolidated statement of financial position and 10.76% of total assets and 13.84% of current assets for the separate statement of financial position.

As described in Note 1.11 of the financial statements, the value of growing cane is based on the estimated sucrose content from the expected yield valued at the estimated sucrose price less estimated relevant costs.

The valuation process is complex and requires management to exercise significant judgement regarding certain assumptions and inputs in the valuation. These assumptions are disclosed in note 9 to the financial statements.

The key assumptions and inputs in determining the growing cane valuation were:

- expected cane yield taking into account the average maturity of cane
- estimated relevant costs
- estimated sucrose content
- estimated sucrose price

Estimation of sucrose price is based on forecasted revenue, forecasted marketing taking into account distribution and packaging costs. On the other hand the estimated sucrose content takes into account estimated recoverable sugar, estimated cane crushed, estimated production and estimated opening and closing inventory for the following period.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ILLOVO SUGAR (MALAWI) PLC (CONTINUED)

Given the level of judgement involved in estimating the growing cane valuation and the significance of the growing cane balance to the financial statements as a whole, we considered the valuation of growing cane to be a key audit matter.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

Our procedures for the valuation of growing cane, amongst others, included:

- Holding discussions with management, to obtain an understanding of the methods used to determine the valuation of growing cane and compared this to prior year's methods applied.
- Evaluating the objectivity, competence and capabilities of management by reference to their qualifications and professional experience in the relevant industry, and the scope of work as agreed with management.
- Valuating the assumptions used by management, which included cane crushed and sucrose content:
    - For cane crushed, we compared the sugar production tonnage to the cane yield best practice agricultural data available.
    - For sucrose content we compared prior period estimates to actual results.
    - For the cane fields destroyed by cyclones, we evaluated the impact on the yield.
- Further evaluated the assumptions applied by management concerning the estimates of growing cane yield and average maturity of cane by comparing the estimates to historical standing input data on the model.
- Evaluated the sucrose price by performing the following procedures, amongst others:
    - Compared the historic estimates of sales quantities to actuals. We further agreed the sugar and molasses revenue and related costs for the previous season to actual sales and costs.
    - Ensured that the cost estimates reflected the current economic variables influencing input costs.
- Assessed whether the disclosures of growing cane included in the financial statements comply the requirements of the International Financial Reporting Standards.

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OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the key features, Group structure and shareholding, corporate information, directors' report, corporate governance, value added statement, review of five periods, statutory information, and approval of annual financial statements included in the annual report of Illovo Sugar (Malawi) plc for the year ended 31 August 2022. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act 2013; and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a

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whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion.

  Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities within the Group and its business activities to express an opinion on the consolidated and separate financial statements.

We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication

Ernst & Young

Chartered Accountants (Malawi)
Chiwemi Chihana
Registered Practicing Accountant
25th November 2022

A member firm of Ernst & Young Global Limited.

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies of the group conform to International Financial Reporting Standards (IFRS) and have been consistently applied. The financial statements have been prepared in accordance with IFRS. The principal accounting policies adopted are set out below:

1.1 BASIS OF PREPARATION

These consolidated and separate financial statements have been prepared on the historical cost basis except where specifically stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 1 to the financial statements.

These consolidated and separate financial statements are presented in Malawi Kwacha (K) and rounded to the nearest one million.

1.2 ACCOUNTING FRAMEWORK

The consolidated and separate financial statements (collectively referred to as "the financial statements") have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and in compliance with the Companies Act 2013, of Malawi.

The basis of preparation is consistent with the prior year, except for the adoption of the new and revised standards which have been disclosed in note 2 of the Accounting Policies.

1.3 UNDERLYING CONCEPTS

The financial statements are prepared on the going-concern basis. Assets and liabilities, as well as income and expenses, are not offset unless specifically permitted by an accounting standard. Financial assets and financial liabilities are offset, and the net amount reported, only when a legally enforceable right to set off the amounts exists and the intention is to either settle on a net basis or to realise the asset and settle the liability simultaneously.

The financial statements have been prepared on the historical cost basis except for biological assets and certain financial instruments that are measured at fair value at the end of each reporting period, as explained in 1.4 below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

1.4 FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of International Financial Reporting Standard (IFRS) 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

The group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the group can access at the measurement date.

Level 2 inputs: Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 inputs: Unobservable inputs for the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

1.5 FOREIGN CURRENCIES

The individual financial statements of the group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Malawi Kwacha (K), which is the group's functional currency and the presentation currency.

In preparing the financial statements, transactions in currencies other than the group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

CONSOLIDATED FINANCIAL STATEMENTS

1.6 BASIS OF CONSOLIDATION

The separate financial statements reflect the investment in subsidiary controlled by the company at cost less accumulated impairment.

The consolidated financial statements incorporate the assets, liabilities, income, expenses and cash flows of the company and all entities controlled by the company as if they are a single economic entity.

Control is achieved when the company has power over the entity; is exposed or has rights to variable returns from its involvement with the entity; and has the ability to use its power to affect its returns. The company reassesses whether or not it controls an entity if the facts and circumstances indicate that there are changes to one or more of these elements.

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary.

Non-controlling interests in the net assets of consolidated subsidiaries are shown separately from the group's equity therein.

On acquisition, the non-controlling interests are measured as their proportionate share of the fair value of the entity's identifiable assets and liabilities. Subsequent to acquisition, the non-controlling interests are allocated a proportionate share of the subsidiary's profit or loss and each component of other comprehensive income even if this will result in the non-controlling interest having a deficit balance, unless there is doubt as to the recoverability of the deficit balance.

A change in the group's ownership interest in a subsidiary that does not result in the group losing control is accounted for as an equity transaction. The carrying amounts of the group's interest and the non-controlling interest are adjusted to reflect the change in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the company.

When the group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between:

(i) The aggregate of the fair value of the consideration received and the fair value of any retained interest, and

(ii) The previous carrying amount of the assets (including any goodwill) and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the group had directly disposed of the related assets and liabilities of the subsidiary (i.e., reclassified to profit or loss). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement*, and when applicable the cost on initial recognition of an investment in an associate or joint venture.

When necessary, adjustments are made to the financial statements of a subsidiary to bring the accounting policies into line with the group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

1.7 BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value.

Fair value is calculated as the sum of the acquisition date fair values of the assets transferred by the group, the liabilities incurred by the group to the former owners of the acquiree and the equity interests issued by the group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except for:

- Deferred taxation assets or liabilities that are measured in accordance with IAS 12 *Income Taxes*;
- Assets or liabilities related to employee benefit arrangements that are recognised and measured in accordance with IAS 19 Employee Benefits;
- Liabilities or equity instruments related to share-based payments arrangements of the acquiree, or share-based payment arrangements of the group entered into to replace share-based payment arrangements of the acquiree, are measured in accordance with IFRS 2 *Share- based Payment* at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill represents the future economic benefits arising from assets that are not capable of being individually identified and separately recognised in a business combination and is determined as the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity at the date of acquisition. If, after reassessment, the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is recognised as an asset, is stated at cost less impairment losses and is not amortised. For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently, when there is an indication that the unit may be impaired. An impairment loss recognised for goodwill is not reversed in a subsequent period.

1.8 PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Owner-occupied properties in the course of construction are carried at cost, and any accumulated impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying value. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the group's accounting policy.

Cane roots meet the definition of a bearer plant and are accounted for as property, plant and equipment using the cost model.

Depreciation is charged so as to write-off the cost of assets to their residual value over their useful estimated lives, using the straight-line method. Depreciation commences when the assets are ready for their intended use, and is calculated at rates appropriate in terms of management's current assessment of useful lives and residual values. Freehold land is not depreciated.

The group's depreciation rates are as follows:

Buildings	60 years
Cane roots	7 years
Plant, equipment and furniture	3 – 60 years
Vehicles and aircraft	5 – 15 years

The methods of depreciation, useful lives and residual values are reviewed annually.

Management considers market conditions and projected disposal values when assessing residual values and maintenance programmes and technological innovations when assessing useful lives.

Leasehold properties are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Any gain or loss arising on the derecognition of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

1.9 INVENTORY

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method, except in the case of downstream products where the "first in first out" basis is used.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Redundant and slow-moving inventories are identified and written down to their net realisable values.

Factory overhaul costs

The factory overhaul costs/off-season costs are costs incurred to prepare the production facilities and equipment for the upcoming milling season. The off-season costs are therefore indispensable for normal production activities in the subsequent seasons. The Illovo policy is to present factory overhaul costs under inventory as the factory overhaul costs are assets in the form of materials or supplies to be consumed in the production process.

Factory overhaul costs incurred are written off in the following production season, as sugar production progresses.

1.10 INVESTMENT PROPERTY

An investment property is land, a building or part of a building, held by the owner to earn rentals or for capital appreciation or for both.

The cost model is applied in accounting for investment property (i.e., the investment property is recorded at cost less any accumulated depreciation and impairment losses).

1.11 BIOLOGICAL ASSETS

Biological assets are measured at fair value less costs to sell.

Growing cane

The fair value of growing cane is determined as the estimated sucrose content in the sugar cane at 31 March, valued at the estimated sucrose price for the following season, less any farm management costs from year end to 31 March.

The estimated sucrose price is adjusted for the estimated costs of harvesting the sugar cane and transporting it from the field to the mill.

The sucrose content is estimated in tons and is adjusted by a factor to reflect the growth of the cane at 31 March (i.e. the cane growth percentage). The cane growth percentage reflects the long-term average climate and agricultural conditions at each operation and will not fluctuate for year-on-year changes in milling season length or weather events (e.g. floods or drought). Rather, such changes are embodied in the fair value through a revision to the estimated sucrose content to which the cane growth percentage is applied.

The valuation as at August is derived from the March valuation by deducting the costs, necessarily incurred to farm sugar cane until the commencement of the following season and the expected profit margin on the cane growing activity.

1.12 PROVISIONS

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, for which it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, where the effect of the time value of money is material.

1.13 POST-RETIREMENT OBLIGATIONS

The group provides retirement benefits for its employees through two defined contribution plans, the SUCOMA Group Pension Scheme and the Illovo Sugar Malawi Pension Fund. Contributions by group companies to defined contribution retirement plans are recognised as an expense in the year in which the related services are rendered by employees.

1.14 IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the group reviews the carrying amounts of its tangible, intangible and right of use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

1.15 DEFERRED TAXATION

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

A deferred tax asset represents the amount of income taxes recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses. Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

A deferred tax liability represents the amount of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax liabilities are recognised for all taxable temporary differences, unless specifically exempt.

Deferred taxation assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

1.16 FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the group's statement of financial position when the group becomes a party to the contractual provisions of the instrument.

Financial assets

A financial asset is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the group has applied the practical expedient, the group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through profit and loss with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the group. The group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The group's financial assets at amortised cost are trade receivables, amounts due from related parties and bank balances.

Financial assets at fair value through OCI (debt instruments)

The group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The group did not have any financial assets at fair value through OCI as at 31 August 2022.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The group elected to classify irrevocably its non-listed equity investment in Ethanol Company Limited under this category.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

The group did not have any debt instruments classified as financial assets at fair value through OCI as at 31 August 2022.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets)

is primarily derecognised (i.e., removed from the group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired.

Or

- The group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the group has transferred substantially all the risks and rewards of the asset, or (b) the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

Aside from this note, other disclosures relating to impairment of financial assets (trade receivables) are included in Note 27.6.

The group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the group applies a simplified approach in calculating ECLs.

Therefore, the group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the group may also consider a financial asset to be in default when internal or external information indicates that the group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

The group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Derivative financial instruments

The group enters into derivative financial instruments, largely foreign exchange forward contracts, to manage its exposure to foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

- Hedges of a net investment in a foreign operation.
- At the inception of a hedge relationship, the group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.
- The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:
- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the group actually hedges and the quantity of the hedging instrument that the group actually uses to hedge that quantity of hedged item.

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

Cash flow hedges

The group designates forward contracts in cash flow hedges of forecast sales in Euro as hedging instruments. The fair value changes in the forward contracts are recognised in OCI and accumulated in a separate component of equity under hedging reserve. The amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Equity

Equity instruments issued by the company are recorded at the value of the proceeds received, net of direct issue costs. Debt and equity instruments are classified as either financial liabilities or as equity based on the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

1.17 GOVERNMENT GRANTS

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset, by equal annual instalments.

1.18 REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the group expects to be entitled in exchange for those goods. The group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods before transferring them to the customer.

Sale of sugar

Revenue from sale of sugar is recognised at the point in time when control of the sugar is transferred to the customer, generally upon collection of sugar by the customer from the group's warehouse. The normal credit term vary between 14 to 90 days upon collection from the warehouse.

The group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., provision of warehouse services, arrangement of freight and insurance). In determining the transaction price for the sale of sugar, the group considers the effects of variable consideration, the existence of significant financing components, and consideration payable to the customer (if any).

(i) Variable consideration

If the consideration in a contract includes a variable amount, the group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Some contracts provide customers with retrospective volume rebates to certain customers once the quantity of sugar purchased during the period exceeds a threshold specified in the contract. The volume rebates give rise to variable consideration.

To estimate the variable consideration for the expected volume rebates, the group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The group then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates.

(ii) Cost to obtain a contract

The group pays sales commission to IGMS for each contract that they obtain for export sales of sugar. The group has elected to apply the optional practical expedient for costs to obtain a contract which allows the group to immediately expense sales commissions because the amortisation period of the asset that the group otherwise would have used is one year or less.

(iii) Principal vs agent considerations

The group has certain contracts with customers to sell sugar at Cost, Insurance, Freight (CIF) incoterms. The group has assessed that there are three performance obligations in the contracts; sale of sugar, arrangement of freight, and arrangement of insurance. The group has concluded that it acts in the capacity of principal when selling the sugar and as an agent in arranging insurance and arranging freight on behalf of the customer. However, even though there are three performance obligations, for two of the performance obligations (i.e. arranging insurance and arranging freight), no commission/profit is earned on these obligations as the amount included in the pricing is merely passed on to the customer through CIF pricing.

Costs of insurance and freight are therefore reimbursed expenses and are deducted from revenue as they reduce the amount of consideration Illovo expects to receive.

Sale of molasses

Molasses are a by-product of the sugar production process. These are sold for the production of ethanol mostly to two major customers located near the two mills under the group.

Revenue from sale of molasses is recognised at the point in time when control of the molasses is transferred to the customer, generally upon collection of molasses by the customer from the group's premises. The normal credit terms are 30 days upon collection from the group's premises.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer.

If the group performs by transferring goods or services to a customer before the customer pays consideration

or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Trade receivables are non-interest bearing and are generally on terms of 14 to 90 days

Contract liabilities

A contract liability is the obligation to transfer goods to a customer for which the group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the group transfers goods to the customer, a contract liability is recognised when the payment is made. Contract liabilities are recognised as revenue when the group performs under the contract.

Performance obligations

The group's performance obligations are summarized below:

The performance obligation for domestic revenue is satisfied upon dispatch of sugar from the warehouses. Performance obligations for export revenue are satisfied when legal title or risk and rewards of ownership have been transferred to the customer through reference to the incoterms.

The group also has bill and hold arrangement and performance obligations are satisfied when the following conditions are met;

- The customer requests for the goods to be warehoused and stored at a warehouse at the port of shipment while the customer arranges for a logistics service provider to transport the sugar
- The sugar is stored separately in the warehouse, in a separate demarcated area so the sugar can be identified as the customer's inventory at any point in time
- The sugar is packaged and ready for physical transfer to the customer
- When the sugar is at the warehouse, the group does not have the ability to use the product or direct the goods in any way

1.19 EMPLOYEE BENEFIT COSTS

The cost of providing employee benefit costs is accounted for in the period in which the benefits are earned by employees.

The cost of short-term employee benefits is recognised in the period in which the service is rendered and is not discounted. The expected cost of short-term accumulating compensated absences is recognised as an expense as the employees render service that increases their entitlement or, in the case of non-accumulating absences, when the absences occur.

The expected cost of profit-sharing and bonus payments is recognised as an expense when there is a legal and constructive obligation to make such payments as a result of past performance and a reliable estimate of the obligation can be made.

1.20 BORROWINGS COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

1.21 TAXATION

The charge for current taxation is based on the results for the year as adjusted for income that is exempt from taxation, expenses that are not deductible for taxation purposes and items that are taxable in other financial years. The charge for current tax is calculated using the tax rates that have been enacted or substantively enacted by the reporting date.

1.22 LEASES

The group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

The group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Plant and machinery 3 to 7 years
- Buildings 2 to 10 years
- Land up to 99 years

If ownership of the leased asset transfers to the group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

(ii) Lease liabilities

At the commencement date of the lease, the group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the group and payments of penalties for terminating the lease, if the lease term reflects the group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

(iii) Short-term leases and leases of low-value assets

The group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

1.23 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the net profit attributable to the shareholders and the weighted average number of ordinary shares in issue during the year. Where new equity shares are issued for no consideration, the profit is apportioned over the shares in issue after the issue and the corresponding figures for the earlier periods are adjusted accordingly

1.24 DIVIDEND PER SHARE

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the company's board of directors.

Dividends that are declared after the reporting date but before the financial statements are authorised for issue by the company's board of directors, are not recognised as a liability at the end of the reporting date.

This is because no obligation exists at that reporting date. Such dividends are however, disclosed in a note to the financial Statements. The calculation of dividend per share is based on the dividends declared to shareholders during the period divided by the number of ordinary shares of shareholders on the date of payment.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

2.1 STANDARDS AND INTERPRETATIONS AFFECTING AMOUNTS REPORTED AND/OR DISCLOSED IN THE FINANCIAL STATEMENTS

In the current year, the Group has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards Interpretations Committee of the International Accounting Standards Board (IFRIC) that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2021.

The adoption of these new and revised Standards and Interpretations did not have a significant impact on the consolidated and separate financial statements of the Group.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received Covid-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

2.2 NEW AND AMENDED STANDARDS AND INTERPRETATIONS AND STANDARDS ISSUED BUT NOT YET EFFECTIVE

Below are new standards, amendments to standards and interpretations that are issued and effective for annual periods beginning on or after 1 January 2021 and have not been applied in preparing these consolidated and separate financial statements, since they do not have an impact on the Group.

Effective date Effective for annual period beginning or after	**Standard, Amendment or Interpretation**
1 January 2021	Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
1 April 2021	Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below.

Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

Effective date Effective for annual period beginning or after	Standard, Amendment or Interpretation
1 January 2023	IFRS 17 Insurance Contracts IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees. The new standard is not expected to have a material impact as the group currently do not have insurance contracts.
1 January 2024	Classification of Liabilities as Current or Non-Current Amendments to IAS 1 The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

1 January 2023	Definition of Accounting Estimates Amendments to IAS 8
1 January 2024	Disclosure of Accounting Policies Amendments to IAS 1 and IFRS Practice Statement 2
1 January 2023	Deferred Tax related to Assets and Liabilities arising from a Single Transaction Amendments to IAS 12
1 January 2022	Reference to the Conceptual Framework Amendments to IFRS 3 The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.
1 January 2022	Property, Plant and Equipment — Proceeds before Intended Use Amendments to IAS 16 The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

1 January 2022	**Onerous Contracts — Cost of Fulfilling a Contract Amendments to IAS 37** The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).
1 January 2024	**Non-current Liabilities with Covenants** In October 2022, the IASB issued amendments that clarify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current. Additional disclosures are required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period.

1 January 2022	**Annual Improvements to IFRS Standards 2018–2020** Makes amendments to the following standards: • IFRS 1 – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs. • IFRS 9 – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. • IFRS 16 – The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example. • IAS 41 – The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.
To be determined	**Sale or Contribution of Assets between an Investor and its Associate or Company** **Amendments to IFRS 10 and IAS 28**

The directors anticipate that these Standards and Interpretations in future periods will have no significant impact on the consolidated and separate financial statements of the group.

CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 AUGUST 2022

		GROUP		COMPANY	
		2022	2021	2022	2021
	Notes	K million	K million	K million	K million
Revenue from contracts with customers	2	186 642	163 259	102 480	98 217
Operating profit	3	39 505	31 941	16 496	19 954
Dividend income		60	71	-	-
Finance costs	4a	(1 396)	(2 774)	(601)	(1 454)
Interest income	4b	309	100	309	100
Profit before taxation		38 478	29 338	16 204	18 600
Income tax expense	5	(11 848)	(8 869)	(5 079)	(7 774)
Net profit for the year		26 630	20 469	11 125	10 826
Other comprehensive income					
Items that may be reclassified to profit or loss in subsequent periods:					
Cash flow hedges		(33)	177	(33)	177
Tax effect of the cash flow hedges	13	10	(53)	10	(53)
Other comprehensive (loss)/income relating to cash flow hedges	17	(23)	124	(23)	124
Items that will not be reclassified to profit or loss in subsequent periods:					
Net gain on equity instruments designated at fair value through other comprehensive income	7	136	110	-	-
Tax effect on valuation of unlisted investment	13	(24)	(125)	-	-
Other comprehensive (loss)/income relating to valuation of unlisted investments	7	112	(15)	-	-
Total other comprehensive income/(loss)		89	109	(23)	124
Total comprehensive income for the year		26 719	20 578	11 102	10 950
Basic and diluted earnings per share (tambala)	22	3 733	2 869		

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

AS AT 31 AUGUST 2022

		GROUP		COMPANY	
		2022	2021	2022	2021
	Notes	K million	K million	K million	K million
ASSETS					
Non-current assets					
Property, plant and equipment	6	67 989	58 190	47 054	40 593
Right of use Assets	20	8 991	9 458	4 292	5 048
Investments	7	740	604	324	324
		77 720	68 252	51 670	45 965
Current assets					
Inventories	8	39 134	44 248	25 394	28 438
Growing cane	9	37 163	28 865	24 985	20 309
Trade and other receivables	10	28 192	18 681	26 317	17 502
Amount due from related parties	15.7.1	21	524	88 609	47 759
Derivative financial assets	17	-	33	-	33
Bank balances and cash	11	15 160	3 922	15 159	3 922
		119 670	96 273	180 464	117 963
Total assets		197 390	164 525	232 134	163 928
EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital and premium		782	782	782	782
Fair value reserve		443	331	-	-
Hedging reserve		-	23	-	23
Retained earnings		99 710	87 035	18 213	21 043
		100 935	88 171	18 995	21 848

	Notes	GROUP 2022 K million	GROUP 2021 K million	COMPANY 2022 K million	COMPANY 2021 K million
Non current liabilities					
Malawi Government Vitamin A Grant	12	198	205	169	175
Lease liabilities	20	6 896	7 941	3 132	3 420
Deferred tax	13	26 792	21 273	18 484	15 008
		33 886	29 419	21 785	18 603
Current liabilities					
Trade and other payables	14	32 861	27 414	25 792	22 074
Contract liabilities	14.1	2 290	2 652	2 290	2 652
Lease liabilities	20	2 953	2 449	1 759	2 449
Amount due to related parties	15.7.2	17 052	4 237	157 619	88 626
Bank overdrafts	11	-	3 500	-	3 500
Income tax liability		4 701	6 683	1 182	4 176
Dividend Payable		2 712		2 712	
		62 569	46 935	191 354	123 477
Total equity and liabilities		197 390	164 525	232 134	163 928

The responsibilities of the group's directors with regard to the preparation of the financial statements are set out on page 65. The financial statements on pages 72 to 156 were approved and authorised for issue by the board of directors on 23 November 2022 and were signed on its behalf by:

G B Dalgleish (Chairman)

L Katandula (Managing Director)

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 AUGUST 2022

GROUP

Balance at 1 September 2020

Total comprehensive income for the year

-Profit for the year

-cashflow hedges

Fair value loss on revaluation of investment

Dividends declared and paid

Balance at 31 August 2021

Balance as at 1 September 2021

Total comprehensive income for the year

- profit for the year

- cash flow hedges

Fair value gain on investment

Dividends declared

Balance at 31 August 2022

Share Capital K million	Share Premium K million	Fair Value Reserve K million	Hedging Reserves K million	Retained Earnings K million	Total K million
14	768	346	(101)	70 847	71 874
-	-	(15)	124	16 188	16 297
-	-	-	-	20 469	20 469
-	-	-	124	-	124
-	-	(15)	-	-	(15)
-	-	-	-	(4 281)	(4 281)
14	768	331	23	87 035	88 171
14	768	331	23	87 035	88 171
-	-	112	(23)	12 675	12 764
-	-	-	-	26 630	26 630
-	-	-	(23)	-	(23)
-	-	112	-	-	112
-	-	-	-	(13 955)	(13 955)
14	768	443	-	99 710	100 935

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 AUGUST 2022

(CONTINUED)

COMPANY

Balance at 1 September 2020

Total comprehensive loss for the year

- loss for the year
- cash flow hedges

Dividends declared and paid

Balance at 31 August 2021

Balance as at 1 September 2021

Total comprehensive income for the year

- Profit for the year
- cash flow hedges

Dividends declared

Balance at 31 August 2022

ANALYSIS OF SHARE CAPITAL AND PREMIUM

Authorised share capital

1 000 000 000 (August 2020: 1 000 000 000) ordinary shares of 2 tambala each

Issued share capital

713 444 391 (August 2020: 713 444 391) ordinary shares of 2 tambala each

Share premium

The fair value reserve relates to fair valuation in respect of the investment in Ethanol Company Limited.

	Share Capital K million	Share Premium K million	Fair Value Reserve K million	Hedging Reserves K million	Retained Earnings K million	Total K million
	14	768	-	(101)	14 498	15 179
				124	6 545	6 669
	-	-	-	-	10 826	10 826
	-	-	-	124	-	124
	-	-	-	-	(4 281)	(4 281)
	14	768	- -	23	- 21 043	21 848
	14	768	-	23	21 043	21 848
	-	-	-	(23)	(2 830)	(2 853)
	-	-	-	-	11 125	11 125
	-	-	-	(23)	-	(23)
	-	-	-	-	(13 955)	(13 955)
	14	768	-	-	18 213	18 995

	GROUP AND COMPANY	
	2022 K million	2021 K million
	20	20
	14	14
	768	768
	782	782

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 AUGUST 2022

		GROUP		COMPANY	
		2022	2021	2022	2021
	Notes	K million	K million	K million	K million
Cash flows from operating activities					
Cash operating profit	a	40 707	34 671	18 835	21 915
Working capital requirements	b	14 006	3 588	25 728	8 312
Cash generated from operations		54 713	38 259	44 563	30 227
Finance costs	c	(1 245)	(2 677)	(450)	(1 368)
Interest income	4	309	100	309	100
Income tax paid	d	(8 325)	(2 967)	(4 588)	(600)
Net cash inflows from operating activities		45 452	32 715	39 834	28 359
Cash flows from investing activities					
Purchase of property, plant and equipment	6	(16 618)	(8 873)	(11 754)	(5 905)
Proceeds on disposal of plant and equipment		79	349	-	321
Dividend received		60	71	-	-
Net cash outflows from investing activities		(16 479)	(8 453)	(11 754)	(5 584)
Net cash inflows before financing activities		28 973	24 262	28 080	22 775
Cash flows from financing activities					
Short-term borrowings repaid	16	-	(15 019)	-	(15 019)
Dividends paid	23	(11 243)	(4 281)	(11 243)	(4 281)
Lease liabilities paid	20	(2 992)	(3 297)	(2 100)	(1 810)
Net cash outflows from financing activities		(14 235)	(22 597)	(13 343)	(21 110)
Net increase in cash and cash equivalents		14 738	1 665	14 737	1 665
Cash and cash equivalents at beginning of year		422	(1 243)	422	(1 243)
Cash and cash equivalents at end of year	11	15 160	422	15 159	422
Comprising of:					
Bank balances and cash	11	15 160	3 922	15 159	3 922
Bank overdrafts	11	-	(3 500)	-	(3 500)
		15 160	422	15 159	422

NOTES TO THE CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOW

FOR THE YEAR ENDED 31 AUGUST 2022

		Notes	GROUP 2022 K million	GROUP 2021 K million	COMPANY 2022 K million	COMPANY 2021 K million
a	**Cash operating profit is calculated as follows:**					
	Profit before tax		38 478	29 338	16 204	18 600
	Add back: Finance costs		1 396	2 774	601	1 454
	Finance income		(309)	(100)	(309)	(100)
	Dividends received		(60)	(71)	-	-
	Operating profit		39 505	31 941	16 496	19 954
	Add back : Depreciation of property, plant and equipment	6	6 819	6 181	5 293	4 282
	Depreciation of right of use assets	20	2 767	2 939	1 728	1 664
	Profit on disposal of property, plant and equipment	3	(79)	(349)	-	(321)
	Change in fair value of growing cane	9	(8 298)	(6 034)	(4 676)	(3 658)
	Grant amortisation	12	(7)	(7)	(6)	(6)
	Cash operating profit		40 707	34 671	18 835	21 915
b	**Working capital requirements comprise the following:**					
	Decrease/(increase) in inventories		5 114	2 671	3 044	(697)
	Increase in trade and other receivables		(9 511)	(2 790)	(8 815)	(2 718)
	Net increase in amounts due to related parties		13 318	1 079	28 143	10 643
	Increase/(Decrease) in trade and other payables		5 447	771	3 718	(773)
	(Decrease)/Increase in contract liabilities		(362)	1 857	(362)	1 857
	Working capital requirements		14 006	3 588	25 728	8 312

	Notes	GROUP 2022 K million	GROUP 2021 K million	COMPANY 2022 K million	COMPANY 2021 K million
c Finance costs paid					
Interest paid on:					
Short-term borrowings	16	-	(928)	-	(928)
Bank short-term facilities	4	(451)	(1 452)	(144)	(398)
Other - Illovo Sugar Africa Proprietary Limited : Procurement	15.8.3	(162)	(30)	(112)	(20)
Interest on lease liabilities		(1 098)	(1 047)	(660)	(791)
Foreign exchange gains		466	780	466	769
Finance costs paid on interest-bearing debt		(1 245)	(2 677)	(450)	(1 368)
d Income tax paid is reconciled to the amounts disclosed in the statements of profit or loss as follows:					
Amounts payable at beginning of year		(6 683)	(2 834)	(4 176)	-
Current year charge		(6 343)	(7 048)	(1 594)	(4 776)
Amounts payable at end of year		4 701	6 683	1 182	4 176
Prior year overprovision		-	232	-	-
Taxation (paid)		(8 325)	(2 967)	(4 588)	(600)

1. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical accounting judgements made by management

In the process of applying the group's accounting policies, management has made the following judgements below,apart from those involving estimations, that affect the amounts recognised in the financial statements and related disclosures:

Impairment of assets

In making its judgement, management assesses at each reporting date whether there is an indication that items of property, plant and equipment and other assets may be impaired. If any such indication exists, the recoverable amount of the asset is assessed in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of fair value less costs to sell and value in use.

Key sources of estimation uncertainty

In the process of applying the group's accounting policies, management has made the following key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date:

Property, plant and equipment residual values and useful lives

These assets are written down to their estimated residual values over their anticipated useful lives using the straight-line basis. Management reviews the residual values annually considering market conditions and projected disposal values. In assessing useful lives, maintenance programmes and technological innovations are considered. The carrying value of property, plant and equipment is disclosed in note 6 to the financial statements.

Growing cane valuation

Growing cane is valued at the estimated sucrose content, valued at the estimated sucrose price for the following season, less the estimated costs for harvesting and transport. The value of growing cane is further adjusted for the cane maturity as at the balance sheet date, the costs necessarily incurred to farm the sugar cane until maturity and the expected profit margin on the cane growing activity. The estimated sucrose content requires management to assess the expected cane and sucrose yields for the following season considering weather conditions and harvesting programmes. In reviewing the estimated sucrose price, management is required to assess into which markets the forthcoming crop will be sold and establish domestic and export prices as well as the related foreign currency exchange rates. The cane maturity as at the balance sheet date is based on an internationally validated model of sugar cane growth using historical climatic inputs from the sugar estates. In addition, management prepares detailed costs forecasts to determine the costs to farm the sugar cane to maturity as well as the expected profit margin. The carrying value of growing cane is disclosed in Note 9 to the financial statements.

Expected Credit Losses

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for Groupings of various customer segments with similar loss patterns (i.e product type, customer type and rating, and coverage by letters of guarantee or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Note 27 includes additional information on judgements involved in determining the expected credit losses.

Leases - Estimating the incremental borrowing rate (IAS1.125(b))

The group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the group's functional currency). The group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

	Notes	GROUP 2022 K million	GROUP 2021 K million	COMPANY 2022 K million	COMPANY 2021 K million
2. Revenue from contracts with customers					
Revenue represents the proceeds receivable from the sale of:					
Sugar		**180 929**	157 168	**99 391**	94 301
Molasses and other products		**5 713**	6 091	**3 089**	3 916
		186 642	163 259	**102 480**	98 217
Analysed by market segment:					
Domestic market		**156 712**	115 300	**86 047**	69 365
European Union preferential quotas		**8 932**	8 840	**4 904**	5 318
USA quota		**3 216**	2 778	**1 765**	1 671
Regional market		**17 782**	36 341	**9 764**	21 863
		186 642	163 259	**102 480**	98 217
3. Operating profit					
Revenue		**186 642**	163 259	**102 480**	98 217
Change in fair value of growing cane		**8 298**	6 034	**4 676**	3 658
Cost of sales		**(115 290)**	(96 807)	**(69 473)**	(58 044)
Distribution expenses		**(14 334)**	(14 656)	**(7 137)**	(8 762)
Administrative expenses		**(25 811)**	(25 889)	**(14 050)**	(15 115)
Operating profit after changes in fair value of biological assets		**39 505**	31 941	**16 496**	19 954
Less fair value adjustments:					
- growing cane (see note 9)		**(8 298)**	(6 034)	**(4 676)**	(3 658)
Operating profit before changes in fair value of biological assets		**31 207**	25 907	**11 820**	16 296

	GROUP		COMPANY	
	2022	2021	2022	2021
	K million	K million	K million	K million
3. Operating profit/loss (continued)				
Administrative expenses comprise:				
Operating costs	(10 202)	(12 824)	(5 162)	(7 536)
IT Costs	(1 179)	(1 069)	(707)	(641)
Human Resources costs	(6 151)	(3 895)	(3 872)	(2 730)
Security costs	(1 806)	(1 273)	(894)	(617)
Healthcare costs	(1 114)	(947)	(554)	(463)
Risk and loss control costs	(1 890)	(2 600)	(1 038)	(1 593)
Civils costs	(2 922)	(2 802)	(1 378)	(1 169)
Other overheads	(415)	(350)	(358)	(292)
Depreciation	(132)	(129)	(87)	(74)
	(25 811)	(25 889)	(14 050)	(15 115)
Operating costs comprise:				
Salaries	(4 450)	(3 581)	(2 670)	(2 149)
Operational support service fees analysed as:				
Technical support	(739)	(862)	(443)	(517)
Business support	(1 280)	(1 133)	(768)	(680)
Procurement services	(714)	(431)	(429)	(259)
Other operational costs	(3 019)	(6 817)	(852)	(3 931)
	(10 202)	(12 824)	(5 162)	(7 536)

	GROUP		COMPANY	
	2022	2021	2022	2021
	K million	K million	K million	K million

3. Operating profit/loss (continued)

Operating profit has been determined after taking into account the following items:

Depreciation of Property, Plant and Equipment (see note 6)	(6 819)	(6 181)	(5 293)	(4 282)
Depreciation of Right of Use assets (see note 20a)	(2 767)	(2 939)	(1 728)	(1 664)
Profit on disposal of plant and equipment	79	349	-	321
Amortisation of factory overhaul costs	(4 425)	(4 588)	(2 588)	(2 988)
Directors' fees	(35)	(33)	(35)	(33)
Auditor's remuneration:				
- statutory audit fees	(167)	(152)	(108)	(106)
- expenses	(3)	(6)	-	(6)
Operational support service fees (see note 15.8.1)	(2 733)	(2 426)	(1 640)	(1 456)
Expense relating to short-term leases & leases of low value assets	(15)	(400)	(2)	(267)
Contribution to retirement benefit funds	(1 123)	(994)	(783)	(696)
Foreign exchange differences	465	722	465	722

	GROUP		COMPANY	
	2022 K million	2021 K million	2022 K million	2021 K million
4.a Finance costs				
Interest charged on:				
Short-term borrowings	-	(909)	-	(909)
Bank short-term facilities	(451)	(1 452)	(144)	(398)
Other - Illovo Sugar Africa Proprietary Limited : Procurement	(162)	(30)	(112)	(20)
Lease liabilities	(1 094)	(1 105)	(656)	(849)
Foreign exchange losses recognised in finance costs	311	722	311	722
Interest expense on bank borrowings and short-term debt	(1 396)	(2 774)	(601)	(1 454)
4.b Interest income				
Interest income - interest income on short-term bank deposits	309	100	309	100

	Note	GROUP 2022 K million	GROUP 2021 K million	COMPANY 2022 K million	COMPANY 2021 K million
5. Income tax expense					
Current tax		6 343	7 048	1 594	4 776
Prior year over-provision		-	(232)	-	
Deferred tax	13	5 505	2 053	3 485	2 998
Total income tax recognised in the year		11 848	8 869	5 079	7 774
		%	%		
Reconciliation of rate of taxation:					
Malawi corporation rate of taxation		30.0	30.0		
Increase in charge for year due to:					
Disallowable expenditure		0.8	0.2		
Effective rate of taxation		30.8	30.2		

For income tax purposes, the Malawi Revenue Authority treats the group as one tax paying entity, therefore all taxes and charges relating to the subsidiary have been transferred to the group in the year under review.

6. Property, plant and equipment

GROUP

Cost

Opening balance at 1 September 2020
Additions
Transfers
Disposals
Closing balance at 31 August 2021

Opening balance at 1 September 2021
Additions
Transfers
Disposals
Closing balance at 31 August 2022

Depreciation

Opening balance at 1 September 2020
Charge for the year
Disposals
Closing balance at 31 August 2021

Opening balance at 1 September 2021
Charge for the year
Disposals
Closing balance at 31 August 2022

Net book value

Closing balance at 31 August 2021
Closing balance at 31 August 2022

Expenditure on assets under construction is initially shown as capital work in progress and is transferred to the relevant class of asset when commissioned.

The group's sugar and cane growing activities are situated on land under 99 year lease from the government of Malawi as follows:

Commencement:

1 January 1965
1 March 1966
1 October 1974
1 March 1977
1 July 1992

Land and buildings K million	Vehicles and aircraft K million	Plant, equipment and furniture K million	Capital work in progress K million	Cane roots K million	Total K million
6 237	6 613	36 191	4 217	30 625	83 883
45	304	685	3 826	4 013	8 873
34	-	1 306	(1 340)	-	-
-	(90)	-	-	-	(90)
6 316	6 827	38 182	6 703	34 638	92 666
6 316	6 827	38 182	6 703	34 638	92 666
779	541	5 694	5 241	4 363	16 618
284		3 909	(4 193)	-	-
-	(86)	(41)	-	-	(127)
7 379	7 282	47 744	7 751	39 001	109 157
824	5 291	6 955	-	15 315	28 385
103	126	1 942	-	4 010	6 181
-	(90)	-	-	-	(90)
927	5 327	8 897	-	19 325	34 476
927	5 327	8 897	-	19 325	34 476
107	187	1 915	-	4 610	6 819
-	(86)	(41)	-	-	(127)
1 034	5 428	10 771	-	23 935	41 168
5 389	1 500	29 285	6 703	15 313	58 190
6 345	1 854	36 973	7 751	15 066	67 989

2022 Hectares	2021 Hectares
4 763	4 763
4	4
12 391	12 391
13 300	13 300
3 767	3 767

6. Property, plant and equipment

COMPANY

Cost

Opening balance at 1 September 2020
Additions
Transfers
Disposals
Closing balance at 31 August 2021

Opening balance at 1 September 2021
Additions
Transfers
Disposals
Closing balance at 31 August 2022

Depreciation

Opening balance at 1 September 2020
Charge for the year
Disposals
Closing balance at 31 August 2021

Opening balance at 1 September 2021
Charge for the year
Disposals
Closing balance at 31 August 2022

Net book value

Closing balance at 31 August 2021
Closing balance at 31 August 2022

Expenditure on assets under construction is initially shown as capital work in progress and is transferred to the relevant class of asset when commissioned.

The company's sugar and cane growing activities are situated on land under 99 year lease from the government of Malawi as follows:

Commencement:

1 January 1965
1 March 1966
1 October 1974
1 March 1977
1 July 1992

	Land and buildings	Vehicles and aircraft	Plant, equipment and furniture	Capital work in progress	Cane roots	Total
	K million	K million	K million	K million	K million	K million
	4 244	4 457	25 743	1 625	23 198	59 267
	-	231	-	2 766	2 908	5 905
	-	-	1 027	(1 027)	-	-
	-	(39)	-	-	-	(39)
	4 244	4 649	26 770	3 364	26 106	65 133
	4 244	4 649	26 770	3 364	26 106	65 133
	33	421	4 434	3 894	2 972	11 754
	-		3 537	(3 537)	-	-
	-	-	-	-	-	-
	4 277	5 070	34 741	3 721	29 078	76 887
	542	4 397	3 634	-	11 724	20 297
	54	33	976	-	3 219	4 282
	-	(39)	-	-	-	(39)
	596	4 391	4 610	-	14 943	24 540
	596	4 391	4 610	-	14 943	24 540
	55	53	1 412	-	3 773	5 293
	-	-	-	-	-	-
	651	4 444	6 022	-	18 716	29 833
	3 648	258	22 160	3 364	11 163	40 593
	3 626	626	28 719	3 721	10 362	47 054

	2022	2021
	Hectares	Hectares
	4 763	4 763
	4	4
	12 391	12 391
	13 300	13 300
	3 767	3 767

	GROUP		COMPANY	
	2022	2021	2022	2021
	K million	K million	K million	K million

7. Investments

Investment in subsidiary company

The only subsidiary of the company is Dwangwa Sugar Corporation Limited, a company registered in Malawi.

Interest in the subsidiary is as follows:

	Group 2022	Group 2021	Company 2022	Company 2021
Issued capital			42	42
Effective percentage holding			100%	100%
Shares at cost			324	324

Other investments

Ethanol Company Limited

210 000 Ordinary shares of K 1 each, representing 7.64% of issued share capital.

	Group 2022	Group 2021
Fair valuation at the beginning of the year	604	494
Fair value gain	136	110
Fair valuation at the end of the year	740	604

The fair value of the other investments is determined using inputs that are unobservable.The net asset value was the best information available in the circumstances and therefore fall into the level 3 fair value category. If profit after tax was 5% higher/lower and all other variables held constant, the group's investment in Ethanol Company Limited would move by K6.4 million for the year ended 31 August 2022 (August 2021: K8.5 million).

The fair values shown in the statement of financial position are disclosed as follows:

Unlisted investment at fair value	Group 2022	Group 2021
Fair value gain/(loss)	136	110
Deferred tax on fair value gain of unlisted investment (see note 13)	(24)	(125)
Fair value gain/(loss) of unlisted investment net of deferred tax	112	(15)

	GROUP		COMPANY	
	2022	2021	2022	2021
	K million	K million	K million	K million
8. Inventories				
Consumables	13 303	7 373	7 996	4 245
Sugar	22 998	35 224	15 631	23 257
Factory overhaul costs	2 833	1 651	1 767	936
	39 134	44 248	25 394	28 438

The group deducted inventory provisions of K228 million (August 2021: K161 million) to arrive at these numbers.

The company deducted inventory provisions of K139 million (August 2021: K88 million) to arrive at these numbers.

Movement in inventory provisions				
Opening balance	(161)	(1 923)	(88)	(1 834)
Provision	(232)	(88)	(139)	(88)
Provision utilised	165	1 850	88	1 834
Closing balance	(228)	(161)	(139)	(88)

	GROUP		COMPANY	
	2022	2021	2022	2021
	K million	K million	K million	K million
9. Growing cane				
The carrying value of growing cane is reconciled as follows:				
Carrying value at beginning of year	**28 865**	22 831	**20 309**	16 651
Change in fair value	**8 298**	6 034	**4 676**	3 658
Carrying value at end of year	**37 163**	28 865	**24 985**	20 309

The fair value of the growing cane is determined using inputs that are unobservable, using the best information available in the circumstances and therefore fall into the level 3 fair value category.

	GROUP		COMPANY	
	2022	2021	2022	2021
The following are the key assumptions in the valuation of growing cane:				
Expected area to harvest the following season (ha)	**19 257**	19 127	**12 624**	12 587
Estimated yield (tons cane/ha)	**102**	102	**99**	99
Average maturity of cane at 31 March	**67%**	67%	**71%**	71.1%

A 1% change in the sucrose content and sucrose price could increase or decrease the fair value of the growing cane to the following values:

	GROUP		COMPANY	
	2022	2021	2022	2021
	K million	K million	K million	K million
	+ 1%	-1%	+ 1%	-1%
Estimated sucrose content	37 180	36 996	24 996	24 883
Estimated sucrose price	37 194	36 858	25 005	24 792

	GROUP		COMPANY	
	2022	2021	2022	2021
	K million	K million	K million	K million

10. Trade and other receivables

Trade receivables	11 162	12 293	11 162	12 293
Other receivables and prepayments	17 030	6 388	15 155	5 209
Balance at end of year	28 192	18 681	26 317	17 502

The directors consider that the carrying amount of trade and other receivables approximates their fair value. Trade and other receivables include trade receivables denominated in foreign currencies amounting to K810 million (August 2021: K1,359 million). Set out below is the movement in the allowance for expected credit losses of trade receivables:

As at 1 September 2021	(1 005)	(1 005)	(1 005)	(1 005)
Provision for expected credit losses	-	-	-	-
As at 31 August 2022	(1 005)	(1 005)	(1 005)	(1 005)

The foreign debtors are denominated in the following currencies:

European Euro	373	440	373	440
South African Rand	584	479	584	479
United States Dollar	1 614	440	1 614	440
	2 571	1 359	2 571	1 359

		Trade receivables days past due			
	Current	>30 days	>60 days	>90 days	Total
	K million	K million	K million	K million	K million
31 August 2022					
Expected credit loss rate	0.67%	1.34%	3.98%	97.92%	
Estimated total gross carrying amount	9 632	221	356	953	11 162
Expected credit loss	55.01	2.97	14.16	933	1 005
31 August 2021					
Expected credit loss rate	0.67%	1.34%	2.51%	89%	
Estimated total gross carrying amount at default	10 869	365	4	1 055	12 293
Expected credit loss	61.88	4.90	0.09	938	1 005

Trade receivables collection has improved in the current year. Trade receivables decreased although total sales increased in the year, hence the ECL provision has not changed despite the increase in the expected credit loss rate in the aging brackets of > 60 days and >90 days to 3.98% and 97.92% this year from 2.51% and 89% respectively. Trade receivables are either secured over real property or bank performance guarantees or unsecured depending on the specific customer credit risk assessment by the group's credit committee. They have fixed repayment terms ranging from 14 to 90 days and do not bear interest. The balances will be settled by cash payments.

11. Bank balances and cash

The group and the company have overdraft and guarantee facilities with various Malawian banking institutions. Local facilities attract interest rates of between 11% and 15% (August 2021 and 2022: 11% and 15%)

	GROUP		COMPANY	
	2022	2021	2022	2021
	K million	K million	K million	K million
Bank balances and cash are made up of the following currencies:				
European Euro	51	6	51	6
British Pound	-	2	-	2
Malawi Kwacha	14 598	762	14 597	762
South African Rand	29	488	29	488
United States Dollar	482	2 664	482	2 664
	15 160	3 922	15 159	3 922
Bank overdraft balances are made up of the following currencies:				
Malawi Kwacha	-	3 500	-	3 500
Total cash and cash equivalents	15 160	422	15 159	422
Amount used	-	3 500	-	3 500
Amount unused	26 900	36 900	26 900	36 900
Total bank overdraft facilities	26 900	40 400	26 900	40 400

The overdraft facilities are unsecured. The related finance costs are outlined in note 4.

	GROUP		COMPANY	
	2022	2021	2022	2021
	K million	K million	K million	K million

12. Malawi government vitamin A grant

At beginning of year	205	212	175	181
Amortised during the year	(7)	(7)	(6)	(6)
At end of year	198	205	169	175

This balance relates to government grants received from IrishAID and United Nations Children's Fund through the Malawi Government in 2013.The money was used by the group to buy equipment for fortifying domestic sugar with vitamin A.

13. Deferred tax

The movement in the year is analysed below:

Balance as at 1 September	21 273	19 059	15 008	11 967
Current year other comprehensive income charge - cash flow hedges	(10)	36	(10)	43
Current year other comprehensive income charge - change in fair value of unlisted investment	24	125	-	-
Current year charge to profit or loss	5 505	2 053	3 486	2 998
Balance at end of year	26 792	21 273	18 484	15 008

Analysis of deferred tax liability:

Excess capital allowances over depreciation	11 782	8 884	7 991	5 981
Growing cane	15 668	13 253	10 604	9 442
Other	(807)	(989)	(111)	(415)
Fair valuation of unlisted investment	149	125	-	-
Balance at end of year	26 792	21 273	18 484	15 008

	GROUP		COMPANY	
	2022	2021	2022	2021
	K million	K million	K million	K million
14. Trade and other payables				
Trade payables	7 698	6 158	5 349	4 337
Other payables and accruals	25 163	21 256	20 443	17 737
	32 861	27 414	25 792	22 074
Other payables and accruals comprise:				
Accrued expenses	17 720	15 763	13 986	13 235
VAT payable	4 439	2 462	4 266	2 339
Payroll creditors	1 890	1 609	1 439	1 217
Leave pay accruals	521	439	400	326
Sundry accruals	593	983	352	620
	25 163	21 256	20 443	17 737

Trade and other payables include payables denominated in foreign currencies amounting to K3,075 million (August 2021: K1,585 million).

The foreign creditors are denominated in the following currencies:

British Pound	15	-	15	-
South African Rand	1 468	1 309	1 236	1 029
United States Dollar	1 496	277	1 496	277
	2 979	1 586	2 747	1 306

The average credit period for purchases of goods and services included under payables is 30 days. No interest is charged on overdue amounts.

Other payables are non-interest bearing and have an average term of two months. The group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

For explanations on the group's liquidity risk management processes, refer to note 27.

	GROUP 2022 K million	GROUP 2021 K million	COMPANY 2022 K million	COMPANY 2021 K million
14.1 Contract liabilities				
Advance receipts from customers	2 290	2 652	2 290	2 652
Revenue recognised during the period that was included in the contract liability balance as at the beginning of the year	2 652	795	2 652	795

15 Related parties

Illovo Sugar (Malawi) plc ("the group"), in the ordinary course of business, enters into various transactions with related parties.

15.1 Holding companies

The group is controlled by the following entities:

Names	Type	Effective ownership interest 2022	Effective ownership interest 2021
Sucoma Holdings Limited, incorporated in Mauritius	Immediate holding company	75.98%	75.98%
Illovo Group Holdings Limited, incorporated in Mauritius	Intermediate holding company	75.98%	75.98%
Illovo Sugar Africa Holdings Limited, incorporated in United Kingdom	Illovo Group holding company	75.98%	75.98%
Associated British Foods Plc, incorporated in United Kingdom	Ultimate holding company	75.98%	75.98%

15.2 Ultimate holding company

Associated British Foods Plc holds 100% (August 2021: 100%) of the issued share capital of Illovo Sugar Africa Holdings Limited and therefore has an effective ownership interest of 75.98% (August 2021: 75.98%) in the group.

15.3 Illovo Group Holding company

Illovo Sugar Africa Holdings Limited holds 100% of the issued share capital of Illovo Group Holdings Limited which in turn owns 100% of the issued share capital of Sucoma Holdings Limited and therefore has an effective ownership interest of 75.98% in Illovo Sugar (Malawi) Plc.

15.3.1 Transactions and balances with Illovo Sugar Africa Proprietary Limited related to procurement services:

The group utilises a centralised procurement office located in Johannesburg, South Africa, to share in the benefit of the bulk purchasing power that arises from Illovo Sugar Africa Proprietary Limited combining the procurement requirements of six operations to negotiate preferential supply arrangements. On receipt of an order from the group, the centralised procurement office sources and purchases the required goods and services from third party suppliers. The cost of the procurement services, together with any transport costs, is recovered from the group and is disclosed in note 15.8.1 below. No mark-up is charged on the recovery of the procurement expenditure and any pricing benefit negotiated with the third party supplier by the centralised procurement office is passed on to the group.

The trading balance owing in respect of procurement expenditure on goods and services (as disclosed in note 15.7.2 below) is unsecured, is repayable within 30 days of statement and only bears interest if the repayment terms have been exceeded, after which a market-related interest (9% per annum) is charged (as disclosed in note 15.7.2 below). Interest is not raised on goods that have not been received, or damaged in transit, and for which there are legitimate queries pending. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balances will be settled by cash payments.

15.3.2 Other transactions and balances with Illovo Sugar Africa Proprietary Limited:

Operational support service fees are charged to the group in order to recover the costs of providing technical support, business support and operating a centralised procurement office. Technical support includes services rendered to monitor and improve agricultural and manufacturing performance as well as technical engineering services. Business support covers the provision of a range of services including legal, taxation, treasury, governance, human resources and information technology. The services provided by the centralised procurement office are detailed above. Operational support service fees charged to the group during the current and prior year are disclosed in note 15.8.1 below. Operational support service fees are charged on cost-plus basis, allowing a margin of 8% for technical and business support services and 8% for procurement services.

15.3.2 Other transactions and balances with Illovo Sugar Africa Proprietary Limited: (continued)

Various third party costs incurred by the group are paid for on its behalf by Illovo Sugar Africa Proprietary Limited for which it is reimbursed with no mark-up charged. The recovered costs are disclosed in note 15.8.1 below.

The trading balance owing by the group as disclosed in note 15.7.2 below represents amounts outstanding for transactions detailed above. The trading balance is unsecured, has no fixed repayment terms and does not bear interest. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balances will be settled by cash payments.

With effect from 1 September 2017 Illovo Sugar Proprietary Limited became the group's appointed agent to coordinate and manage the marketing, sale and distribution of all the group's export sugar for which it received 1% commission which is disclosed in note 15.8.1 below.

15.4 Immediate holding company

Transactions between the group and Sucoma Holdings Limited relate to the payment of dividends. Dividends paid to SHL in the current period have been disclosed on Note 15.8.1. There are no outstanding balances owing to or by Sucoma Holdings Limited.

15.5 Transactions and balances with fellow subsidiaries

Illovo Group Marketing Services Limited

Illovo Group Marketing Services Limited ("IGMS") is the group's appointed agent to coordinate and manage the marketing, sale and distribution of all the group's export sugar for which it received a commission which is disclosed in note 15.8.1 below.

Third party export logistics costs incurred by the group are paid for on its behalf by Illovo Group Marketing Services Limited for which it is reimbursed with no mark-up charged (as disclosed in note 15.8.1 below).

15.5 Transactions and balances with fellow subsidiaries (continued)

East African Supply Proprietary Limited

East African Supply Proprietary Limited is a fellow subsidiary company recovers the cost of air services provided to the group necessary to facilitate the provision of operational support and director services by Illovo Sugar Africa Proprietary Limited (refer to note 15.8.1).

The trading balances owing by the group as disclosed in note 15.7.2 and 15.8.1 below represent amounts outstanding for air services. The trading balances are unsecured, have no fixed repayment terms and do not bear interest. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised.

Other cost recoveries

Operating costs incurred by the group are paid for on its behalf by fellow subsidiary companies such as Kilombero Sugar Company Limited, Ubombo Sugar Limited, Illovo Group Marketing Services Limited and Zambia Sugar Plc for which these fellow subsidiaries are reimbursed with no mark-up charged. In addition, the group recovers any operating costs paid on behalf of fellow subsidiaries. The recovered costs are disclosed in note 15.7 below.

The outstanding balances between the group and fellow subsidiary companies such as Kilombero Sugar Company Limited, Illovo Group Marketing Services Limited and Zambia Sugar Plc arising from cost recoveries are disclosed in notes 15.7.1 and 15.7.2 below. The balances are unsecured, have no fixed repayment terms and do not bear interest. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balances will be settled by cash payments.

Sales transactions

During the current and prior year, amounts of sugar as disclosed in note 15.8.2 were sold to AB Azucarera Iberia S.L., Silverspoon, Kilombero Sugar Company Limited and Illovo Group Marketing Services Limited on the same commercial terms and conditions that would be available to third party customers.

The outstanding trading balances between the group and fellow subsidiary companies arising from sugar sales are disclosed in note 15.7.1 below. The trading balances are unsecured, but have repayment terms in line with those applicable to third party customers. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balances will be settled by cash payments.

		GROUP		COMPANY	
		2022	2021	2022	2021
		K million	K million	K million	K million

15.6 Subsidiary companies

The company owns 100% of the issued share capital of Dwangwa Sugar Corporation Limited, a company registered in Malawi.

The outstanding trading balances between the company and Dwangwa Sugar Corporation Limited are disclosed in note 15.7.2 below. The trading balances are unsecured, have no fixed repayment terms and do not bear interest. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balances will be settled by cash payments.

15.7 Amounts due from/(to) related parties

The group is controlled by the following entities:

15.7.1 Amount due from related parties:

		GROUP 2022 K million	GROUP 2021 K million	COMPANY 2022 K million	COMPANY 2021 K million
AB Azucarera Iberia S.L.	3	-	524	-	524
Maragra Açúcar SA	2	9	-	9	-
Kilombero Sugar Company Ltd	2	8	-	8	-
Ubombo Sugar Ltd	2	4	-	4	-
Dwangwa Sugar Corporation Limited	2	-	-	88 588	47 235
		21	524	88 609	47 759

Amounts due from related parties are denominated in the following currencies:	GROUP 2022 K million	GROUP 2021 K million	COMPANY 2022 K million	COMPANY 2021 K million
European Euro	-	524	-	524
United States Dollar	21	-	21	-
Malawi Kwacha	-	-	88 588	47 235
	21	524	88 609	47 759

15.7.2 Amounts due to related parties:

		GROUP 2022 K million	GROUP 2021 K million	COMPANY 2022 K million	COMPANY 2021 K million
Dwangwa Sugar Corporation Limited	3	-	-	144 765	85 268
Holding company and fellow subsidiaries		17 052	4 237	12 854	3 358
		17 052	4 237	157 619	88 626
Holding company and fellow subsidiaries comprise:					
East African Supply Proprietary Limited	2	124	61	124	61
Illovo Group Marketing Services Limited	2	2 917	2 115	2 917	2 115
The Silver Spoon Company, a trading division of British Sugar Plc	2	1	-	1	-
Illovo Sugar Africa Proprietary Limited - Corporate Division	1	2 694	254	2 207	208
Illovo Sugar Africa Proprietary Limited - Procurement Division	1	11 181	1 783	7 539	970
AB Azucarera Iberia S.L.	2	28	-	28	-
British Sugar Plc	2	37	-	37	-
Ubombo Sugar Limited	2	1	20	1	-
Zambia Sugar Plc	2	69	4	-	4
		17 052	4 237	12 854	3 358

Amounts due to Dwangwa Sugar Corporation Limited are denominated in Malawi Kwacha.

	GROUP		COMPANY	
	2022	2021	2022	2021
	K million	K million	K million	K million

15.7.2 Amounts due to related parties: (continued)

Amounts due to holding company and fellow subsidiaries are denominated in the following currencies:

Great British Pound	37	-	37	-
European Euro	28	-	28	-
South African Rand	14 000	2 118	9 871	1 239
United States Dollar	2 987	2 119	2 918	2 119
	17 052	4 237	12 854	3 358

Notes

1 - Holding companies (refer to note 15.1 - 15.3)

2 - Fellow subsidiaries of holding companies (refer to note 15.4 - 15.6)

3 - Subsidiary of Illovo Sugar (Malawi) Plc (refer to note 15.7)

15.8 Related party transactions

15.8.1 The annual payment transactions with related parties are as follows:

East African Supply Proprietary Limited

Illovo Sugar Africa Proprietary Limited

Illovo Sugar Africa Proprietary Limited

Illovo Group Marketing Services Limited

Illovo Sugar Africa Proprietary Limited - Corporate Division

Illovo Sugar Africa Proprietary Limited - Corporate Division

Illovo Sugar Africa Proprietary Limited - Procurement Division

Kilombero Sugar Company Limited

Sucoma Holdings Limited

Zambia Sugar Plc

15.8.2 The annual sugar sales transactions with related parties are as follows:

AB Azucarera Iberia S.L

Illovo Group Marketing Services Limited

Kilombero Sugar Company Limited

The Silver Spoon Company, a trading division of British Sugar Plc

15.8.3 The annual interest payable with related parties is as follows:

Illovo Sugar Africa Proprietary Limited - Procurement Division

Notes

1 - Holding companies (refer to note 15.1 - 15.3)

2 - Fellow subsidiaries of Illovo Sugar Africa Proprietary Limited (refer to note 15.4 - 15.6)

3 - Fellow subsidiaries of Associated British Foods Plc (refer to note 15.6)

4- Associate of Associated British Foods Plc (refer to note 15.6)

5 - The compensation of key management personnel is disclosed in Note 24.

Note	Transaction	GROUP 2022 K million	GROUP 2021 K million	COMPANY 2022 K million	COMPANY 2021 K million
2	Flight charges recoveries	155	96	155	96
2	Export agency commission	297	478	162	287
2	Cost recoveries	512	667	512	667
2	Logistics cost recoveries	3 620	4 804	3 620	4 804
1	Operational support service fees	2 733	2 426	1 640	1 456
1	Cost recoveries	1 941	2 353	1 315	1 929
1	Procurement of goods and services	16 329	13 242	9 797	7 945
2	Cost recoveries	31	207	31	207
1	Dividend	10 603	3 253	10 603	3 253
2	Cost recoveries	75	27	75	27
		36 296	27 553	27 910	20 671
3		1 073	3 668	1 073	3 668
2		11 495	17 522	11 495	17 522
2		-	1 328	-	1 328
3		-	245	-	245
		12 568	22 763	12 568	22 763
	Effective interest rate (%)				
1	9% on overdue balances	162	30	112	20
		162	30	112	20

16. Nico Asset Managers Limited and Old Mutual Investment Group Loans

The group completed repayment of the loan facilities that it had with Nico Asset Managers Limited and Old Mutual Investment Group by 31st August 2021 and did not enter into any new arrangement in the financial year to 31st August 2022.

17. Derivative financial instruments

	GROUP 2022 K million	GROUP 2021 K million	COMPANY 2022 K million	COMPANY 2021 K million
Forward exchange contracts - designated as cash flow hedges	-	33	-	33
Comprising:				
Assets	-	33	-	33
Liabilities	-	-	-	-
At end of the year	-	33	-	33

The derivative assets/(liabilities) relate to foreign exchange contracts (FECs) designated as hedging instruments in cash flow hedges of forecast sales in Euros. These forecast transactions are highly probable. The foreign exchange forward contracts are measured at fair value through OCI.

The fair value of FECs as calculated by the banks is measured using a forward pricing model. The significant inputs into the Level 2 fair value of FECs are yield curves, market interest rates and market foreign exchange rates. The estimated fair values of recognised financial instruments approximate their carrying amounts. Additional disclosures concerning the derivative financial instruments used to manage currency risk have been provided in Note 27.4.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign forward contracts match the terms of the expected highly probable forecast sales transactions (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 0.8 :1 for the hedging relationships. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

Hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- Different indexes (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments

	GROUP		COMPANY	
	2022	2021	2022	2021
	K million	K million	K million	K million

17. Derivative financial instruments (continued)

As at 31 August 2022, there were no cash flow hedges of the expected future sales after the group fulfilled all forward exchange contracts and did not enter into new contracts following assessment of business requirements. Management is still discussing with third parties and assessing available options to determine the type of forward exchange contracts that would be amenable to the current business environment. Comparatively, the cash flow hedges of the expected future sales in 2021 were assessed to be highly effective and a net unrealised gain of K33 million, with a deferred tax asset of K9 million relating to the hedging instruments, is included in OCI.

There are no amounts retained in OCI at 31 August 2022 that are expected to mature and affect the statement of profit or loss in 2023. The disaggregation of changes of OCI by the hedging reserve in equity is shown below;

Currency forward contracts	-	(23)	-	(23)
Reclassified to statement of profit or loss	(23)	101	(23)	101
Total	(23)	78	(23)	78

The group is holding the following foreign exchange contracts (highly probable forecast sales) with the following maturity dates:

	Maturity					
	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Total
As at 31 August 2022						
Notional amount (€000)	-	-	-	-	-	-
Average forward rate (EUR/USD)	-	-	-	-	-	-
As at 31 August 2021						
Notional amount (€000)	-	800	300	-	-	1 100
Average forward rate (EUR/USD)	0.0000	1.2174	1.2291	-	-	-

	GROUP		COMPANY	
	2022	2021	2022	2021
	K million	K million	K million	K million
18. Capital commitments				
Contracted	2 498	1 022	2 217	724
Approved but not contracted	5 161	4 978	2 642	3 682
	7 659	6 000	4 859	4 406

Capital expenditure commitments are to be financed from internal resources and existing facilities. These capital commitments relate to items of property, plant and equipment.

19. Contingent liabilities

Various claims of an industrial relations nature totalling K655.09 million (August 2021: K761.7 million) have been made against the group in the ordinary course of business, the outcome of which is uncertain.

20. Leases

The group's accounting policy for leases has been discussed under Note 1.22.

The group has lease contracts for various items of plant and machinery used in its operations as well as lease contracts for land and buildings. Leases of plant and machinery generally have lease terms between 3 and 15 years, while motor vehicles and other equipment generally have lease terms between 3 and 5 years. The group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the group is restricted from assigning and subleasing the leased assets.

The group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

20. Leases (continued)

a Right of Use Assets

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Land and buildings K million	Plant, equipment and furniture K million	Total K million
Group			
As at 1 September 2020	562	1 996	2 558
Additions	337	9 999	10 336
Disposals	-	(497)	(497)
Depreciation charge	(215)	(2 724)	(2 939)
As at 31 August 2021	684	8 774	9 458
As at 1 September 2021	684	8 774	9 458
Additions	938	1 362	2 300
Depreciation charge	(274)	(2 493)	(2 767)
As at 31 August 2022	1 348	7 643	8 991
Company			
As at 1 September 2021	470	1 080	1 550
Additions	337	4 825	5 162
Depreciation charge	(214)	(1 450)	(1 664)
As at 31 August 2022	593	4 455	5 048
As at 1 September 2021	593	4 455	5 048
Additions	938	34	972
Depreciation charge	(272)	(1 456)	(1 728)
As at 31 August 2022	1 259	3 033	4 292

20. Leases (continued)

b Lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2022 Group	2022 Company
Lease Liability		
As at 1 September 2020	3 733	2 420
Additions	10 336	5 162
Accretion of interest	1 105	849
Disposal	(497)	-
Foreign currency exchange gain	57	39
Payment of principal portion	(3 297)	(1 810)
Payment of interest	(1 047)	(791)
As at 31 August 2021	10 390	5 869
As at 1 September 2021	10 390	5 869
Additions	2 300	971
Accretion of interest	1 094	656
Foreign currency exchange loss	155	155
Payment of principal portion	(2 992)	(2 100)
Payment of interest	(1 098)	(660)
As at 31 August 2022	9 849	4 891
Split into:		
Current	2 953	1 759
Non-current	6 896	3 132
	9 849	4 891

The group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

As at 31st August 2022, the group had short term leases amounting to K nil million (2021: K398 million) and low value leases amounting to K15 million (2021: K2 million). The company had short term leases amounting to K nil million (2021: K266 million). The company had low value leases amounting to K2 million (2021: K267 million).

	GROUP & COMPANY	
	2022	2021
	K million	K million

21. Exchange rates and inflation

The average year-end of the buying and selling rates of the foreign currencies most affecting the performance of the group is stated below, together with the increase in the consumer price index for the year, which represents an official measure of inflation.

	2022	2021
Kwacha/European Euro	1 071	985
Kwacha/South African Rand	63	61.3
Kwacha/United States Dollar	1 036	821
Overall Consumer Price Inflation	25.5%	8.3%

The average for the year of the buying and selling rates of the foreign currencies most affecting the performance of the group is stated below, together with the increase in the consumer price index for the year, which represents an official measure of inflation.

	2022	2021
Kwacha/European Euro	1.111	961
Kwacha/South African Rand	62	57
Kwacha/United States Dollar	877	790
Overall Consumer Price Inflation - average	14.9%	8.3%

22. Basic and diluted earnings per share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the group is based on the following data:

	K million	K million
Earnings		
Earnings for the purposes of basic and diluted earnings per share	26 630	20 469
Number of shares ('000s)		
Weighted average number of ordinary shares for the purpose of basic/diluted earnings per share	713 444	713 444
Basic and diluted earnings per share (tambala)	3 733	2 869
Reconciliation of headline earnings:		
Net profit for the year	26 630	20 469
Headline earnings	26 630	20 469
Headline earnings per share (tambala)	3 733	2 869

Headline earnings are defined as profit after tax.

	GROUP & COMPANY	
	2022	2021
	K million	K million

23. Dividend per share

Dividend per share is calculated by dividing the total dividends declared in the year by the weighted average number of ordinary shares in issue during the year.

	2022	2021
First interim dividend paid (for current year)	3 967	4 281
Second interim dividend paid (for previous year)	7 134	-
Final dividend paid (for previous year)	2 854	357
	13 955	4 638
Balance of dividend declared but not paid	2 712	-
Number of shares in issue ('000)	713 444	713 444
Weighted average number of shares on which dividend per share is based ('000)	713 444	713 444
Dividend paid per share (tambala)	1 956	650

The directors recommended a second interim dividend of K7.1 billion for the year ended 31 August 2022 (August 2021: K4,281 million).

24. Compensation of key management personnel

The remuneration of directors and key management during the year was as follows:

	2022	2021
Short-term benefits	3 595	3 801
Post-retirement benefits	237	166
Other long-term benefits	1 795	1 818
	5 627	5 785

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

25. Retirement benefit plans

The group operates one defined contribution plan effective January 2020. This is the SUCOMA Group Pension Scheme which is managed internally by trustees. It is a defined contribution scheme and the contributions by employees and the group are 7.5% (August 2021: 7.5%) and 12.4% (August 2021: 12.4%) of the fund member's basic pensionable salaries, respectively. Before January 2020, the company had the SUCOMA Group Pension Scheme as above and the Illovo Sugar Malawi (Plc) Pension Fund, which were both managed internally by trustees, and were also defined contribution schemes. The contributions by employees and the group were 5.0% (August 2021: 5.0%) and 12.5% (August 2021: 12.5%) of the fund member's basic pensionable salaries, respectively. The trustees for the current scheme are employees of the group. The administration of the pension fund has been subcontracted to Nico Pension Services Company Limited. Nico Asset Managers Limited is the investment manager for the merged fund.

The total expense recognised in profit or loss of K1,122 million (August 2021: K993 million) represents contributions payable to the plan by the group.

26. Segmental analysis

Segment reporting is presented in respect of the group's operating segments.

Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segmental capital expenditure represents the costs incurred during the year to acquire segment assets that are expected to be used for more than one year.

Management has determined the operating segments and reports on the operating segments as follows:

Cane growing	:	Growing of sugar cane for use in the sugar production process.
Sugar production	:	Manufacture and sale of sugar from sugar cane.

26. Segmental analysis (continued)

GROUP Year to 31 August 2022	Sugar production K million	Cane growing K million	TOTAL K million
Revenue	109 089	77 553	186 642
Operating profit	29 434	9 963	39 397
Dividend income	60	-	60
Finance costs	(810)	(586)	(1 396)
Interest income	179	130	309
Taxation	(6 872)	(4 976)	(11 848)
Statements of financial position			
Non-current assets	28 555	39 434	67 989
Property, plant and equipment	28 555	39 434	67 989
Current assets	65 684	53 986	119 670
Inventories	22 998	16 136	39 134
Growing cane	-	37 163	37 163
Trade and other receivables	27 505	687	28 192
Amount due from related parties	21	-	21
Bank balances and cash	15 160	-	15 160
Current liabilities	48 384	6 229	54 614
Trade and other payables	28 653	4 208	32 861
Amount due to related parties	17 052	-	17 052
Taxation payable	2 680	2 021	4 701
Non-current liabilities	15 708	11 450	27 158
Malawi government vitamin A grant	169	198	367
Deferred taxation	15 539	11 252	26 791
Shareholders equity	30 147	75 740	105 887
Property, plant and equipment transactions are categorised as follows:			
Purchases during the year	12 255	4 363	16 618
Depreciation	2 809	4 010	6 819

Revenue from one customer from the sugar production segment amounted to K41.6 billion (August 2021: K29.7 billion).

The geographical breakdown of revenue has been disclosed on note 2.

26. Segmental analysis (continued)

GROUP Year to 31 August 2021	Sugar production K million	Cane growing K million	TOTAL K million
Revenue	92 321	70 938	163 259
Operating profit	24 782	7 159	31 941
Dividend income	71	-	71
Finance costs	(1 581)	(1 193)	(2 774)
Interest income	57	43	100
Taxation	(5 055)	(3 814)	(8 869)
Statements of financial position			
Non-current assets			
Property, plant and equipment	25 022	33 168	58 190
	25 022	33 168	58 190
Current assets	57 807	38 466	96 273
Inventories	35 224	9 024	44 248
Growing cane	-	28 865	28 865
Trade and other receivables	18 104	577	18 681
Amount due from related parties	524	-	524
Derivative financial assets	33	-	33
Bank balances and cash	3 922	-	3 922
Current liabilities	36 043	5 791	41 834
Trade and other payables	24 497	2 917	27 414
Amount due to related parties	4 237	-	4 237
Short-term borrowings	-	-	-
Bank overdrafts	3 500	-	3 500
Taxation payable	3 809	2 874	6 683
Non-current liabilities	12 301	9 351	21 652
Malawi government vitamin A grant	175	205	380
Deferred Taxation	12 126	9 146	21 272
Shareholders equity	34 485	56 491	90 976
Property, plant and equipment transactions are categorised as follows:			
Purchases during the year	4 860	4 013	8 873
Depreciation	1 463	4 718	6 181

The geographical segment of the group's business has not been prepared because all the group's operations are held within Malawi. There were no significant non-cash transactions during the current or prior years.

27. Financial instruments

Introduction and overview

The group has exposure to the following risks arising from its transactions in financial instruments:

Capital
Treasury
Foreign currency
Interest rate
Credit
Liquidity

This note, in addition to notes 10,11, 14,15 and 16 presents information about the group's exposure to each of the above risks, the group's objectives, policies and processes for identification, measurement, monitoring and controlling risk and the group's management of capital.

27.1 Categories of financial instruments

	GROUP 2022 K million	GROUP 2021 K million	COMPANY 2022 K million	COMPANY 2021 K million
Financial assets				
Financial assets carried at armotised cost	43 373	23 127	130 085	69 183
Unlisted equity investment at FVTOCI	740	604	-	-
Derivative financial assets/(liabilities) at FVTPL	-	33	-	33
	44 113	23 764	130 085	69 216
The details of financial assets at armotised cost are as follows:				
Trade and other receivables	28 192	18 681	26 317	17 502
Bank balances and cash	15 160	3 922	15 159	3 922
Amount due from related parties	21	524	88 609	47 759
	43 373	23 127	130 085	69 183
Financial liabilities				
Financial liabilities measured at amortised cost	59 762	45 541	188 302	120 069
The details of financial liabilities at amortised costs are as follows:				
Trade and other payables	32 861	27 414	25 792	22 074
Amount due to related parties	17 052	4 237	157 619	88 626
Lease liabilities	9 849	10 390	4 891	5 869
Bank overdrafts	-	3 500	-	3 500
	59 762	45 541	188 302	120 069

27.1 Categories of financial instruments (continued)

The following table illustrates the fair value measurement hierarchy for assets and liabilities as at 31 August 2022:	Total K million	Quoted prices in active markets (Level 1) K million	Significant observable inputs (Level 2) K million	Significant unobservable inputs (Level 3) K million
Assets /(liabilities) measured at fair value				
Growing cane (note 9)	37 163	-	-	37 163
Foreign exchange forward contracts (note 17)	-	-	-	-
Unlisted investment (note 7)	740	-	-	740

For trade receivables, trade payables, short term borrowings, and amounts due and from related parties, the carrying amounts as at 31 August 2022 approximate their fair values.

27.2 Capital risk management

The Group manages its capital to ensure that it remains a going concern whilst maximising the returns to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt (which includes bank overdraft facilities net of cash balances) and equity.

27.3 Treasury risk management

A treasury risk management committee, consisting of senior executives in the Group, meets periodically to analyse currency and interest rate exposures and formulate treasury management strategies in the light of prevailing market conditions and current economic forecasts. This committee operates within Group policies approved by the board.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a regular basis. The Group does not enter into nor trade in financial instruments, including derivative financial instruments, for speculative purposes.

27.4 Foreign currency risk management

The group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts, where possible. Foreign currency exposures are carefully monitored and management utilises foreign currency export proceeds to settle foreign currency denominated obligations.

The carrying amounts of the group's unhedged and uncovered foreign currency denominated assets and monetary liabilities at the reporting date are as follows:

	GROUP		COMPANY	
	2022	2021	2022	2021
	K million	K million	K million	K million
Assets				
Great Britain Pound	-	2	-	2
European Euro	424	2 238	424	2 238
South African Rand	614	967	614	967
United States Dollar	2 096	3 103	2 096	3 103
	3 134	6 310	3 134	6 310
Liabilities				
Great Britain Pound	37	-	37	-
European Euro	43	-	43	-
South African Rand	15 468	1 890	11 107	1 610
United States Dollar	4 483	587	4 414	587
	20 031	2 477	15 564	2 197

27.4.1 Foreign currency sensitivity analysis

The group is largely exposed to the European Euro, South African Rand and United States Dollar. The following table details the Group's sensitivity to a 10% increase and decrease in the Malawi Kwacha (K) against the relevant foreign currencies. A 10% movement is the usual sensitivity rate used when reporting foreign currency risk internally to key personnel and represents management assessment of the change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items. A positive/(negative) number below denotes a increase/(decrease) in profit before tax where the Kwacha weakens/strengthens against the relevant currency. The impact on the group's pre-tax equity due to changes in the fair value of forward exchange contracts designated as cash flow hedges is not material.

27.4.1 Foreign currency sensitivity analysis (continued)

	European Euro impact 2022 K million	2021 K million	South African Rand impact 2022 K million	2021 K million	United States Dollar impact 2022 K million	2021 K million
Profit or loss	38	224	(1 485)	(92)	(239)	252

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year-end exposure does not reflect the average exposure during the season. Purchases from foreign suppliers are seasonal with higher purchases towards the last quarter of the year in order to meet demand.

27.5 Interest rate risk management

Taking cognisance of the seasonality of the group's cash flow and long-term interest rate forecasts, the risk management committee positions the group's interest rate exposures according to expected movements in local and international interest rates.

27.5.1 Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates on the financial assets and liabilities at the reporting date and a 5% interest rate change taking place at the beginning of the year.

If interest rates had been 500 basis points higher/lower and all other variables held constant, the Group's profit before tax for the year ended 31 August 2022 would move by K23 million (August 2021: K139 million). The effect on profit or loss and equity is the same.

27.5.2 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group uses other publicly available financial information and its own as a means of mitigating the risk of financial loss from defaults. The Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the performance of its counterparties are continuously monitored.

Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. On-going credit evaluation is performed on the financial condition of accounts receivable and where appropriate, credit guarantee insurance cover is purchased. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by credit insurance obtained from financial institutions

The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any one time during the year. The credit risk on liquid funds is limited because the counterparties are reputable banks.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for Groupings of various customer segments with similar loss patterns (i.e.geographical region, product type, customer type and rating, and coverage by bank guarantees or security over real property). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product and foreign exchange rates) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward looking estimates are analysed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

	GROUP		COMPANY	
	2022	2021	2022	2021
	K million	K million	K million	K million

27.5.2 Credit risk management (continued)

Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity.The highest credit exposure outside the bank balances without collateral was K9,877 million (August 2021: K10,647 million) in relation to trade receivables. The bank guarantees and security over real property are considered integral part of trade receivables and considered in the calculation of impairment. The Groups expected credit losses are disclosed on Note 10.

There are no off-statement financial position credit exposures.

27.6 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with management, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, continuously monitoring forecast and actual cash flows and matching of the maturity profiles of financial assets and liabilities. Included in note 11 is a listing of additional undrawn facilities that the Group has access to if the need arises.

Lease liabilities	9 849	10 390	4 891	5 869
Trade and other payables	32 861	27 414	25 792	22 074
Amount due to related parties	17 052	4 237	12 854	88 626
Bank overdrafts	-	3 500	-	3 500
Bank balances and cash	(15 160)	(3 922)	(15 159)	(3 922)
	44 602	41 619	28 378	116 147

27.6.1 Liquidity risk tables

The following tables detail the group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the actual cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table below shows both interest and principal cash flows.

	Weighted average effective rate	1 year	1 - 5 years	Total
	%	K million	K million	K million
31 August 2022				
Bank overdraft	13.1	-	-	-
Trade and other payables	14	32 861	-	32 861
Contract liabilities	14.1	2 290	-	2 290
Amount due to related parties	9	17 052	-	17 052
Lease liabilities	14.5	2 953	6 896	9 849
		55 156	6 896	62 052
31 August 2021				
Bank overdraft	13.1	3 500	-	3 500
Trade and other payables	14	27 414	-	27 414
Contract liabilities	14.1	2 652	-	2 652
Amount due to related parties	9	4 237	-	4 237
Lease liabilities	14.8	2 449	7 941	10 390
		40 252	7 941	48 193

The group's non-financial assets are interest-free and their maturity period is indefinite.

27.6.1 Liquidity risk tables (continued)

The following table details the group's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	1-3 months	3 months to 1 year	1 - 5 years	5+ years	Total
	K million	K million	K million	K million	K million
31 August 2022					
Trade and other receivables	28 192	-	-	-	28 192
Amount due from related parties	21				21
Bank balances and cash	15 160	-	-	-	15 160
	43 373	-	-	-	43 373
31 August 2021					
Trade and other receivables	18 681	-	-	-	18 681
Amount due from related parties	524	-	-	-	524
Derivative financial assets	33	-	-	-	33
Bank balances and cash	3 922	-	-	-	3 922
	23 160	-	-	-	23 160

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting year.

The group has access to other unutilised financing facilities as described in note 11. The group expects to meet its obligations arising from operating cash flows and proceeds of maturing financial assets.

27.7 Equity price risk

The group's non-listed equity investment in Ethanol Company Limited is susceptible to market price risk arising from uncertainties about future values of the investment securities. The group manages the equity price risk by placing limits on individual and total equity instruments. The group's Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the exposure to non-listed equity investments at fair value was K740 million. Sensitivity analysis of this investment has been provided in Note 7.

28 Events after the reporting period

The Monetary Policy Committee of the Reserve Bank of Malawi revised the Policy rate to 18% from 14%. The Policy rate change will impact results for the year ending 31 August 2023.

On 23 November the board approved second interim dividend of K7.1 billion representing K10 per share in relation to the financial year ended 31 August 2022.

ANALYSIS OF SHAREHOLDERS

31 AUGUST 2022

Category			Shareholders Number	Shareholders %	Ordinary Shares Number held	Ordinary Shares % of shares issued
Individuals						
1	–	5 000	1 583	75.63	2 073 231	0.29
5 001	–	10 000	237	11.32	1 938 413	0.27
10 001	–	50 000	195	9.32	3 769 624	0.53
50 001	–	100 000	12	0.57	952 785	0.13
100 001	–	200 000	18	0.86	2 517 046	0.35
200 001	–	500 000	19	0.91	6 034 456	0.85
500 001	–	and over	29	1.39	696 158 836	97.58
			2 093	100.00	713 444 391	100.00
Banks and nominees			116	5.54	20 431 335	2.86
Holding company and non-residents			56	2.63	542 434 450	76.03
Individuals			1 782	85.25	24 085 182	3.38
Insurance, investment and trust companies			34	1.62	10 390 600	1.46
Other corporate bodies			79	3.72	29 361 905	4.12
Pension and provident funds			26	1.24	86 740 919	12.16
			2 093	100.00	713 444 391	100.00

Shareholders holding 1% or more of the equity

SUCOMA Holdings Limited	542 084 186	75.98
Old Mutual Life Assurance Company (Malawi) Limited	74 753 151	10.48
Ramesh Haridas Savjani	14 821 735	2.08
First Merchant Bank Limited	12 915 541	1.81
Magetsi Pension Fund	8 838 257	1.24

SHAREHOLDERS' DIARY

Financial / Statutory	
Financial year-end	August
Annual general meeting	February
Reports and profit statements	
Profit announcement for the year	October
Annual report and financial statements	February
Interim report	May

NOTICE OF MEETING

Notice is hereby given that the 58th Annual General Meeting of members of Illovo Sugar (Malawi) plc will be held at Ryalls Hotel, Blantyre on Thursday, **22nd February 2023** at 14:00 hours to transact the following business.

BUSINESS TO BE TRANSACTED AT THE MEETING

To consider and, if deemed appropriate, to pass with or without modification the following ordinary resolutions:

1. MINUTES

To approve the minutes of the 57th Annual General Meeting held on 22nd February 2022.

2. FINANCIAL STATEMENTS

To receive and if deemed appropriate to adopt the annual financial statements for the year ended 31st August 2022 along with the Auditor's report.

3. DIVIDEND

To declare a final dividend of K3.9 billion representing K5.44 per share in respect of the financial year ended 31st August 2022 as recommended by the Board of Directors. A first interim dividend of K4.0 billion representing a dividend per share of K5.56 per share was paid in June 2022 and a second interim dividend of K7.1 billion representing K10 per share was piad on 19th December 2022. This will bring the total dividend for the year to K14.9 billion representing K21.00 per share against the prior year full dividend of K18.00 per share.

4. RE–APPOINTMENT OF AUDITORS

To approve the re-appointment of Ernst & Young (EY) as auditors for the year ending August 2023 and to authorize the Directors to determine their remuneration.

5. APPOINTMENT AND RE–ELECTION OF DIRECTORS

5.1 To confirm the appointment of Dr. Grant Peter Kabango who was appointed on 16th November 2022 to fill a casual vacancy.

Born on 13th February 1958, in Blantyre, Malawi, Kabango is an economist, with over 40 years of experience in central banking. He is a former Deputy Governor of the Reserve Bank of Malawi – holding this position for two consecutive 5-year terms: First Term, May 2012 – April 2017, as Deputy Governor responsible for Supervision of Financial Institutions; Second Term, May 2017 – April 2022, as Deputy Governor responsible for Economics and Regulation.

Prior to his appointment as Deputy Governor, Kabango also served in various other senior positions in the central bank, including as Director of International Operations, Director of Research and Statistics, Executive Assistant in the Governor's Office, and acting General Manager Economic Services.

During his career in the central bank, Kabango contributed to the various stages of macroeconomic and development policy formulation and implementation; through research and technical analyses of economic information pertaining to price stability and financial stability.

Kabango holds a PhD (Economics) degree, an MPhil. (Development Economics) degree and a Post-Graduate Diploma (Development Policy), all from the University of Glasgow, United Kingdom; as well as a BSoc.Sc. (Economics) degree from Chancellor College, University of Malawi.

5.2 To confirm the appointment of Professor Address Mauakowa Malata, (FAAN) who was appointed on 16th August 2022 to fill a casual vacancy.

Professor Address Mauakowa Malata was appointed as a Director of Illovo (Malawi) plc on 22 August 2022. Prof Malata began her career as sister in-charge and acting matron at Salima District Hospital from 1987 to 1989 and later moved to Kamuzu College of Nursing as Associate Lecturer from 1989 to 2001. She worked as an intern in the Doctorate of Philosophy department at Edith Cowan University from 2001 to 2004. She later served as Senior Lecturer in Maternal Health and Child Health Nursing and part-time lecturer at College of Medicine. She has served as Vice Principal at Kamuzu College of Nursing between 2004 and 2008. In 2008 she was promoted to principal of Kamuzu College of Nursing until 2016. In March 2016 Professor Malata moved to Malawi University of Science and Technology (MUST) where she served as Deputy Vice-Chancellor until July and later appointed as Vice Chancellor, a position she serves to date.

Professor Malata holds a Diploma in Nursing from Kamuzu College of Nursing obtained in 1986 and a University Certificate in Midwifery obtained in 1987. She obtained her Bachelor of Science in Nursing Education with Distinction in 1995 and later a Master of Science in Nursing in 1997 from The Edith Cowan

University (UK). She completed her Doctorate of Philosophy at the Edith Cowan University in 2005 under the thesis: 'The development and Evaluation of a Childbirth Education Program for Malawian Women'. Professor Malata has also served as Board Member of Partnership for Maternal, Newborn and Child Health (PMNCH) from 2020 TO 2021. She currently holds the position of patron at Women in Global Health Malawi Chapter (WGH).

5.3 To re-elect G. B Dalgleish who retires by rotation in terms of Article 74 (1) of the Company's Articles of Association but being eligible has offered himself for re-election. The Board recommends his re-election.

5.4 To re-appoint A. R. Mpungwe (71) who has exceeded the age limit of seventy (70) years in terms of Section 164 (2) (b) of the Companies Act 2013, that he holds office until the next Annual General Meeting in line with Section 169 (6) (a) of the Companies Act, 2013. The Board recommends that he be re-appointed.

5.5 To note that Grace Kumchulesi, Naomi Ngwira, Phillip Madinga and Paul Guta have stepped down from the board.

6. NON – EXECUTIVE DIRECTORS' REMUNERATION

To approve the fees and sitting allowances for the non-executive directors for the year ending 31st August 2023.

6.1 Annual fees

K6 900 000. (2021: K6 000 000 per annum).

6.2 Sitting allowances

K345 000 (2021: K300 000) for each committee and / or board meeting attended."

6.3 Remuneration of the executive directors

To authorise the non-executive directors to determine the remuneration of the executive directors for the year ending 31st August 2023.

7. OTHER BUSINESS

To transact such other business as may be transacted at an Annual General Meeting of members.

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, speak and vote in his/her stead. The proxy need not be a member of the company. Proxy forms should be forwarded to reach the company's registered office or the office of the transfer secretaries at Standard Bank of Malawi, Kaomba Centre, Corner Victoria Avenue & Sir Glyn Jones Road, Blantyre, not later than 16h00 on Wednesday, 22 February 2023.

By order of the board

Maureen Kachingwe
Company Secretary

Registered Offices:
Churchill Road, Limbe, Malawi

ILLOVO SUGAR (MALAWI) PLC

FORM OF PROXY FOR THE 58TH ANNUAL GENERAL MEETING

I/We ____

(Name/s in block letters)

of

____

(Address)

being the shareholder/member
of the above named company and entitled to

Number of votes

1 share = 1 vote

do hereby appoint

1. ____________________ of ____________________ or failing him/her;

2. ____________________ of ____________________ or failing him/her;

3. the chairman of the meeting as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the annual general meeting of the company to be held at Ryalls Hotel, Blantyre on Wednesday, 22 February 2023 at 14h00 and at any adjournment thereof as follows:

FORM OF PROXY FOR THE 58TH ANNUAL GENERAL MEETING (continued)

Agenda Item		Mark with X where applicable		
		In favour	Against	Abstain
1	Approval of minutes			
2	Adoption of 2022 annual financial statements			
3	Dividend			
4	Re-appointment of Ernst & Young as auditors			
5	Confirmation of directors			
	5.1 Dr Grant Kabango			
	5.2 Professor Address Malata			
	Re-election of directors			
	5.3 G B Dalgleish			
	5.4 A R Mpungwe			
6	Determination of directors' remuneration			
	6.1 Fixing directors' annual fees			
	6.2 Fixing directors' sitting allowance			
	6.3 Remuneration of executive directors			

Signed at ____________________ on this __________________ day of ____________________ 2023

Signature ____

Assisted by me (where applicable) (see note 3) ____________________________________

Full name/s of signatory/ies if signing in a representative capacity (see note 4)

____

Notes

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the company.
2. If this proxy form is returned without any indication as to how the proxy should vote, the proxy will be entitled to vote or abstain from voting as he/she thinks fit.
3. A minor must be assisted by his/her guardian.
4. The authority of a person signing a proxy in a representative capacity must be attached to the proxy unless the company has already recorded that authority.
5. In order to be effective, proxy forms must reach the registered office of the company (Illovo Sugar (Malawi) plc, Illovo House, Churchill Road, Private Bag 580, Limbe, Malawi) or the transfer secretaries (Standard Bank Limited Transfer Secretaries, Transactional Products and Services, Kaomba Centre, corner Sir Glyn Jones Road & Victoria Avenue, P O Box 1111, Blantyre, Malawi) by no later than 16h00 on Thursday, 21 February 2023.
6. The delivery of the duly completed proxy form shall not preclude any member or his/her duly authorised representative from attending the meeting, speaking and voting instead of such duly appointed proxy.
7. If two or more proxies attend the meeting, then that person attending the meeting whose name appears first on the proxy form, or whose name is not deleted, shall be regarded as the appointed proxy.

ILLOVO

THRIVING COMMUNITY