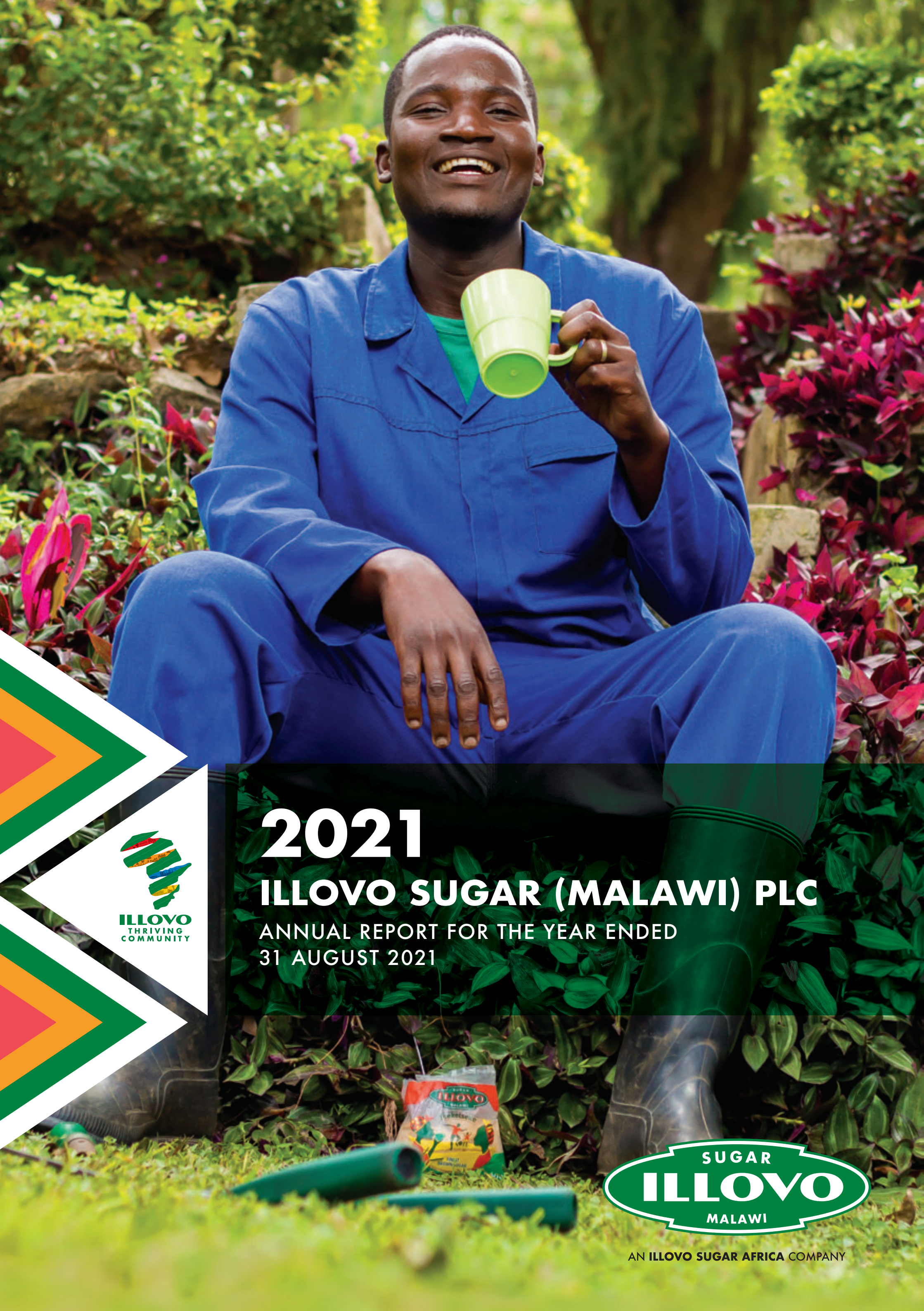


2021

ILLOVO SUGAR (MALAWI) PLC

ANNUAL REPORT FOR THE YEAR ENDED
31 AUGUST 2021

ILLOVO THRIVING COMMUNITY

SUGAR ILLOVO MALAWI

AN **ILLOVO SUGAR AFRICA** COMPANY

Our wide range of sugar is the perfect ingredient for all your consumption occasions

2021

ILLOVO SUGAR (MALAWI) PLC

ANNUAL REPORT FOR THE 12 MONTHS ENDED 31 AUGUST 2021

CONTENTS

Illovo Sugar (Malawi) Plc

Indirect Economic Impacts

Illovo Malawi contributes to the country's economy through financial and infrastructural investments and in the support services it provides to operation sites which also benefit surrounding communities and districts.

The group has an estate support service team to meet the needs of employees living within the estates and in surrounding communities. In the process of meeting its employees' needs, the group also gains deeper insight into the requirements of the wider community. Nchalo and Dwangwa communities largely depend on the group's facilities and operations to support their livelihoods. By working closely with local government and traditional leaders, the group aims to provide new solutions or improved access to existing services.

Housing

7 855 beneficiaries (employees)

K964 million spent on maintenance and development

Free electricity and water

We provide free housing on the estate to our employees and their respective dependants. The group employs local artisans to provide maintenance services.

Medical Services

8 clinics

218 278 beneficiaries

K940 million spent on medical services

We provide health care to our employees and surrounding communities through our clinics which are staffed with full time qualified medical doctors and clinical staff. In addition we provide maternity care as well as proactive programmes aimed at controlling malaria, bilharzia and HIV/AIDS. During the year we also provided COVID -19 care and turned some of our facilities into isolation centres.

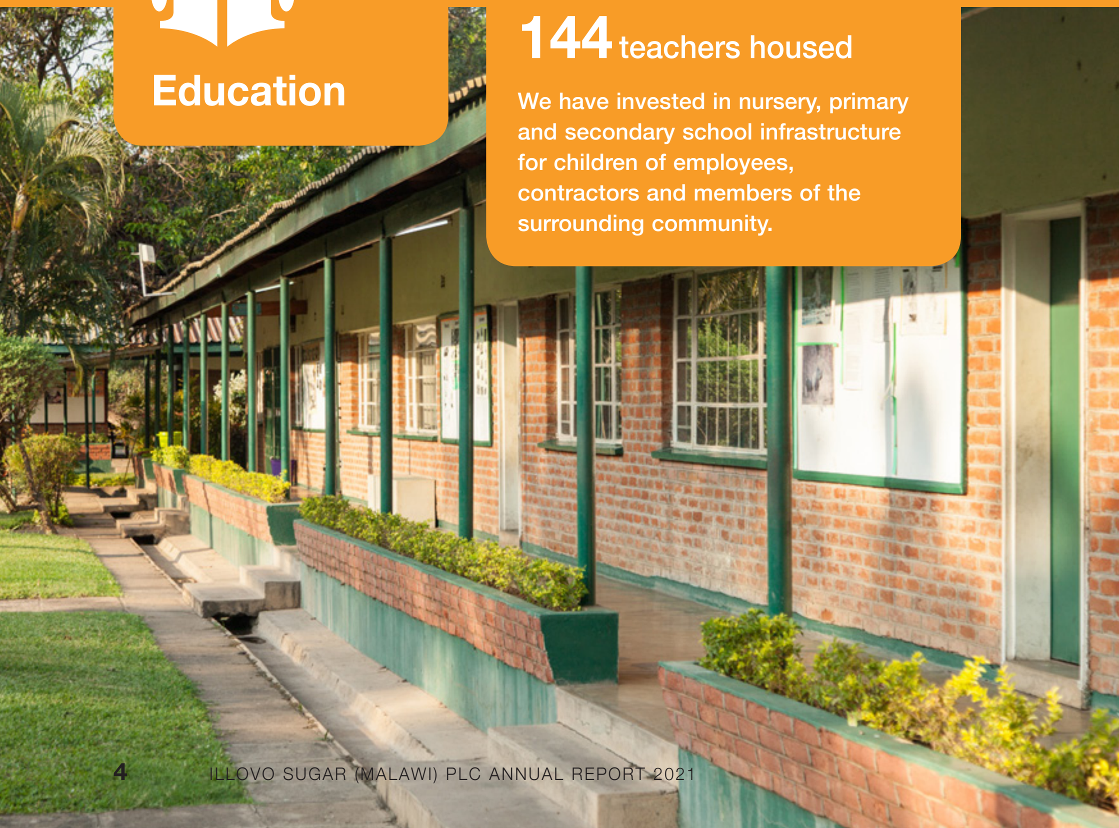
Education

13 665 beneficiaries

228 jobs created

144 teachers housed

We have invested in nursery, primary and secondary school infrastructure for children of employees, contractors and members of the surrounding community.



Economic development

51 632 lives supported

Illovo employed a total staff complement of 12 908 individuals that included full time employees, seasonal and casual workers across the group. This in turn supported an estimated average of 4 dependents each. An estimated 51 632 people benefit from the salaries paid to Illovo permanent and seasonal workers.

Illovo Sugar (Malawi) Plc

Procurement Practices

Illovo Malawi subscribes to localised procurement practices aimed at empowering local businesses. The company continuously looks for ways to empower local small scale business as well as women and other vulnerable groups.

Suplier composition

Spend on local suppliers

87% of total spend spent on local suppliers

K122.5 billion on local suppliers

K16.5 billion on foreign suppliers

K633 million spent on supporting services from local charity (Beehive)

Illovo helped a local charity organisation, Beehive, to stay afloat during COVID-19. The company engaged the charity to provide contracted forklift services at Nchalo. Beehive is a non-profit organisation that uses all its funds to provide education and childcare to Chilomoni community, one of the poor high density locations in Malawi, as well as other nearby communities. Beehive also employs local community members and gives children as young as 6 months old an opportunity to receive an education all the way up to secondary school.

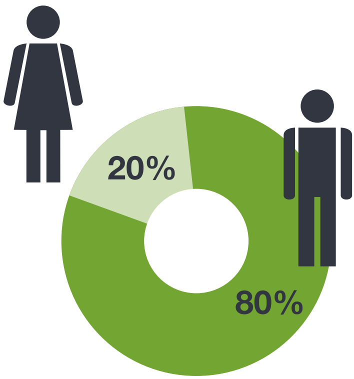
K6 billion packaging supply contract localised

Illovo recently awarded local suppliers with contracts to supply prepack packaging which was previously supplied by foreign suppliers. The contracts given will not only directly benefit the suppliers, but also all those within the packaging supply chain in support of fulfilling the contracts. The additional disposable income that has been created will also be used to support the supply chain player's families and enhance economic growth within their respective communities. Illovo is committed to working with local packaging suppliers who demonstrate potential and are keen to work jointly with Illovo towards high quality and sustainable packaging. Illovo hopes to enter into longer term agreements with the suppliers so that we can work together on significant projects that will provide sustainable packaging solutions.

Employment

12 908
Employee count

We are guided by an equal opportunity recruitment procedure to ensure gender diversity across our operation. We have a deliberate strategy to look into improving on our female representation within our staff complement. We ensure a female friendly work environment through our maternity leave and light duty procedures which provides flexible work hours.



K28.6 billion
Total Staff Costs

We ensure a safe and conducive work environment to adequately manage our staff turnover. Our turnover is mostly due to retirement of long serving staff or employees leaving for career growth opportunities not available within the company.

4%
Staff Turnover

Stakeholder Engagement

We recognise the importance of our stakeholders in the long term success of our business. We have put in place a stakeholder relations strategy that identifies the different stakeholders, their levels of interest and influence. The company actively seeks out meaningful and mutually beneficial engagements with our internal and external stakeholders. The following are key engagements for 2020/21:

Employee

- Sexual Harassment policy induction
- Rewards and Benefits roadshow
- C-19 awareness

Community

- Local government
- Traditional authorities
- Local business owners
- Public institutions
- Community members

Government

- Ministry of Forestry and Natural Resources
- Directorate of Road Traffic and Safety
- National COVID-19 Coordination Secretariat-(OPC)
- Ministry of Health
- Ministry of Industry
- Ministry of Trade
- Malawi Revenue Authority

Special interest groups

- C-19 Intervention CARE
- Agricultural Technology Conference

Local communities

COVID-19 RESPONSE

K476 million spent on

- Employee and contractor welfare
- Vaccine drive
- Community engagement
- Door to door survey
- Distribution of hygiene material
- Targeted communications with radio and public address systems

We remain committed to ensuring the health and well-being of our employees in the estates and surrounding communities through our COVID-19 response efforts. The company launched a behavioural intervention project amongst its communities aimed at preventing the rapid spread of infectious diseases such as malaria, cholera and diarrhoea, along with COVID-19 being the new threat to the communities. The approach was to increase adoption of recommended hygiene, sanitation, and other specific COVID-19 prevention measures.

K1.7 billion in community support

We remain committed to being responsive to the needs of our communities through joint efforts to achieve sustainable solutions. Some of our activities this year included:

K100 million
COVID-19 Donations Support to Hospitals in Blantyre, Dwangwa and Nchalo

K18 million
Nchalo and Ngabu police unit renovations

K15 million
Dwangwa Flood Victims Donations

K8 million
Nchalo Mkombedzi dyke cleaning and maintenance

K6 million
Dwangwa Community Policing

K4.5 million
Blantyre Organic Waste separation bins

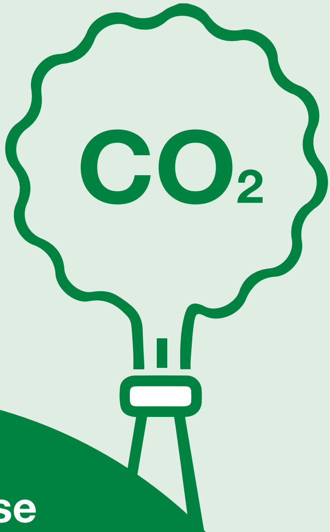
K1 million
Chatinkha Maternity Care Support (CHAMACA), Cancer Support

K1.7 million
Dwangwa Estate Schools Donation

Illovo Sugar (Malawi) Plc

Emissions & Effluents

We are committed to ensuring that our operations adhere to the national regulations as guided by the Malawi Environmental Protection Authority (MEPA) based on Malawi Standards (MS 737) and Environmental Management Act 2017.
We are continuously working towards solutions to improve operations in order to comply with national regulations on emissions and overall CO_2 footprint. The period reported is based on comparison of financial year 2019/20 and 2020/21.



18% decrease in petrol usage

50% decrease in waste water

13% increase in 3rd party fuel consumption

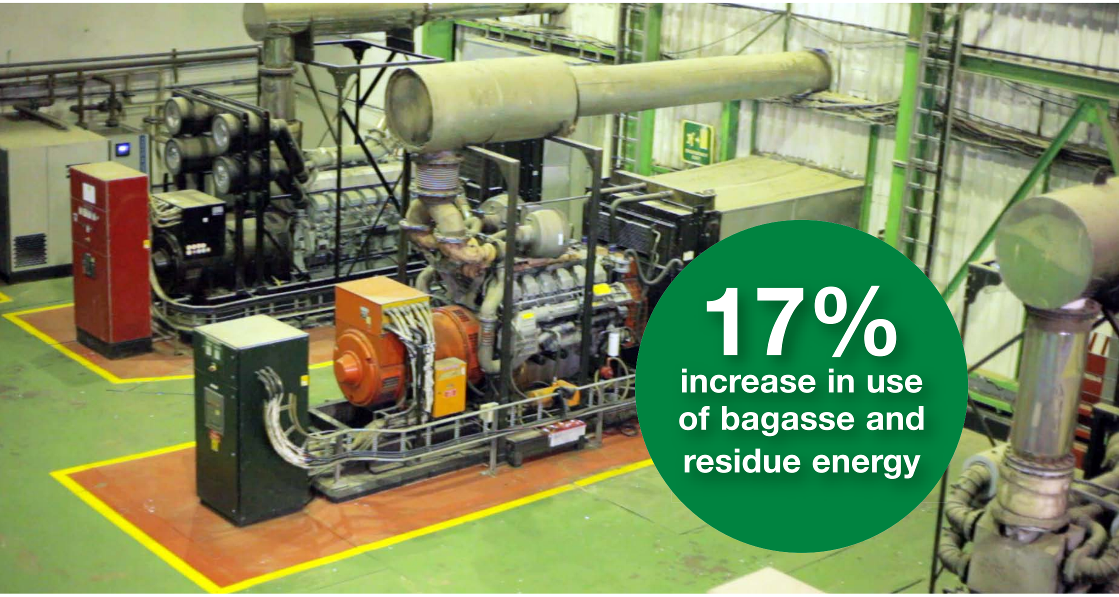
6% increase in own grown sugar cane

A decrease in petrol usage was due to reduced usage of de-watering pumps.

Reduction waste water emissions due to reduced average Chemical Oxygen Demand (COD levels) from 130 the previous year (2019/20) to 60.8 this reporting year (2020/21) as a result of improved controls on waste water. This does not include our Dwangwa operation as it reuses 100% of its effluents.

More fuel used by third parties for haulage due to high cane supply to the factory and the services they were contracted for by Illovo. In addition there has been increased sales both on domestic and regional markets as a result of route to consumer initiatives and product is delivered at customer's selling point.

Energy



We are committed to reducing our energy reliance on non-renewable sources through creation of efficiency in our processes. The period reported is a comparison between financial year of 2019/20 and 2020/21.

4% reduction in imported energy use

2% increase in wood energy use

2% increase in sugar production

A saving in electricity due to more controls on irrigation which was mostly run on off-peak during the current period as compared to the previous year. In addition to migration from overhead to drip irrigation where bigger pumps have been replaced by smaller pumps which consume less energy.

Reported information is used in reference to GRI material topics on sustainability reporting as per records on 31st August 2021 using the following documents: Company management accounts, Company HR records, Dwangwa Census report 2020, Illovo and Nchalo GHD data analysis tool, Estate clinic monthly reports and Malawi Integrated household Survey 2019/20.

Community Development Trust

The group, together with Alliance for a Green Revolution in Africa (AGRA), established a Community Trust Farm in the Lower Shire Valley in 2010. Sugarcane is grown on the five centre pivots (four x 70 ha and one x 55 ha) and sold to the Illovo Malawi Nchalo sugar mill for processing under a long-term cane supply agreement.

The Community Development Trust is a non-profit making trust created for charitable purposes with the aim of social and economic upliftment of the participating communities in the areas surrounding the farm at Kaombe.

All profit, after direct farm operational and capital costs, from the 335 ha farm is utilised to benefit and uplift surrounding communities in a sustainable way and annual demand driven projects are submitted by the established Community Area Development Committee to the Trustees for approval. Approximately K 50 million is awarded annually by the Trustees to the communities for these projects, mainly at present, in the focus areas of education and health. The Trust Liaison Officer (TLO), appointed by the Trustees, works hand in hand with the Communities through the Area (ADC) and Village Development Committee (VDC) to develop project proposals for vetting and approval by the Trustees. The beneficiary communities monitor projects and report on relevant matters through the TLO.

Recent Projects	
2013	Drainage Bangula market
2015	School fees blind students
2015	New boreholes x 10
2015	Rehabilitate boreholes x 5
2016	Community Trust office block
2016	Drill new boreholes x 20
2016	Sponsorship for female blind students in Nsanje
2016	Chiromo Immigration office maintenance
2016	Teacher’s house at Kalambo CDSS
2016	Classroom block at Magoti CDSS
2016	Teacher’s house at Phokera CDSS January
2017	Teacher’s house at Phokera CDSS March

2018	Construction of new classroom blocks at Kaombe primary school
2018	Rehabilitation of school block at Nyamitalala primary school
2019	Construction of new classroom blocks at Chirimba primary school
2019	Construction of new Teacher development centre with lecture hall, storeroom and office
2020	Construction of Magoti Teacher's house
2020	Construction of Nagiti Teacher's house
2020	Rehabilitation of under-five clinic - Mello

During 2021 three projects were commissioned with a total value of K 72 million against the Trustees authorised budget of K 80 million. Phokera potable water supply – K 22 million, Chithumba under-five clinic – K 24 million and Tizola under-five clinic - K 26 million. It is expected that over 3 500 community members from 13 different villages will benefit from the Phokera potable water supply and a more conducive environment will be available to the operation of the under-five clinics that used to be conducted in the open air.

Planned Projects Next Five Years	
1.	Drilling of boreholes
2.	Rehabilitation of boreholes
3.	Construction of Sorgin Police unit
4.	Construction of junior primary schools – Maere, Nyamikuta, Nzondola, Mkandala
5.	Construction of health posts – Siki, Mpisamanja
6.	Construction of Teacher's houses – Mlonda, Kadabwako, Madziabango, Sorgin, Magoti
7.	Construction of irrigation schemes – Khethelo
8.	Rehabilitation of irrigation schemes – Magodola, Nyamvuwu, Tapulumuka, Nyamphembere, Takondwa
9.	Construction of youth centre - Bangula
10.	Construction of under-five clinics – Bande, Kalenso
11.	Completion of under-five clinic – Mello
12.	Construction of speed humps – Bangula, Chirimba, Nkhadzi
13.	Installation of water pump for domestic water use – Magoti
14.	Planting of trees – all 15 GVH areas

15.	Construction of Community centres – Mbenje, Kalenso, Tizola, Sorgin, Kalupsa, Tambo, Ntchenyera
16.	Construction of evacuation centre – Bangula
17.	Construction of culverts
18.	Rural electrification
19.	Construction of shelters - Sorgin
20.	Construction of market toilets – Bangula new market, Bangula old market, Mlambe
21.	Construction of market shelter – Phokera
22.	Construction of technical college - Phokera
23.	Construction of secondary school - Nguluwe
24.	Installation of piped water for domestic use – Sorgin trading centre
25.	Payment of school fees for disadvantaged students

Additionally the Trust has partnered with various other interested stakeholders including National Parks, SVTP and USAID to further expand community projects including –

Bamboo project – three hectares of bamboo plantation had been developed as a sustainable source of supply for the manufacture of charcoal and structural building material.

Chimvuli 40ha irrigation project - 40ha of irrigation has been established – 20ha furrow and 20ha drip irrigation.

Mesquite - investigations are underway regarding the use of mesquite trees which could thrive in low rainfall areas such as Kaombe. These trees will be used for the production of charcoal and their pods for livestock feed.

Illovo Sugar (Malawi) Plc
2021 Key Features

K

Results
millions

Revenue
K163 259
2020: K146 953

Headline earnings
K20 469
2020: K2 739

Operating Profit
K31 941
2020: K8 137

Net Profit for the year
K20 469
2020: K2 739

Share performance
(tambala per share)

Headline earnings
2 869
2020: 384

Net asset value
12 358
2020: 10 074

Dividends declared and paid
600
2020: 50

Year-end market price
(tambala)
17 529
2020: 8 050

Financial statistics

Return on average shareholders' equity (%)

25.6

2020: 3.8

Return on net assets (%)

27.7

2020: 7.0

Interest cover (times)

11.9

2020: 2.1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a sweet moment!
SUGAR
ILLOVO
MALAWI
AN ILLOVO SUGAR AFRICA COMPANY

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 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 380 000 tons of cane grown by Malawian growers, enables the production of 255 000 tons of sugar, on average.

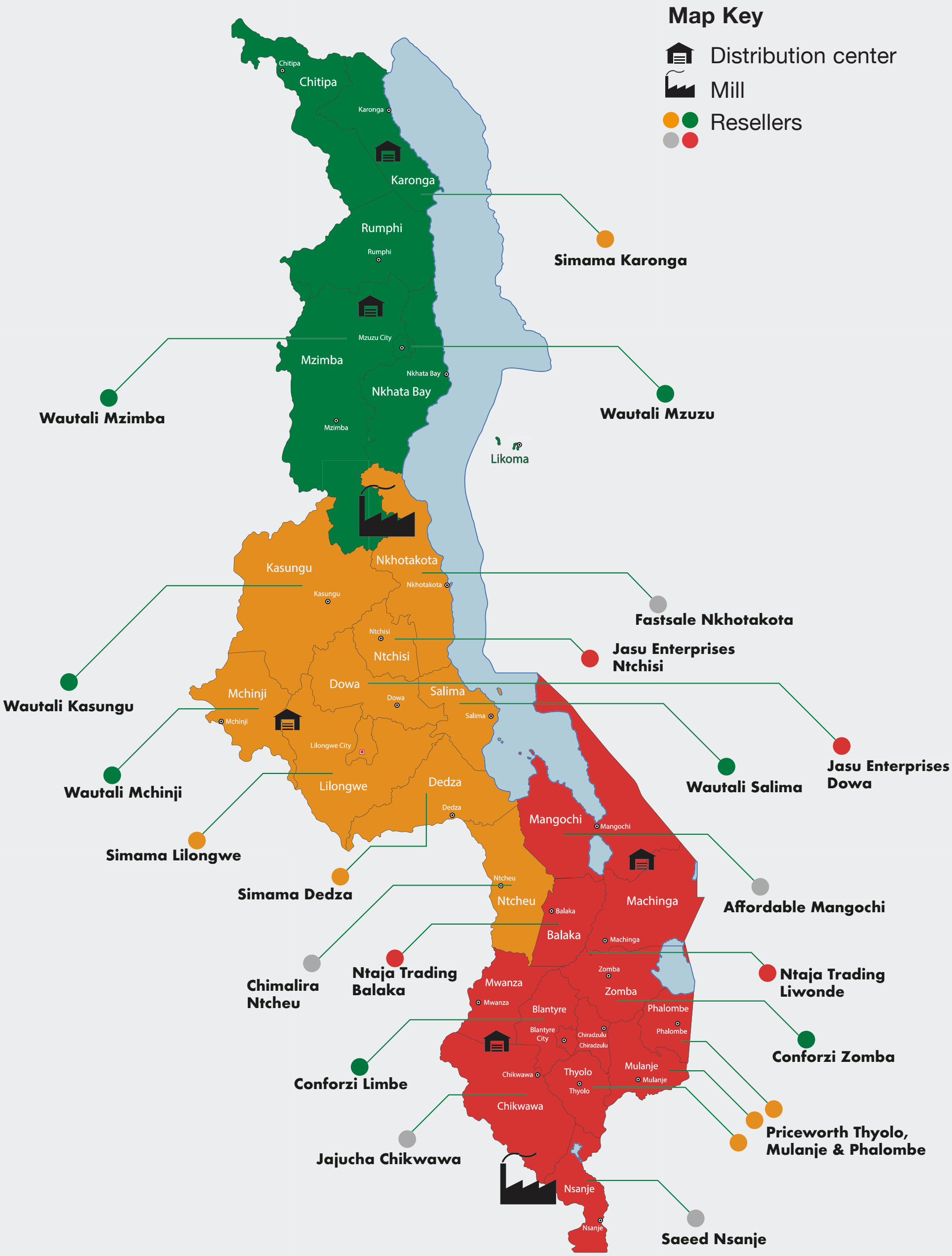
The Dwangwa factory produces refined and brown sugar while the Nchalo factory produces brown and value-added speciality sugars. Both operations also produce molasses, a by-product of the sugar manufacturing process, which is currently sold as a fermentation raw material to the two fuel alcohol distilleries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

Last year, almost 173 000 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 for over 9 000 people, and it is also a major contributor to the Malawian tax revenue through both direct and indirect taxes. In the previous financial year, the company's tax charge on the adjusted profit before tax was K8.8bn at an effective rate of 30% (2020 – 36%). On behalf of Malawi Government, the Company also collected K12.5bn in Value Added Tax and Withholding 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.

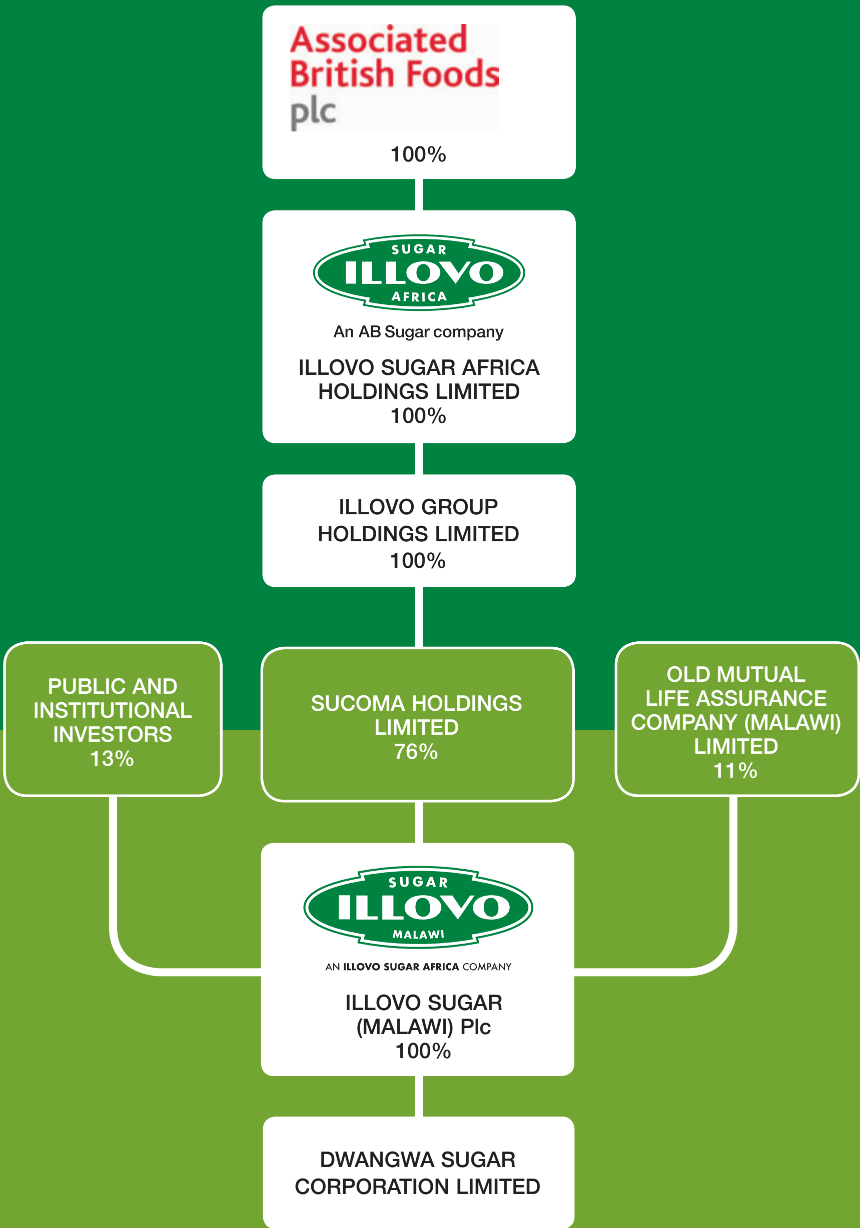
Operating locations



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.local
Auditors	Ernst & Young (EY)
Principal attorneys	Knight & Knight
Principal bankers	Standard Bank Malawi plc

Group Holding Structure



Directorate

Chairman – Non-Executive

G B (Gavin) Dalgleish (55)

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.

Executive Directors

L L (Lekani) Katandula (46)

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 Deputy 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.

Khumbo Ntambo - Banda (33)

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.

Non-Executive Directors

Doug Kasambala (51)

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 (Ami) Mpungwe (70)

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.

Ravi Savjani (32)

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.

P W (Paul) Guta (49)

BSc(Hons),MSc(StratMgt), CertMkt

Paul served as the Managing Director of Nedbank Malawi until April 2020. Paul was appointed as a director of Illovo Malawi in February 2017. Paul has previously served in various business management roles in corporate and retail banking both at Standard Bank Malawi plc and Nedbank Malawi Limited. From 1997 to 2003 he was in the oil industry with BP Malawi (now Puma Energy). Previously he also held the role of President of the Bankers Association of Malawi (BAM) and Chairman of the Institute of Bankers of Malawi (IOB) where he also served on the board of the SADC Bankers Association (SADC BA) until he exited his banking career. He is also currently a board member and Chairman of the Finance Committee of AMREF Health Africa Limited. He is a non-executive director of Lube Masters Limited.

P A (Phillip) Madinga (49)

BSo cSci(Econ), BBM&A(Hons), MBA

Phillip was appointed as a director of Illovo Malawi in February 2017. Currently he is the Chief Executive Officer at Standard Bank Malawi plc, where he had occupied the roles of Head of Personal and Business Banking and Executive Head of Corporate and Investment Banking, in previous years. Prior to joining Standard Bank plc he was the Chief Commercial Manager – Business at NBS Bank plc. Before that he had been Group General Manager, Corporate and Commercial Banking of First Merchant Bank Limited, a financial institution incorporated in Malawi and listed on the Malawi Stock Exchange. Prior to this he was Managing Director of FDH Bank Limited. He also worked for several banks as Head of Corporate Banking for Loita Bank (now EcoBank), and Deputy Head of Credit for Nedbank Malawi Limited and Project Monitoring Officer for Investment and Development Bank of Malawi Limited. He has over 23 years' experience in banking and finance. In his own capacity, Phillip is a Commissioner on the Malawi National Planning Commission.

Dr D A (Naomi) Ngwira (60)

PhD Econ, MSc Econ, BSoc.

Dr Naomi Ngwira was appointed as director of Illovo Malawi effective 13th August 2019. She is an accomplished and renowned economist. Between 2012 and 2017 she served as Deputy Governor of Reserve Bank of Malawi (RBM) responsible for Economic Services. Prior to this she had served as Director of the Aid and Debt Department of Malawi's Ministry of Finance, Economic Planning and Development. She had also worked as lecturer and head of Economics Department at the University of Malawi. She has been a consultant to various governments in Africa, UN agencies, the OECD and several NGOs. In the year 2003 she was on the Special Commission on Women and HIV /Aids in Southern Africa, under the late UN Secretary General Kofi Anan. She also chaired the Special Law Commission to reform Family Law in 2004/5, at the Malawi Law Commission. Dr Ngwira also served on the advisory panel for the Minister of Finance of Ireland in the year 2011/12.

She has served on the boards of various parastatals and private organizations including Press Agriculture Limited, and Nedbank (Now MyBucks Banking Corporation). Currently she sits on the board of CDH and the program committee of the board of the African Economic Research Consortium based in Nairobi.

She holds four degrees in Economics from Universities of Malawi, East Anglia and Michigan State.

Dr G (Grace) Kumchulesi (43)

PhD Econ, MSc Econ, BSoc.

Dr Grace Kumchulesi was appointed to the board of Illovo Malawi on 13th August 2019. She is a Development Economist. She was the National Research Collaborator for Malawi's Zero Hunger and Malnutrition Strategic Review which was funded by the UN. The Lead Convener for the review was the former Vice President of the Republic of Malawi. Grace also served as former Director of Research in the Malawi Public Policy Research and Analysis project (under the Ministry of Finance, Economic Planning, and Development) which among others strengthened the capacity of public officials and non-state actors in translating, disseminating, and utilizing research evidence. She also played a leading role in the creation of the National Population Policy. She has also worked as a Knowledge Translation Scientist, conducting demographic dividend studies in Malawi, Swaziland, and Botswana, and soft skills development studies in Nigeria. Earlier in her career, she lectured in the Social Sciences Faculty at Chancellor College in the University of Malawi. She holds a PhD in Economics from University of Cape Town in South Africa, an MA in Economics and a Bachelor's Degree in Social Sciences from the University of Malawi. She was a post-doctoral Fellow at Population Council in New York, and was a visiting researcher at the Institute for the Study of Labor (IZA) in Germany. Currently Grace is Director for Development Planning at the National Planning Commission.

A (Andre) Lubbe (58)

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 (Jimmy) Lipunga (58)

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. He is currently on the board of Power Market Limited and NBM Capital Markets Limited.

Directorate Attendance

Attendance at board and committee meetings during the year ended 31 August 2021

DIRECTOR	Board Meeting		Audit Committee Meeting	
	A	B	A	B
K Ntambo - Banda	4	4	N/A	N/A
G B Dalgleish	4	4	2	2
P W Guta	4	4	2	2
L L Katandula	4	4	2	2
D N Kasambala	4	4	2	2
G Kumchulesi	4	4	N/A	N/A
J K Lipunga (1)	4	N/A	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
E M Namboya (2)	4	1	2	1
N A Ngwira	4	4	N/A	N/A
R Savjani	4	4	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.

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

Note

1 J K Lipunga – Mr Lipunga joined the board in August 2021.

2 E M Namboya who was the Finance Director passed away in January 2021.

Directors' Report

Chairman's Statement

Gavin Dalgleish

Overview

Macroeconomic Environment

The macro economic environment for the 12 month period (September 2020 to August 2021), was largely defined by the COVID-19 pandemic which had a significant negative impact on global economic activity. The Reserve Bank of Malawi Monetary Policy Committee (MPC) moved the Policy Rate from 13.5 percent in September 2020 to 12 percent in July 2021 while headline inflation rate increased to 8.4% in August 2021 from 7.5% as of October 2020. Sugar sales were impacted early in the financial year due to the pandemic lockdown but we were able to recover the sales later in the year.

“A successful sustainable African business is one that evolves alongside its host markets.”

Gavin Dalgleish
Illovo Sugar (Malawi) Plc
Chairman

The group revenue increased by 11% from K146.953 billion in 2020 to K163.259 billion during the year with the resultant operating profit increase of 293% from K8.137 billion in 2020 to K31.941 billion in 2021. This positive performance was attributed to strong agricultural and factory performance as well as increased domestic sales volumes and better pricing coupled with strong commercial initiatives, especially the embedding of the Route to Consumer initiative. The Kwacha depreciation, COVID-19 restrictions deterring sea freight hire and illegal sugar imports into the country also impacted on business performance. These improvements in profitability translated into increased cash generation with a resulting reduction in net debt from K19.9 billion in August 2020 to K9.9 billion in August 2021. Finance costs ended the year at K2.774 billion against the previous year’s K3.902 billion. Earnings per share for the year jumped 647 percentage points from K384 to K2 869.

Health and Safety remained an area of intense focus during the year with ongoing initiatives, including a vaccination drive, to counter the COVID-19 pandemic and to ensure every one of our employees and their family members, contractors and, where possible, our surrounding communities were provided with a safe and secure environment. Challenges were very evident during the year among them being physical attacks and injuries on our agricultural security personnel, land encroachment and theft of sugar cane and irrigation equipment necessitating more in-depth interaction with the local police, government authorities and community leaders to find workable and sustainable solutions to eliminate danger and harm to our employees and contractors and to protect the assets of the business. Work continued with the help of experts in the field to address environmental matters particularly in the areas of water quality, effluent disposal and general sanitation issues.

Agricultural operations generally were in line with expectations with the ongoing investment in drip irrigation at Nchalo continuing to reflect very positive results and returns. Our smallholder growers performed extremely well during the year although growers in the Dwangwa area raised concerns regarding returns on investment in their farms in terms of sucrose pricing. Several engagement sessions were conducted with all relevant stakeholders to find a lasting and mutually beneficial solution to address the problems and ensure all players were suitably rewarded for their respective roles in the business value chain.

Factory performance had been good at both Dwangwa and Nchalo testament to the hard work and dedication of all our employees and contractors especially during the offcrop period when COVID-19 impacted on the availability of equipment and manpower. However some plant reliability issues were experienced during the year and these will continue to be an area of focus for capability and capacity development to ensure the efficient operation of the mills going forward.

Sugar sales promotions and consumer activation initiatives drove a pleasing increase in revenues on the domestic market despite generally poor nationwide economic fundamentals and the ongoing illegal import of sugar from neighbouring countries. However export sales were restricted mainly due to sales into the Kenyan market slowing due to import bans and COVID-19 related issues including restrictive border controls. The impact of COVID-19 also delayed regional sales into Rwanda and South Africa apart from logistical constraints with shipping lines hampering the smooth flow of deep water sugar exports. Particular attention is now being given to improving overall supply chain management to build on the excellent initiatives already being adopted in this area of the business. We will take advantage of emerging regional markets to mitigate much slower deep water sales due to container availability and vessel supply challenges.

Delivering a quality product to ensure all our customers both domestic and foreign receive a superior product remains a top priority for the Company. Incidences of quality complaints are always swiftly addressed and a Quality and Food Safety strategy was developed and implemented at Nchalo at the beginning of the 2021/22 production season. The strategy focused on the three arms of capability; people, process and technology and we were able to observe a declining trend of quality complaints once the strategy was implemented. Some of the challenges are being progressively addressed through capital expenditure and continuous quality improvements initiatives.

Creating Shared Value

As Illovo Sugar (Malawi) plc we live by our core purpose to create a thriving Malawian community. We aim to achieve this through initiating mutually beneficial projects that enhance the competitiveness of the company while simultaneously advancing the economic and social conditions in the surrounding communities. Although we continue to execute some projects independently we are aware that there is great value in collaborating with our business partners as well as other organizations who share our values to doing business. During the year we commenced a few notable projects which align very well with this core purpose. Some of the notable projects are; collaboration with the USAID Agricultural Diversification Activity to establish partnerships between communities and the Nchalo Estate through the development of smallholder irrigation schemes, collaboration with Southern Region Water Board to provide a new water source to Nchalo site to increase quality and quantity of potable water, partnering with the local Police

Collaboration with USAID Agricultural Diversification Activity to establish partnerships between communities and the Nchalo Estate through the development of smallholder irrigation schemes.

at Nchalo and Dwangwa to arrest the security situation which though already prevalent was worsened by the impact of the COVID-19 pandemic on communities.

Sustainability

To quote the words of Michael McLintock Chairman of Associated British Sugar "Our Company was founded with a conviction that acting responsibly and with integrity is the only way to build and manage a business over the long term. The belief that companies do well when they act well is deeply ingrained in all of us, from the Board and the leadership team, across all our businesses and at all levels of our workforce. We have a clear sense of our social purpose. We exist to provide safe, nutritious and affordable food...." Therefore Sustainability is a part of our DNA. Our main line is sugar manufacturing and is governed by the principle of Sustainability enshrined in the tenets of conserving, preserving, enhancing and creating each business in sync with nature.

This approach to business enables us to run a viable commercial business while also creating social and environmental value for our stakeholders. We have a strong belief in our duty to respect the dignity of everyone who works for us, both within our workforce and in our supply chains. We have a firm commitment to operating under the highest standards of corporate citizenship, acting as a good and supportive neighbour to the communities around us while recognising our wider obligations to society as a whole.

We typically harvest around 1 800 000 tons of sugarcane from circa 18 000 hectares of our land driven by robust optimisation initiatives to sustainably secure cane supply. Our cane is supplemented by partner growers' cane of around 400 000 tons annually. Cane cultivation alongside nearby sugar mills offers our Outgrowers the prospect of creating sustainable livelihoods for themselves and employment for others.

We also partner with Outgrowers, transporters, contractors and other small, medium and micro-sized enterprises in the supply chain which brings about multiplied socio-economic benefits to the communities in which we operate. During the year 87% of our total spend of K122.5 billion was spent on local suppliers. Water to cultivate the cane is a valuable resource and our water stewardship strategy focuses on ways to reuse water, return it to source, and to minimise its losses, while maximising its efficiency.

Our purpose is to create a Thriving Malawian Community where we operate, focusing on rural economic development, health, safety, and education and through collaborative engagements with private and public sector partners, to leverage development funding for the benefit of community projects and initiatives. During the year over 200 000 people visited our health facilities which are closer to the communities than the public hospitals and are serviced by a fully qualified doctor who is supported by qualified nurses.

Revenues generated from sales of sugarcane in the domestic and export markets form the bedrock of our financial sustainability. Our endeavors to become a world-class sales organisation are supported by our deep commercial and 'route to market' insights, expert sales, and operations planning, as well as a best-in-class logistics team, across both consumer and industrial sales sectors.

We aim to improve and enhance our Environmental Social and Governance (ESG) reporting going forward recognizing that most companies are increasingly looking to assess their competitive position in the market with respect to ESG and sustainability performance and is a way to gain competitive advantage in today's global market. These competitive insights support future ESG decisions, drive internal performance improvements, and support the closure of managed and unmanaged risks.

Share Price

The share price for the Company at the beginning of the financial year was at K80.50 and at the time of realising half year results in May 2021 the price had jumped to K94.50. At the close of the year the price closed at K175.29, an increase of 117.8% moving Illovo from a price loss position to a price gainer. The share price at year-end represented a market capitalisation of K125.1 billion.

Dividends

I am pleased to report that a final dividend of K2.9 billion for the year ended 31 August 2021 has been proposed for the shareholders' approval at the next Annual General Meeting. This is in addition to an interim dividend also of K2.9 representing K4 per share and a second interim dividend of K7.1 billion representing K10 per share paid during the year. When approved this will represent a total dividend for the year of K12.8 billion representing K18 per share compared to a full year dividend of K1.4 billion for the previous year. This payment to our shareholders was possible through initiatives which included continued improvement in business performance and good financial management resulting in significant reduction in net debt. The group hopes that the economic environment will continue to improve so that the trend on payment of dividends can continue while the company retains an optimum net debt position.

The Board

We welcomed Jimmy Lipunga as a board member in August 2021. Subject to his confirmation at the Annual General Meeting in February 2022 this brings the total number of directors to twelve (12). Jimmy is an experienced Chartered Accountant and is well known within Malawian circles. Jimmy retired recently from the Public Private Partnership Commission (PPPC) having been instrumental in the transition from the privatization framework to the public private partnership paradigm. We look forward to Jimmy's contribution at the board. The board boasts of diversity of skills and gender both of which add value to governance as well as the reputation of the board.

Outlook

It is expected that further improvements in power generation by the Electricity Generation Company (Malawi) Limited and better weather patterns will have a positive impact on the agricultural yield, production efficiency and factory throughput. We will continue with our agricultural recovery plans, production optimisation, preventive maintenance, and enhancement of the gains from the operating model to improve overall operational performance. We will continue with our exciting commercial initiatives with a focus on Route to Consumer, brand building, embedding our Winning Outbound Logistics Organization (WOLO) and optimizing the product portfolio besides other initiatives such as Tisinthe and Fit For Future (F4F). We are also starting to plan Project Tiwale which will focus on the next stage of the transformation of our business. The return to full commercial activity in the country and beyond will depend on how effectively and decisively the world and the country deals with the COVID-19 pandemic and its impact, especially the vaccination drive. At the time of writing this report less than a million Malawians representing less than 5% have been fully vaccinated which is a far cry from the target herd immunity threshold of 11 million. Vaccine hesitancy remains the biggest challenge to combating the pandemic. We will continue to encourage our employees, contractors and surrounding communities to get vaccinated and will also continue to support the government in its efforts to combat the pandemic.

Conclusion

I would like to thank my colleagues on the board for their support and guidance. The last year had many significant challenges but through your counsel and fortitude we as a board were able to guide the company through the difficult terrain. I hope that we will continue to work together and support management to deliver on our ambitious strategy.

My humble thanks are also extended to the Executive team and staff who sailed through challenging times, not least of which was the COVID -19 pandemic, with hard work and dedication. At this point I fondly remember the four employees who we lost during the year due to the pandemic. They will forever remain in our hearts.

We all are committed to continuing to create substantial value for our stakeholders, and I look forward to reporting on more progress in future. Finally we as a board are also grateful to our customers for their continued support. Without them we would not have achieved these good results.

Gavin Dalgleish

Chairman

Managing Director's Report

Lekani Katandula

10 Year Vision Statement

I want us to become a recognised leading business in Malawi that:

- Is the beacon of safety at work with no fatalities and no Lost Time Injuries (LTIs);
- Has renowned capability with modernized technology and high performing staff that are regularly exported to other group companies outside Malawi (i.e. move from being a net importer to a net exporter of talent);
- Is a diversified business with at least two new revenue streams on top of current business. The new streams (power and at least one other) contribute at least 25% of our annual operating profit;

"We crushed a total of 2 410 529 tons of cane compared to 2 205 560 tons crushed previously. Of this volume, 22% came from our partner growers."

Lekani Katandula
Illovo Sugar (Malawi) Plc
Managing Director

- Is a properly commercialised business with our sugar cost per ton globally competitive and with excellent stakeholder relations (including our customers and consumers) and consistently deliver superior returns for our stakeholders.

Overview

Macroeconomic Environment

The World Bank's 2021 Global Economic Prospects predicts that following last year's collapse due to the COVID-19 pandemic, the global economy is experiencing an exceptionally strong but uneven recovery. While advanced economies are re-bounding, many of the world's poorest countries are being left behind, and much remains to be done to reverse the pandemic's staggering human and economic costs. Moreover the possibility remains that additional COVID-19 waves could occur given the prevailing vaccination hesitancy, mounting debt levels, and rising energy and commodity prices.

The country's economic growth, which was recorded at 0.9 percent in 2020 is expected to jump to 3.8 percent in 2021 and 5.2 percent in 2022. This is mainly on the assumption that there will be gradual lifting of containment measures and that business will slowly return to normality especially during the second half of 2021. The agriculture sector is projected to grow by 6.2 percent in 2021 and due to its strong backward and forward linkages, most economic sectors are expected to register positive growth rates as well. The annual average inflation rate has remained within single digits, recorded at 9.4 percent and 8.6 percent in 2019 and 2020, respectively. The headline inflation rate (year on year) for August 2021 was 8.4 percent compared to 7.6 percent recorded in August 2020. In 2021 and 2022, inflation rate is projected at 7.5 percent and 7.3 percent, respectively. Inflationary pressure during the fiscal year was expected to be moderated by subdued food inflation especially on account of increased maize supply.

Our Performance

Although the COVID-19 pandemic caused unprecedented human hardship and business disruption, I am pleased to report that through our robust responses we were able to re-engineer the business and to exploit available opportunities so that we could thrive in spite of the environment. Our sales activation initiatives coupled with the further embedding of the Route to Consumer (RtC) in the domestic market and exploiting new opportunities within the regional markets (Africa) ensured that we had a very good performance for the year. Our total revenue increased from K146bn to K163bn an increase of 11% compared to same period last year. Domestic sales increased by 17.5% and 17.2% revenue and volume respectively. Further depreciation of the Kwacha against major trading currencies significantly reduced arbitrage imports enabling us to serve more of our sugar in the domestic market coupled with our deliberate stakeholder engagements with the MRA and government Ministries (Trade, Industry, Agriculture and Finance in particular).

Whilst adapting to the challenges of the external environment we continued with our focus on cost management initiatives through programs such as Tisinthe and embedding of the new operating model in order to gradually achieve competitive costs per tonne. Our free cash flow generation remained very good at K25.75 billion compared to K18.9 billion in the year ended 31 August 2020. This enabled us to return to healthier dividend payments and to reduce our net debt from K19.9 billion at the beginning of the year to K9.9 billion. We were able to achieve this in spite of input cost increases such as fertiliser price increases, electricity price increase and logistics prices which almost doubled.

Export sales to the USA and the EU were significantly affected by vessel rescheduling as well as scarcity of containers. Most destination countries for our sugar experienced lock downs due to COVID-19. These factors together had a negative impact on inter-continental export sales. However we were able to quickly reroute our sugar within the region especially to Rwanda, Eastern DRC and Congo at better prices compared to 2020 as world sugar prices improved.

In order to improve outbound logistics we developed an outbound logistics strategy that aims at enabling our Route to Consumer (RtC) whilst improving on our affordability, accessibility and availability as well as focusing on quality, supply reliability and capabilities.

Off crop maintenance progressed well at both sites. Nchalo experienced some supply delays for some equipment which were speedily resolved. Employee quarantine protocols to control COVID-19 risk were well adopted at our locations and in a few instances isolation of positive cases and close contacts exerted some pressure on manpower requirements. Extra overtime was used as a solution to close the gaps created by COVID-19 infection related quarantine.

We crushed a total of 2 410 529 tons of cane compared to 2 205 560 tons crushed previously. Of this volume 22% came from our partner growers. We produced a total of 279 278 tons sugar compared to 263 634 tons sugar in 2020 and sold 297 010 tons compared to 272 788 tons previously. This speaks to our continuing efforts to achieve efficiencies in agriculture, factory and commercial operations. Our investment in drip irrigation is a key driver of increased yields and efficiency in agriculture which affords us the platform for improved sugar production and sales. Our sales continued to be higher than production as we continue reversing the excess stock levels that peaked at the end of August 2019.

Illovo Quality and Safety and Security

Safety was a serious challenge to our operations especially at Nchalo due to the impact of COVID-19 with small and medium businesses being negatively impacted by lockdown and general slowdown in business as well as children being out of school and remaining idle for long periods. Engagement with the Police at the highest level including the Minister of Homeland Security yielded positive results and led to the setting up of community policing forums (CPFs) covering the Nchalo & Ngabu areas. In terms of occupational and general safety, we have both a legal as well as moral obligation to ensure that our staff work in a safe environment and safely return to their families after work every day. Therefore coaching and toolbox talks/ awareness were initiated in order to embed good safety behaviours in our people. In addition post COVID-19, we were able to use drama as a means of delivering safety messages in a simple but impactful manner. COVID-19 posed some unique challenges in terms of adherence to our safety culture. Nonetheless we made sure that the safety of our employees would not be compromised, and to a great extent were able to successfully contain the risks posed by the pandemic. Unfortunately we lost four colleagues due to the pandemic. May their souls rest in eternal peace.

We rolled out the vaccination drive to staff, contractors and the community in March 2021 and although initially the uptake was very slow it improved as the third wave hit Malawi only to fall again as the pandemic eased. We continue to explore avenues to get more of our staff vaccinated.

In terms of quality, earlier in the season we encountered some quality challenges especially at our Nchalo factory which were mostly touching on our speciality sugar. However, during the year we introduced a quality strategy and managed to reduce quality issues to rectify these challenges.

Skills and Capability Development

We realise that building capability (people, process and technology) is a critical enabler of our strategy execution. In pursuance of this ambition HR initiatives on benefits rationalisation, operating model optimisation, 4th Shift Implementation and HR minimum standards were rolled out and are at various stages of implementation. The HR function played a critical role in supporting the roll out of the Winning Outbound Logistics Organization (WOLO). Specifically we also embarked on a leadership development and mentoring program for senior staff. Besides skills gap assessments, succession planning and critical roles identification, a number of talent intervention programs were scheduled in order to close the gaps identified and also develop the existing talent further.

National COVID-19 Support

During the first wave, we were able to conduct operations at our Nchalo and Dwangwa operations with minimal disruptions from COVID-19; the only significant disruptions have occurred on export sales generally and some imports from South Africa due to much slower border movements than normal.

However, during the second wave which started in December 2020, we saw a sharp rise in COVID-19 cases which appears to have been driven by an influx of visitors from South Africa and traditional big family, prayer and festive gatherings around Christmas and New Year. The second wave prompted a second declaration of National Disaster by the State President, including shutting down of schools and a call for private sector support to the fight against the COVID-19 pandemic. We responded favourably with a K100 million contribution and our health facilities at both Estates were accredited to conduct COVID-19 tests and vaccinations. In addition, the company also collaborated with CARE Malawi in a COVID-19 community intervention project aimed at fighting against the spread of COVID-19 in communities surrounding Dwangwa and Nchalo. The company's total spending towards the fight against COVID-19 was K476 million.

Stakeholder Engagement

The Company understands that stakeholder engagement is a business imperative and that the relationship that it fosters with stakeholders has a direct impact on its success. Our mills are part of the ecosystem where we operate; therefore our approach to stakeholder engagement is aimed at keeping listening to our stakeholders and co-creating solutions to our common challenges as we realise that our business will not thrive if the community around us is falling apart. Great strides were made during the year which resulted in engagements with various Government Ministries, regulatory bodies, relevant industry bodies and shareholders. Better alignment was achieved which should increase support for our initiatives and plans. Only by collaborating with the Government can we ably and decisively deal with the issue of illegal imports once and for all.

Employee engagement is also critical for business success and throughout the year, we used a range of channels such as regular employee business updates, management conferences, social media platforms and union engagements alongside other communication channels. We continue to witness much better engagement with our staff as well as increased appreciation of the business imperatives and the corporate strategy.

Outlook

Economic prospects for Malawi are showing signs of recovery following the declining Covid-19 pandemic cases and steady progress in rolling out the vaccine, albeit with the risk that this could turn quickly if a fourth wave strikes. The economy is also expected to register improved economic growth rates on account of a favourable rain season and the successful implementation of the Malawi Government Affordable Inputs Program.

It is therefore important that the Malawi Government should upscale its vaccination campaign in order to vaccinate as many people as possible and reach the target herd immunity of 70% of the population.

Currently less than 5% of the population is fully vaccinated. We will continue to play our part in encouraging more of our staff and surrounding communities to get vaccinated.

Conclusion

I am indebted to the board of directors for their support and guidance through a very challenging time in our business posed by the COVID-19 pandemic and the general micro-economic environment. You have contributed immensely to ensuring the growth and sustainability of our business as a financially strong and responsible organisation that makes a positive and significant contribution to the economy of the country. I am truly honoured to serve as your Managing Director as we strive to redefine the future of our business and the role we play in creating a thriving Malawian Community.

I would also like to thank my colleagues for their support and tireless efforts and commitment to the attainment of our strategic goals. We are currently working in a very challenging environment and your dedication and commitment to playing your individual roles has not only enabled us to remain profitable, but also ensured that we continue to deliver to our customers the trusted Illovo quality sugar.

Finally, although departed and immensely missed by the business, I would like to posthumously express my gratitude to my friend and colleague, late Edward Namboya who was our Finance Director for his hard work commitment and dedication to the business. Illovo Sugar Malawi shall remain indebted to Edward.

Lekani Leslie Katandula

Managing Director

Corporate Governace

Compliance / Governance

The directors are committed to best practice in corporate governance as enshrined under 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). 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 2021.

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 supervises the management of the group's business and affairs and is involved in all decisions that are material to the business. 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 Company 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 every 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. Until the passing of the Finance Director, Edward Namboya, in January 2021 the board had three executive directors and nine non-executive director's seven of whom are independent.

Executive management

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 Managing Directors and 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.

As well as financial assessment, other audited areas include agricultural, electrical and mechanical risk, health and safety, quality and food safety, environmental compliance and exposure to changes in the economic environment. The reports are reviewed by the committee to ensure that risk identification, mitigation and management are undertaken. 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.

Directors' Interest

Two directors have shares in Illovo Sugar (Malawi) Plc which were bought on the stock exchange and these shares cumulatively were valued at K50 185 527 as at 31 August 2021.

Name of Director	No of shares		Value of shares(K)	
	Direct interest	Indirect interest	Direct interest	Indirect interest
Doug Kasambala	-	300	-	52 587
Lekani Katandula	286 000	-	50 132 940	-
Total			50 132 940	52 587

Advocacy / Stakeholder Engagement / Sustainability

Strategic Intent

As part of the group's Strategic Intent, through its Corporate Social Responsibility (CSR) / Creating Shared Value (CSV) committee, it seeks to be welcomed in the communities in which it operates because of what it does, how well it does it and be accepted as a progressive company by all communities and also be cognisant of the rural locations of its operations and the impact that it has on job creation and poverty alleviation in such areas. The group recognises that for CSV to be meaningful and sustainable it requires a conscious effort to incorporate the principles and thinking around shared value into the strategic and day to day operations of the company.

The group continued its close working relationship with government and donor agencies to identify opportunities to work together for greater positive impact on communities within the group's sphere of influence and supported the government's strategy to help reduce infant and maternal mortality by fortifying all sugar for domestic consumption with vitamin A.

Illovo Malawi plays a significant role within the Malawian economy in terms of direct impacts (wages paid to employees, cane payments to outgrowers, tax payments, interest spending and dividends); indirect impacts through its value chain; and induced impacts in the form of increased consumption and spending in the economy as a whole. The group earns valuable foreign exchange through the sales of its export sugar and is also a major source of revenue to the Malawi fiscus both through direct and indirect taxes. Its operations are also of considerable benefit to the overall local economy, providing permanent and seasonal employment for more than 9 000 people. Many local industries, which collectively employ large numbers of people, are dependent upon the group for their on-going business sustainability.

The group remained a strong supporter of smallholder sugarcane schemes in terms of capacity, material and various technical inputs. Almost 11% of total revenues were spent during the year procuring sugar cane from these smallholder farmers surrounding both estates and this represented significant support to the livelihoods of these farmers, their families and also to the local communities.

The group spent over 18% of its total revenues on remuneration and employee benefits. All employees, including agricultural and factory workers, earn above the national minimum wage and the World Bank's poverty line and well above the Anker living wage calculation.

Infrastructure, normally provided by national government, is generally lacking in the areas of the groups' operations and therefore the group provides housing, water, and electricity, healthcare and schooling assistance to its employees and their dependants.

Housing is provided to more than 4 500 employees and their family units. The houses are serviced and electricity, clean drinking water and services, including sewerage and waste disposal, are provided. On-going housing upgrades and the construction of new housing continued during the year.

The group maintained its proactive approach towards eliminating child labour and forced labour. Its "Guidelines for the Prevention of Child Labour and Forced Labour" pursue the effective abolition of all forms of child labour, forced labour and human trafficking in accordance with the principles of the International Labour Organisation (ILO) conventions, the United Nations Global Compact (UNGC) and the UK Modern Day Slavery Act of 2015. This commitment is enshrined in the Illovo Group Code of Conduct and Business Ethics by which all Illovo group companies and its supply chains are bound.

Illovo Sugar Group has made explicit commitments to protect land rights across its operations through its "Guidelines on Land and Land Rights". Through these guidelines, Illovo adopts a zero-tolerance policy for land grabs throughout its operations and calls for all its suppliers to do likewise. The guidelines also call for the company to broadly protect the land rights of others; engage in free, prior and informed consent (FPIC) before acquiring or influencing community and smallholder land rights; perform environmental and social impact assessments of its future land-related actions; use the results of such assessments to shape its consequent land-focused activities; provide for self and supplier monitoring and evaluation across its operations; and put in place grievance mechanisms that enable local communities and individual smallholders to register and track complaints and claims against the company. To implement these commitments, Illovo has formulated a "Road Map on Land Rights" and established a Land Policy Roundtable Committee to advise in implementing these land guidelines.

Health and safety / Environment / Quality

Safety standards and methods are continually monitored and updated and safety awareness throughout the group remained an important focus area with awareness and training activities aimed at protecting the safety and well-being of our own employees, external contractors and the wider community continuing throughout the year. During the year, the group introduced Setters Safety awareness programs through leadership awareness sessions, plant task observations and the launch of the Setters behaviour based coaching training. This is helping to sustain a safety culture at work and in the communities where employees live.

In its three pillars of sustainability the group recognises the need to consume resources responsibly in the process of growing of sugar cane used in the production of sugar and manages the impact of its activities, striving to maintain an environment which meets the needs of current and future generations and continues to develop its business in a socially responsible manner. Cane fibre or bagasse, the fibrous residue following the extraction process, is used as a bio-renewable fuel source in the factory boilers to produce steam for processing requirements. Both sugar factories have upgraded their waste-water discharge systems, resulting in water from the milling process being settled before being recycled for use as irrigation water on the fields. This process supplements lake / river water demand and reduces the requirement from these sources for crop irrigation. Both estates participate in annual tree planting activities in an effort to retard environmental degradation and soil erosion and continue to make substantial donations of tree seedlings on a regular basis to surrounding communities.

The group also continued to maintain biodiversity corridors throughout its sugar estates. A 400-hectare reserve known as Nyala Park has been set aside within the Nchalo estate boundary and is maintained with species of the original flora and fauna of the Shire Valley.

Quality aspects of the business along the entire value chain remained an area of focus with several continuous improvement projects being implemented to ensure that the strictest standards of food safety and quality are observed in the manufacturing and delivery process. Both agricultural and factory operations retained accreditation under the ISO quality management system.

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.

	2021 K million	2020 K million
Wealth created		
Revenue	163 259	146 953
Income from investments	71	28
Paid to growers for cane purchases	(18 542)	(12 110)
Cane growing and manufacturing costs	(78 845)	(91 779)
	65 943	43 092
Wealth distributed		
To employees as salaries, wages and other benefits	28 634	26 554
To lenders of capital as interest	2 674	3 880
To shareholders as dividends	4 281	357
To the government as taxation	5 932	4 566
	41 521	35 357
Wealth reinvested		
Retained profits in holding and subsidiary company	16 188	2 382
Depreciation	6 181	6 836
Deferred taxation	2 053	(1 483)
	24 422	7 735
	65 943	43 092
Analysis of taxes paid to and collected on behalf of the government		
Central and local government		
Current taxation	2 967	2 372
Customs duties, import surcharges and other taxes	2 965	2 194
Total contribution to central and local government	5 932	4 566
The above amount contributed excludes the following:		
- employees taxation deducted from remuneration	3 978	4 969
- net VAT amount collected on behalf of the government	5 352	6 848
- withholding taxes	1 538	2 540
	10 868	14 357
Total contributed to government	16 800	18 923

REVIEW OF FIVE PERIODS

K million

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 -21	12 month ended 31-Aug-20	12 month ended 31-Aug-19	12 month ended 31-Aug-18	5 month ended 31-Aug-17
163 259	146 953	129 676	141 760	49 099
31 941	8 137	20 047	30 197	12 696
71	28	2	31	1
(2 674)	(3 880)	(5 367)	(5 901)	(1 733)
29 338	4 285	14 682	24 327	10 964
20 469	2 739	10 083	16 449	7 735
20 469	2 739	10 083	16 449	7 735
(4 281)	(357)	-	-	-
20 469	2 739	10 083	16 449	7 735
20 469	2 739	10 083	16 449	7 735
88 171	71 874	71 298	60 939	43 885
21 273	19 059	21 420	19 212	15 112
205	212	220	227	234
13 890	20 313	30 389	22 194	23 565
123 539	111 458	123 327	102 572	82 796
58 190	55 498	56 144	50 481	41 252
9 458	2 558	-	-	-
604	494	463	-	-
3 922	318	722	249	33
92 351	87 505	103 343	88 126	81 164
164 525	146 373	160 672	138 856	122 449
(40 986)	(34 915)	(37 345)	(36 284)	(39 653)
123 539	111 458	123 327	102 572	82 796

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 -21	12 month ended 31-Aug-20	12 month ended 31-Aug-19	12 month ended 31-Aug-18	5 month ended 31-Aug-17
2 869	384	1 413	2 306	1 084
2 869	384	1 413	2 306	1 084
600	50	-	-	-
478	767	-	-	-
25.6	3.8	15.2	31.4	19.2
27.2	7.0	17.8	32.6	15.5
11.3	25.2	41.6	36.0	53.6
10.2	21.8	29.4	26.5	34.9
11.9	2.1	3.7	5.1	7.3
12 358	10 074	9 994	8 542	6 151

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 -21	12 month ended 31-Aug-20	12 month ended 31-Aug-19	12 month ended 31-Aug-18	5 month ended 31-Aug-17
19 089	17 579	18 656	17 758	11 795
13 178	11 087	12 399	11 764	8 168
5 911	6 492	6 257	5 994	3 627
98	100	94	92	90
94	93	85	82	83
107	115	114	112	108
2 410 529	2 205 560	2 165 085	2 006 423	1 260 834
1 242 324	1 027 073	1 051 506	970 061	676 996
624 303	737 370	707 213	662 533	389 894
543 902	441 117	406 366	373 829	193 944
14.10	14.29	14.14	14.02	13.97
13.76	14.01	13.85	13.78	13.91
14.69	14.71	14.52	14.42	13.90
14.19	14.25	14.26	13.97	14.34
279 278	263 634	252 375	230 020	146 568
167 713	139 914	135 950	122 203	84 704
111 565	123 720	116 425	107 817	61 864
297 010	272 788	215 141	227 321	79 420
172 578	147 242	137 716	170 792	59 575
124 432	125 546	77 425	56 529	19 845

ILLOVO SUGAR (MALAWI) PLC

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2021

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 21.

2. REVIEW OF OPERATIONS

Detailed commentary is given in the directors' report on pages 34 to 46.

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 106 to 109 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 159.

The register of members reflects five beneficial shareholdings equal to or greater than 1% of the issued ordinary share capital. Details are given on page 159.

6. DIVIDENDS

During the year the Company paid the first interim dividend of K2.9 billion representing K4 per share and a second interim dividend of K7.1 billion representing K10 per share. A final dividend of K2.9 billion for the year ended 31 August 2021 will be proposed for the shareholders' approval at the forthcoming annual general meeting on 22 February 2022. Total distribution for the year will be K18 per share (2020: K2 per share).

The directors of the wholly owned and only subsidiary of the company, Dwangwa Sugar Corporation Limited, did not pay any dividends (2020: 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 24 to 25 and 26 to 31 respectively.

No director resigned during the year however we lost the Finance Director, Edward Namboya in January 2021.

Jimmy Lipunga was appointed to the board as non-executive director effective 19th August 2021.

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. D Kasambala and A Lubbe 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 general 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 general 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:

	2021		2020	
	Direct	Indirect	Direct	Indirect
Doug Kasambala	-	300	-	-
L L Katandula	286 000	-	-	-

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 independent director be increased from K3 400 000 per annum to K6 000 000 per annum and that the sitting allowance of K160 000 for each committee and/or board meeting attended be increased to K300 000 per sitting.

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 Republic of South Africa) 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

There were no post balance sheet / year end events.

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, Ernst & Young (EY), audited the financial statements and the auditor's report is presented on pages 66 to 71.

The annual financial statements of the group and the company which appear on pages 72 to 158 were approved by the board of directors on 23 November 2021 and are signed on its behalf by:

G B Dalgleish
Chairman
23 November 2021

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 158 which comprise the consolidated and separate statements of financial position as at 31 August 2021 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 2021, 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 judgment, 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

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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 Statements of Financial Position carry growing cane of K28.9 billion and K20.3 billion respectively.

This represents 17.54% of total assets and 29.98% of current assets for the consolidated statement of financial position and 12.39% of total assets and 17.22% 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 judgment 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
- average maturity of cane
- estimated sucrose content
- estimated sucrose price

Estimation of sucrose price is based on forecasted revenue, forecasted marketing, distribution and packaging costs, estimated sucrose content, estimated recoverable sugar, estimated cane crushed, estimated production and estimated opening and closing inventory for the following period. Achievability of the forecasts used to determine the sucrose price was the most significant judgement.

Given the level of judgement involved in estimating the growing cane valuation

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

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:

- We held 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.
- We evaluated the objectivity, competence and capabilities of management experts by reference to their qualifications and professional experience in the relevant industry, and the scope of work as agreed with management.
- We evaluated the assumptions used by management experts, which included cane crushed, sucrose content and recoverable sugar;
- For cane crushed, we compared the sugar production tonnage to the cane yield best practice agricultural data available.
- For sucrose content and recoverable sugar, we compared prior period estimates to actual results
- We 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 data.
- We 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.
- Performed sensitivity analysis of the sucrose price by assessing the impact of changes in sucrose price on the growing cane valuation.
- We assessed whether the disclosures of growing cane included in the financial statements comply with 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 2021. 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 whole are free from material misstatement,

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

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

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the Group and/or the Company to cease to continue as a going concern.

- 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
24th November 2021

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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 of the individual companies, 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. 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, less any accumulated depreciation, 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 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.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

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.

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 2021.

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 2021.

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.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

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 IMPAIRMENT OF ASSETS

At each reporting date, the group reviews the carrying amounts of its tangible and intangible 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.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

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.

1.24 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

1.25 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 period, the group has adopted those new and revised standards and interpretations issued by the IFRIC 4 IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and are effective for annual reporting periods beginning on 1 September 2020.

2.1.1 Changes in Accounting Policies

New and amended standards and interpretations

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

These amendments had no impact on the financial statements of the group, but may impact future periods should the group enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

These amendments had no impact on the consolidated and separate financial statements of the group as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

These amendments had no impact on the consolidated and separate financial statements of, nor is there expected to be any future impact to the group.

Conceptual Framework for Financial Reporting

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

These amendments had no impact on the consolidated and separate financial statements of the group.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

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 applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted.

This amendment had no impact on the consolidated and separate financial statements of the group.

2.2 STANDARDS AND INTERPRETATIONS IN ISSUE, 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. The group intends to adopt these new and amended Standards and interpretations, if applicable, when they become effective.

Standard, Amendment or Interpretation	Description
IFRS 17: *Insurance* Effective from 1 January 2023	In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by: • A specific adaptation for contracts with direct participation features (the variable fee approach) • A simplified approach (the premium allocation approach) mainly for short-duration contracts IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the group.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current amendments effective from 1 January 2023	In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify: • What is meant by a right to defer settlement • That a right to defer must exist at the end of the reporting period • That classification is unaffected by the likelihood that an entity will exercise its deferral right • That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework – Amendments to IFRS 3 amendments effective from 1 January 2022	In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. These amendments had no impact on the financial statements of the group, but may impact future periods should the group enter into any business combinations

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Amendments effective from 1 January 2022	In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities 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 costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the group.
Amendments to IAS 37 *Onerous Contracts – Costs of Fulfilling a Contract*	In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

IFRS 1 *First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter*	As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the group.
Amendment to IFRS 9 *Financial Instruments – Fees in the '10 per cent' test for de-recognition of financial liabilities*	IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the group.

Amendment to IAS 41 *Agriculture – Taxation in fair value measurements*	As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the group.

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

FOR THE YEAR ENDED 31 AUGUST 2021

		GROUP		COMPANY	
		2021	2020	2021	2020
	Notes	K million	K million	K million	K million
Revenue from contracts with customers	2	163 259	146 953	98 217	80 187
Operating profit/(loss)	3	31 941	8 137	19 954	(5 707)
Dividend income		71	28	-	-
Finance costs	4a	(2 774)	(3 902)	(1 454)	(2 088)
Interest income	4b	100	22	100	22
Profit/(loss) before taxation		29 338	4 285	18 600	(7 773)
Income tax expense	5	(8 869)	(1 546)	(7 774)	2 184
Net profit/(loss) for the year		20 469	2 739	10 826	(5 589)
Other comprehensive income					
Items that may be reclassified to profit or loss in subsequent periods:					
Cash flow hedges		177	(232)	177	(232)
Tax effect of the cash flow hedges	13	(53)	70	(53)	70
Other comprehensive income/(loss) relating to cash flow hedges	17	124	(162)	124	(162)
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	110	31	-	-
Tax effect on valuation of unlisted investment	7	(125)	(9)	-	-
Other comprehensive income/(loss) relating to valuation of unlisted investments	7	(15)	22	-	-
Total other comprehensive income/(loss)		109	(140)	124	(162)
Total comprehensive income/(loss) for the year		20 578	2 599	10 950	(5 751)
Basic and diluted earnings per share (tambala)	22	2 869	384		

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

AS AT 31 AUGUST 2021

		GROUP		COMPANY	
		2021	2020	2021	2020
	Notes	K million	K million	K million	K million
ASSETS					
Non-current assets					
Property, plant and equipment	6	58 190	55 498	40 593	38 970
Right of use Assets	20	9 458	2 558	5 048	1 550
Investments	7	604	494	324	324
		68 252	58 550	45 965	40 844
Current assets					
Inventories	8	44 248	46 919	28 438	27 741
Growing cane	9	28 865	22 831	20 309	16 651
Trade and other receivables	10	18 681	15 891	17 502	14 784
Amount due from related parties	15	524	1 864	47 759	3 668
Derivative financial assets	17	33	-	33	-
Bank balances and cash	11	3 922	318	3 922	318
		96 273	87 823	117 963	63 162
Total assets		164 525	146 373	163 928	104 006
EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital and premium		782	782	782	782
Fair value reserve		331	346	-	
Hedging reserve		23	(101)	23	(101)
Retained earnings		87 035	70 847	21 043	14 498
		88 171	71 874	21 848	15 179

	Notes	GROUP		COMPANY	
		2021	2020	2021	2020
		K million	K million	K million	K million
Non current liabilities					
Malawi government vitamin A grant	12	205	212	175	181
Lease liabilities	20	7 941	1 858	3 420	853
Deferred tax	13	21 273	19 059	15 008	11 967
		29 419	21 129	18 603	13 001
Current liabilities					
Trade and other payables	14	27 414	26 643	22 074	22 847
Contract liabilities	14.1	2 652	795	2 652	795
Lease liabilities	20	2 449	1 875	2 449	1 567
Amount due to related parties	15	4 237	4 498	88 626	33 892
Short-term borrowings	16	-	15 019	-	15 019
Bank overdrafts	11	3 500	1 561	3 500	1 561
Derivative financial liabilities	17	-	145	-	145
Income tax liability		6 683	2 834	4 176	-
		46 935	53 370	123 477	75 826
Total equity and liabilities		164 525	146 373	163 928	104 006

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 158 were approved and authorised for issue by the board of directors on 23 November 2021 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 2021

GROUP

Balance at 1 September 2019
Total comprehensive income for the year
- Profit for the year
- cashflow hedges
Fair value gain on investment
Dividends declared and paid
Balance at 31 August 2020
Balance as at 1 September 2020
Total comprehensive income for the year
- profit for the year
- cash flow hedges
Fair value loss on investment
Dividends declared and paid
Balance at 31 August 2021

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	324	61	68 465	69 632
-	-	22	(162)	2 382	2 242
-	-	-	-	2 739	2 739
-	-	-	(162)	-	(162)
-	-	22	-	-	22
-	-	-	-	(357)	(357)
14	768	346	(101)	70 847	71 874
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

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 AUGUST 2021

(CONTINUED)

COMPANY

Balance at 1 September 2019

Total comprehensive loss for the year

- loss for the year
- cash flow hedges

Dividends declared and paid

Balance at 31 August 2020

Balance as at 1 September 2020

Total comprehensive income for the year

- Profit for the year
- cash flow hedges

Dividends declared and paid

Balance at 31 August 2021

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 hedging reserve arises in respect of foreign currency forward sales contracts in place at 31 August 2021 which mature in the new financial year. The fair value reserve relates to fair valuation as at 31 August 2021 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	-	61	20 444	21 287
			(162)	(5 946)	(6 108)
-	-	-	-	(5 589)	(5 589)
-	-	-	(162)	-	(162)
-	-	-	-	(357)	(357)
14	768	-	(101)	14 498	15 179
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

GROUP AND COMPANY	
2020 K million	2019 K million
20	20
14	14
768	768
782	782

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 AUGUST 2021

	Notes	GROUP 2021 K million	GROUP 2020 K million	COMPANY 2021 K million	COMPANY 2020 K million
Cash flows from operating activities					
Cash operating profit	a	34 671	21 855	21 915	3 347
Working capital requirements	b	3 588	7 933	8 312	19 505
Cash generated from operations		38 259	29 788	30 227	22 852
Finance costs paid	c	(2 677)	(3 875)	(1 368)	(2 066)
Interest income received	4	100	22	100	22
Income tax paid	d	(2 967)	(2 372)	(600)	(566)
Net cash inflows from operating activities		32 715	23 563	28 359	20 242
Cash flows from investing activities					
Purchase of property, plant and equipment	6	(8 873)	(6 190)	(5 905)	(4 832)
Proceeds on disposal of plant and equipment		349	36	321	1
Dividend received		71	28	-	-
Net cash outflows from investing activities		(8 453)	(6 126)	(5 584)	(4 831)
Net cash inflows before financing activities		24 262	17 437	22 775	15 411
Cash flows from financing activities					
Short-term borrowings	16	(15 019)	-	(15 019)	-
Dividends paid	23	(4 281)	(357)	(4 281)	(357)
Lease liabilities paid	20	(3 297)	(3 750)	(1 810)	(1 723)
Net cash outflows from financing activities		(22 597)	(4 107)	(21 110)	(2 080)
Net increase in cash and cash equivalents		1 665	13 330	1 665	13 331
Cash and cash equivalents at beginning of year		(1 243)	(14 573)	(1 243)	(14 574)
Cash and cash equivalents at end of year	11	422	(1 243)	422	(1 243)
Comprising of:					
Bank balances and cash	11	3 922	318	3 922	318
Bank overdrafts	11	(3 500)	(1 561)	(3 500)	(1 561)
		422	(1 243)	422	(1 243)

NOTES TO THE CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOW

FOR THE YEAR ENDED 31 AUGUST 2021

		Notes	GROUP 2021 K million	GROUP 2020 K million	COMPANY 2021 K million	COMPANY 2020 K million
a Cash operating profit is calculated as follows:						
Profit/(loss) before tax			29 338	4 285	18 600	(7 773)
Add back:	Finance costs		2 774	3 902	1 454	2 088
	Finance income		(100)	(22)	(100)	(22)
	Dividends received		(71)	(28)	-	-
Operating profit			31 941	8 137	19 954	(5 707)
Add back :	Depreciation of property, plant and equipment	6	6 181	6 836	4 282	5 223
	Depreciation of right of use assets	20	2 939	2 126	1 664	1 691
	(Profit)/loss on disposal of property, plant and equipment	3	(349)	(36)	(321)	122
	Change in fair value of growing cane	9	(6 034)	4 800	(3 658)	2 025
	Grant amortisation	12	(7)	(8)	(6)	(7)
Cash operating profit			34 671	21 855	21 915	3 347
b Working capital requirements comprise the following:						
Decrease/(increase) in inventories			2 671	8 558	(697)	6 164
(Increase)/Decrease in trade and other receivables			(2 790)	3 321	(2 718)	3 247
Net increase in amounts due to related parties			1 079	1 900	10 643	11 530
Increase/(Decrease) in trade and other payables			771	(5 705)	(773)	(1 295)
Increase/(Decrease) in contract liabilities			1 857	(141)	1 857	(141)
Working capital requirements			3 588	7 933	8 312	19 505

	Notes	GROUP 2021 K million	GROUP 2020 K million	COMPANY 2021 K million	COMPANY 2020 K million
c Finance costs paid:					
Interest paid on:					
Short-term borrowings	16	(928)	(1 503)	(928)	(1 503)
Bank short-term facilities	4	(1 452)	(2 263)	(398)	(515)
Other - Illovo Sugar Africa Proprietary Limited : Procurement	15.10.3	(30)	(15)	(20)	(11)
Interest on lease liabilities		(1 047)	(818)	(791)	(761)
Foreign exchange gains		780	724	769	724
Finance costs paid on interest-bearing debt		(2 677)	(3 875)	(1 368)	(2 066)
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		(2 834)	(2 395)	-	(472)
Per statements of profit or loss		(7 048)	(3 029)	(4 776)	-
Amounts payable at end of year		6 683	2 834	4 176	-
Prior year over/(under)provision		232	218	-	(94)
Taxation (paid)		(2 967)	(2 372)	(600)	(566)

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, 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

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 2021 K million	GROUP 2020 K million	COMPANY 2021 K million	COMPANY 2020 K million
2. Revenue from contracts with customers					
Revenue represents the proceeds receivable from the sale of:					
Sugar		157 168	141 241	94 301	76 923
Molasses and other products		6 091	5 712	3 916	3 264
		163 259	146 953	98 217	80 187
Analysed by market segment:					
Domestic market		115 300	98 165	69 365	53 565
European Union preferential quotas		8 840	14 110	5 318	7 699
USA quota		2 778	6 386	1 671	3 485
Regional market		36 341	28 292	21 863	15 438
		163 259	146 953	98 217	80 187

	Notes	GROUP 2021 K million	GROUP 2020 K million	COMPANY 2021 K million	COMPANY 2020 K million
3. Operating profit/(loss)					
Revenue		163 259	146 953	98 217	80 187
Change in fair value of growing cane		6 034	(4 800)	3 658	(2 025)
Cost of sales		(96 807)	(90 593)	(58 044)	(59 637)
Distribution expenses		(14 656)	(17 470)	(8 762)	(9 674)
Administrative expenses		(25 889)	(25 953)	(15 115)	(14 558)
Operating profit/(loss) after changes in fair value of biological assets		31 941	8 137	19 954	(5 707)
Less fair value adjustments:					
- growing cane (see note 9)		(6 034)	4 800	(3 658)	2 025
Operating profit/(loss) before changes in fair value of biological assets		25 907	12 937	16 296	(3 682)

3. Operating profit/loss (continued)

	GROUP		COMPANY	
	2021	2020	2021	2020
	K million	K million	K million	K million
Administrative expenses comprise:				
Operating costs	(12 824)	(12 409)	(7 536)	(7 019)
IT Costs	(1 069)	(984)	(641)	(605)
Human Resources costs	(3 895)	(5 769)	(2 730)	(4 068)
Security costs	(1 273)	(1 121)	(617)	(520)
Healthcare costs	(947)	(866)	(463)	(440)
Risk and loss control costs	(2 600)	(1 670)	(1 593)	(850)
Civils costs	(2 802)	(2 220)	(1 169)	(762)
Other overheads	(350)	(761)	(292)	(202)
Depreciation	(129)	(153)	(74)	(92)
	(25 889)	(25 953)	(15 115)	(14 558)
Operating costs comprise:				
Salaries	(3 581)	(5 079)	(2 149)	(3 047)
Operational support service fees analysed as:				
Technical support	(862)	(764)	(517)	(459)
Business support	(1 133)	(1 005)	(680)	(603)
Procurement services	(431)	(382)	(259)	(229)
Other operational costs	(6 817)	(5 179)	(3 931)	(2 681)
	(12 824)	(12 409)	(7 536)	(7 019)

	GROUP		COMPANY	
	2021	2020	2021	2020
	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)	(6 181)	(6 836)	(4 282)	(5 223)
Depreciation of Right of Use assets (see note 20a)	(2 939)	(2 126)	(1 664)	(1 691)
Profit on disposal of plant and equipment	349	-	321	(131)
Amortisation of factory overhaul costs	(4 588)	(4 446)	(2 988)	(2 613)
Directors' fees	(33)	(19)	(33)	(19)
Auditor's remuneration:				
- statutory audit fees	(152)	(142)	(106)	(92)
- expenses	(6)	(23)	(6)	(11)
Operational support service fees (see note 15.10.1)	(2 426)	(2 152)	(1 456)	(1 291)
Expense relating to short-term leases & leases of low value assets	(400)	(370)	(267)	(328)
Contribution to retirement benefit funds	(994)	(969)	(696)	(509)
Foreign exchange differences	722	364	722	314

	GROUP		COMPANY	
	2021 K million	2020 K million	2021 K million	2020 K million
4.a Finance costs				
Interest charged on:				
Short-term borrowings	(909)	(1 428)	(909)	(1 428)
Bank short-term facilities	(1 452)	(2 263)	(398)	(515)
Other - Illovo Sugar Africa Proprietary Limited : Procurement	(30)	(15)	(20)	(11)
Lease liabilities	(1 105)	(920)	(849)	(858)
Foreign exchange losses recognised in finance costs	722	724	722	724
Interest expense on bank borrowings and short-term debt	(2 774)	(3 902)	(1 454)	(2 088)
4.b Interest income				
Interest income - interest income on short-term bank deposits	100	22	100	22

	Note	GROUP 2021 K million	GROUP 2020 K million	COMPANY 2021 K million	COMPANY 2020 K million
5. Income tax expense					
Current tax		7 048	3 029	4 776	-
Prior year over-provision		(232)	-	-	-
Deferred tax	13	2 053	(1 483)	2 998	(2 184)
Total income tax recognised in the year		8 869	1 546	7 774	(2 184)
		%	%		
Reconciliation of rate of taxation:					
Malawi corporation rate of taxation		30.0	30.0		
Increase in charge for year due to:					
Disallowable expenditure		0.2	6.1		
Effective rate of taxation		30.2	36.1		

For income tax purposes the Malawi Revenue Authority treats the group as one tax paying entity, therefore all tax balances and charge 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 2019
Additions
Transfers
Disposals
Closing balance at 31 August 2020

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

Depreciation

Opening balance at 1 September 2019
Charge for the year
Disposals
Closing balance at 31 August 2020

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

Net book value

Closing balance at 31 August 2020
Closing balance at 31 August 2021

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
6 167	6 575	33 793	4 895	26 596	78 026
-	-	-	2 161	4 029	6 190
70	62	2 707	(2 839)	-	-
-	(24)	(309)	-	-	(333)
6 237	6 613	36 191	4 217	30 625	83 883
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
723	4 231	6 331	-	10 597	21 882
101	1 084	933	-	4 718	6 836
-	(24)	(309)	-	-	(333)
824	5 291	6 955	-	15 315	28 385
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
5 413	1 322	29 236	4 217	15 310	55 498
5 389	1 500	29 285	6 703	15 313	58 190

2021 Hectares	2020 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 2019
Additions
Transfers
Disposals
Closing balance at 31 August 2020

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

Depreciation

Opening balance at 1 September 2019
Charge for the year
Disposals
Closing balance at 31 August 2020

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

Net book value

Closing balance at 31 August 2020
Closing balance at 31 August 2021

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 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
4 244	4 402	23 624	2 540	20 067	54 877
-	-	-	1 701	3 131	4 832
-	55	2 561	(2 616)	-	-
-	-	(442)	-	-	(442)
4 244	4 457	25 743	1 625	23 198	59 267
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
488	3 398	3 661	-	7 838	15 385
54	999	284	-	3 886	5 223
-	-	(311)	-	-	(311)
542	4 397	3 634	-	11 724	20 297
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
3 702	60	22 109	1 625	11 474	38 970
3 648	258	22 160	3 364	11 163	40 593

2021 Hectares	2020 Hectares
4 763	4 763
4	4
12 391	12 391
13 300	13 300
3 767	3 767

	GROUP		COMPANY	
	2021	2020	2021	2020
	K million	K million	K million	K million

7. Investments

(a) 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:

Issued capital			42	42
Effective percentage holding			100%	100%
Shares at cost			324	324

(b) Investment at fair value through OCI

Ethanol Company Limited

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

Fair valuation at the beginning of the year	494	463		
Fair value gain	110	31		
Fair valuation at the end of the year	604	494		

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 K8.5 million for the year ended 31 August 2021 (August 2020: K2 million).

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

Unlisted investment at fair value				
Fair value gain/(loss)	110	31		
Deferred tax on fair value gain of unlisted investment (see note 13)	(125)	(9)		
Fair value gain/(loss) of unlisted investment net of deferred tax	(15)	22		

	GROUP		COMPANY	
	2021	2020	2021	2020
	K million	K million	K million	K million
8. Inventories				
Consumables	7 373	5 901	4 245	3 598
Sugar	35 224	39 269	23 257	22 991
Factory overhaul costs	1 651	1 749	936	1 152
	44 248	46 919	28 438	27 741

The group deducted inventory provisions of K161 million (August 2020: K1.923 million) to arrive at these numbers; out of which nil (August 2020: K1.799 million) related to write down of export sugar stocks to net realisable value.

The company deducted inventory provisions of K88 million (August 2020: K1.834 million) to arrive at these numbers; out of which nil (August 2020: K1 billion) related to write down of export sugar stocks to net realisable value.

	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
Movement in inventory provisions				
Opening balance	(1 923)	(1 090)	(1 834)	(974)
Provision	(88)	(894)	(88)	(894)
Provision utilised	1 850	61	1 834	34
Closing balance	(161)	(1 923)	(88)	(1 834)

	GROUP		COMPANY	
	2021	2020	2021	2020
	K million	K million	K million	K million
9. Growing cane				
The carrying value of growing cane is be reconciled as follows:				
Carrying value at beginning of year	22 831	27 631	16 651	18 676
Change in fair value	6 034	(4 800)	3 658	(2 025)
Carrying value at end of year	28 865	22 831	20 309	16 651

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	
	2021	2020	2021	2020
The following are the key assumptions in the valuation of growing cane:				
Expected area to harvest the following season (ha)	19 127	19 430	12 587	12 599
Estimated yield (tons cane/ha)	102	104	99	101
Average maturity of cane at 31 March	67%	67%	71.1%	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	
	2021	2021	2021	2021
	K million	K million	K million	K million
	+ 1%	-1%	+ 1%	-1%
Estimated sucrose content	29 058	29 046	20 339	20 331
Estimated sucrose price	29 068	29 044	20 346	20 330

	GROUP 2021 K million	GROUP 2020 K million	COMPANY 2021 K million	COMPANY 2020 K million

10. Trade and other receivables

Trade receivables	12 293	10 483	12 293	10 483
Other receivables and prepayments	6 388	5 408	5 209	4 301
Balance at end of year	18 681	15 891	17 502	14 784

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 K1,359 million (August 2020: K2.689 million). Set out below is the movement in the allowance for expected credit losses of trade receivables:

As at 1 September 2020	(1 005)	(393)	(1 005)	(393)
Provision for expected credit losses	-	(612)	-	(612)
As at 31 August 2021	(1 005)	(1 005)	(1 005)	(1 005)

The foreign debtors are denominated in the following currencies:

European Euro	440	2 482	440	2 482
South African Rand	479	-	479	-
United States Dollar	440	207	440	207
	1 359	2 689	1 359	2 689

		Trade receivables days past due			
	Current K million	>30 days K million	>60 days K million	>90 days K million	Total K million
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
31 August 2020					
Expected credit loss rate	0.67%	1.34%	2.51%	96%	
Estimated total gross carrying amount at default	8 220	460	842	961	10 483
Expected credit loss	55	6	21	923	1 005

Trade receivables collection has improved during the current year. The balances in the current ageing bracket have increased whereas there has been a decrease in the other ageing brackets year on year, hence the ECL provision has not changed despite the increase in total trade receivables. 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. Cash and cash equivalents

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 2020: 11% and 15%)

	GROUP 2021 K million	GROUP 2020 K million	COMPANY 2021 K million	COMPANY 2020 K million
Bank balances and cash are made up of the following currencies:				
European Euro	6	2	6	2
British Pound	2	67	2	67
Malawi Kwacha	762	186	762	186
South African Rand	488	28	488	28
United States Dollar	2 664	35	2 664	35
	3 922	318	3 922	318
Bank overdraft balances are made up of the following currencies:				
Malawi Kwacha	3 500	1 561	3 500	1 561
Total cash and cash equivalents	422	(1 243)	422	(1 243)
Amount used	3 500	1 561	3 500	1 561
Amount unused	-	33 439	-	33 439
Total bank overdraft facilities	3 500	35 000	3 500	35 000

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

	GROUP		COMPANY	
	2021	2020	2021	2020
	K million	K million	K million	K million

12. Malawi government vitamin A grant

At beginning of year	212	220	181	188
Amortised during the year	(7)	(8)	(6)	(7)
At end of year	205	212	175	181

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	19 059	20 603	11 967	14 221
Current year other comprehensive income charge - cash flow hedges	36	(70)	43	(70)
Current year other comprehensive income charge - change in fair value of unlisted investment	125	9	-	-
Current year charge to profit or loss	2 053	(1 483)	2 998	(2 184)
Balance at end of year	21 273	19 059	15 008	11 967

Analysis of deferred tax liability:

Excess capital allowances over depreciation	8 884	9 065	5 981	6 198
Growing cane	13 253	11 442	9 442	8 438
Other	(989)	(1 596)	(415)	(2 669)
Fair valuation of unlisted investment	125	148	-	-
Balance at end of year	21 273	19 059	15 008	11 967

14. Trade and other payables

	GROUP		COMPANY	
	2021 K million	2020 K million	2021 K million	2020 K million
Trade payables	6 158	6 652	4 337	5 301
Other payables and accruals	21 256	19 991	17 737	17 546
	27 414	26 643	22 074	22 847
Other payables and accruals comprise:				
Accrued expenses	15 763	15 150	13 235	13 873
VAT payable	2 462	1 863	2 339	1 756
Payroll creditors	1 609	1 557	1 217	1 137
Leave pay accruals	439	603	326	452
Sundry accruals	983	818	620	328
	21 256	19 991	17 737	17 546

Trade and other payables include payables denominated in foreign currencies amounting to K1.585 million (August 2020: K4.494 million).

The foreign creditors are denominated in the following currencies:

	GROUP 2021 K million	GROUP 2020 K million	COMPANY 2021 K million	COMPANY 2020 K million
British Pound	-	1	-	1
South African Rand	1 309	1 949	1 029	907
United States Dollar	277	2 545	277	2 165
	1 586	4 495	1 306	3 073

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 27.7.

	GROUP 2021 K million	GROUP 2020 K million	COMPANY 2021 K million	COMPANY 2020 K million

14.1 Contract liabilities

	GROUP 2021 K million	GROUP 2020 K million	COMPANY 2021 K million	COMPANY 2020 K million
Advance receipts from customers	2 652	795	2 652	795
Revenue recognised during the period that was included in the contract liability balance as at the beginning of the year	795	936	795	936

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 2021	Effective ownership interest 2020
Sucoma Holdings Limited, incorporated in Mauritius	Immediate holding company	75.98%	75.98%
Illovo Group Holdings Limited, incorporated in South Africa	Illovo group holding company	75.98%	75.98%
Illovo Sugar Africa Holdings Limited, incorporated in United Kingdom	Ultimate holding company	75.98%	75.98%

15.2 Ultimate holding company

Associated British Foods plc holds 100% (August 2020: 100%) of the issued share capital of Illovo Sugar Africa Proprietary Limited (formerly Illovo Sugar Proprietary Limited) and therefore has an effective ownership interest of 75.98% (August 2020: 75.98%) in the group.

15.3 Illovo Group holding company

Illovo Sugar Africa Proprietary 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. 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) 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). 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. Operational support service fees are charged on cost-plus basis, allowing a margin of 8% for technical and business support services and 15% 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.

The trading balance owing by the group as disclosed in note 15.7.2 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.

15.4 Immediate holding company

Transactions between the group and Sucoma Holdings Limited relate to the payment of dividends. Dividends paid to SHL 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 1% commission which is disclosed in note 15.8.1.

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).

There is also a distributor agreement in place between IGMS and the group. A 3% rebate is given to IGMS on sales to Rwanda.

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 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 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.

The outstanding balances between the group and fellow subsidiary companies such as Kilombero Sugar Company Limited and Zambia Sugar Plc arising from cost recoveries are disclosed in notes 15.7.1 and 15.7.2. 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 Rwanda 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. 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	
		2021	2020	2021	2020
		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. 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 2021 K million	GROUP 2020 K million	COMPANY 2021 K million	COMPANY 2020 K million
AB Azucarera Iberia S.L.	2	524	1 617	524	1 617
Silver Spoon	2	-	247	-	247
Dwangwa Sugar Corporation Limited	2	-	-	47 235	1 804
		524	1 864	47 759	3 668
Amounts due from related parties are denominated in the following currencies:					
European Euro		524	1 864	524	1 864
Malawi Kwacha		-	-	47 235	1 804
		524	1 864	47 759	3 668

15.7.2 Amounts due to related parties:

		GROUP		COMPANY	
		2021 K million	2020 K million	2021 K million	2020 K million
Dwangwa Sugar Corporation Limited	3	-	-	85 268	29 966
Holding company and fellow subsidiaries		4 237	4 498	3 358	3 926
		4 237	4 498	88 626	33 892
Holding company and fellow subsidiaries comprise:					
East African Supply Proprietary Limited	2	61	24	61	24
Illovo Group Marketing Services Limited	2	2 115	2 889	2 115	2 889
Illovo Sugar Africa Proprietary Limited - Corporate Division	1	254	496	208	359
Illovo Sugar Africa Proprietary Limited - Procurement Division	1	1 783	999	970	564
Kilombero Sugar Company Limited	2	-	25	-	25
Ubombo Sugar Limited	2	20	2	-	2
Zambia Sugar Plc	2	4	63	4	63
		4 237	4 498	3 358	3 926

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

	GROUP		COMPANY	
	2021	2020	2021	2020
	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:

South African Rand	2 118	1 521	1 239	949
United States Dollar	2 119	2 977	2 119	2 977
	4 237	4 498	3 358	3 926

Notes

1 - Holding companies (refer to note 15.1 - 15.4)

2 - Fellow subsidiaries of holding companies (refer to note 15.5)

3 - Subsidiary of Illovo Sugar (Malawi) plc (refer to note 15.6)

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 (Rwanda rebate)
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
Ubombo Sugar 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 Rwanda
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 2021 K million	GROUP 2020 K million	COMPANY 2021 K million	COMPANY 2020 K million
2	Flight charges recoveries	96	59	96	59
2	Export agency commission	478	486	287	264
2	Export agency commission	667	62	667	62
2	Logistics cost recoveries	4 804	2 001	4 804	2 001
1	Operational support service fees	2 426	2 152	1 456	1 291
1	Cost recoveries	2 353	2 082	1 929	1 353
1	Procurement of goods and services	13 242	10 099	7 945	6 393
2	Cost recoveries	207	-	207	-
1	Dividend	3 253	271	3 253	271
2	Cost recoveries	-	92	-	2
2	Cost recoveries	27	37	27	37
		27 553	17 251	20 671	11 733
3		3 668	2 719	3 668	2 719
2		17 522	5 225	17 522	5 225
2		1 328	613	1 328	613
3		245	364	245	364
		22 763	8 921	22 763	8 921
	Effective interest rate (%)				
1	9% on overdue balances	29	15	20	15
		29	15	20	15

		Effective interest rate (%)
16.	Short-term borrowings	
	Nico Asset Managers Limited	13.80%
	Old Mutual Investment Group	13.75%

Opening balance
Interest charged
Interest paid
Amount paid
Balance at end of year

Nico Asset Managers Limited Loan

The group started the year with two short-term money market facilities from Nico Asset Managers Limited of K5 billion each which were rolled over from the previous year with the applicable interest rate being an average yield for the preceding 182 days treasury bill, plus a premium of 100 basis points per annum for both papers. The commitment fee paid was 0.165% paid in advance on both papers. In November 2020, the group consolidated the papers into a one K10 billion paper but rolled forward only K7 billion. The group then proceeded to repay K5 billion in March 2021 and K2 billion in July 2021. The loan attracted a commitment fee of 0.165% payable in advance. Interest was payable quarterly in arrears until the last repayment date.

	GROUP		COMPANY	
	2021	2020	2021	2020
	K million	K million	K million	K million
	-	10 000	-	10 000
	-	5 019	-	5 019
	-	15 019	-	15 019

	GROUP & COMPANY			GROUP & COMPANY		
	2021	2021	2021	2020	2020	2020
	K million	K million	K million	K million	K million	K million
	Nico Asset Managers Limited	Old Mutual Investment Group	Total	Nico Asset Managers Limited	Old Mutual Investment Group	Total
	10 000	5 019	15 019	10 081	5 013	15 094
	684	225	909	918	510	1 428
	(684)	(244)	(928)	(999)	(504)	(1 503)
	(10 000)	(5 000)	(15 000)	-	-	-
	-	-	-	10 000	5 019	15 019

Old Mutual Investment Group Loan

The group started the year with a short-term money market facility of K5 billion from Old Mutual Investment Group. The applicable interest rate to the Old Mutual Investment Group Limited loan was an average yield for the preceding 182 days treasury bill as per treasury bill auction results plus a premium of 125 basis points per annum. Interest was payable on a quarterly basis in arrears, plus arrangements fees of 0.25% payable in advance. In November 2020 the group repaid K2 billion and rolled forward K3 billion which was repaid in March 2021.

17. Derivative financial instruments

	GROUP		COMPANY	
	2021 K million	2020 K million	2021 K million	2020 K million
Forward exchange contracts - designated as cash flow hedges	33	(145)	33	(145)
Comprising:				
Assets	33	-	33	-
Liabilities	-	(145)	-	(145)
At end of the year	33	(145)	33	(145)

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

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. Comparatively, the cash flow hedges of the expected future sales in 2020 were assessed to be highly effective and an unrealised loss of K145 million with a deferred tax liability of K44 million was included in OCI in respect of these contracts.

	GROUP 2021 K million	GROUP 2020 K million	COMPANY 2021 K million	COMPANY 2020 K million

17. Derivative financial instruments (continued)

The amounts retained in OCI at 31 August 2021 are expected to mature and affect the statement of profit or loss in 2022. The disaggregation of changes of OCI by the hedging reserve in equity is shown below.

	GROUP 2021 K million	GROUP 2020 K million	COMPANY 2021 K million	COMPANY 2020 K million
Currency forward contracts	(23)	(101)	(23)	(101)
Reclassified to statement of profit or loss	101	(61)	101	(61)
Total	78	(162)	78	(162)

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 2021						
Notional amount (€000)	-	800	300	-	-	1 100
Average forward rate (EUR/USD)	-	1.2174	1.2291	-	-	-
As at 31 August 2020						
Notional amount (€000)	1 900	100	-	-	-	2 000
Average forward rate (EUR/USD)	1.1160	1.1230	-	-	-	-

18. Capital commitments

	GROUP 2021 K million	GROUP 2020 K million	COMPANY 2021 K million	COMPANY 2020 K million
Contracted	1 022	711	724	237
Approved but not contracted	4 978	4 260	3 682	2 070
	6 000	4 971	4 406	2 307

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 K761.7 million (August 2020: K1.066 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 adopted IFRS16 Leases effective 1st September 2019. 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.

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 2019	806	1 586	2 392
Additions	-	2 292	2 292
Depreciation charge	(244)	(1 882)	(2 126)
As at 31 August 2020	562	1 996	2 558
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
Company			
As at 1 September 2019	713	1 319	2 032
Additions	-	1 209	1 209
Depreciation charge	(243)	(1 448)	(1 691)
As at 31 August 2020	470	1 080	1 550
As at 1 September 2020	470	1 080	1 550
Additions	337	4 825	5 162
Depreciation charge	(214)	(1 450)	(1 664)
As at 31 August 2021	593	4 455	5 048

20. Leases (continued)

b Lease liabilities

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

Lease Liability	Group Capital	Company Capital
As at 1 September 2019	3 965	2 910
Additions	3 449	1 181
Accretion of interest	920	858
Foreign currency exchange loss	(33)	(45)
Payment of principal portion	(3 750)	(1 723)
Payment of interest	(818)	(761)
As at 31 August 2020	3 733	2 420
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
Split into:		
Current (1 to 12 months)	2 449	2 449
Non-current (12 months to 5 years)	7 941	3 420
	10 390	5 869

The group adopted IFRS16 Leases effective 1st September 2019. 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 2021, the group had short term leases amounting to K398 million (2020: K366 million) and low value leases amounting to K2 million (2020: K3 million). The company had short term leases amounting to K266 million (2020: K326 million). The company did not have any low value leases in both years.

	GROUP & COMPANY	
	2021	2020
	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.

	2021	2020
Kwacha/European Euro	985	892
Kwacha/South African Rand	61.3	45
Kwacha/United States Dollar	821	750
Overall Consumer Price Inflation	8.3%	7.6%

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.

	2021	2020
Kwacha/European Euro	961	831
Kwacha/South African Rand	57	47
Kwacha/United States Dollar	790	746
Overall Consumer Price Inflation - average	8.3%	7.6%

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:

	2021	2020
Earnings		
Earnings for the purposes of basic and diluted earnings per share	20 469	2 739
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)	2 869	384
Reconciliation of headline earnings:		
Net profit for the year	20 469	2 739
Headline earnings	20 469	2 739
Headline earnings per share (tambala)	2 869	384

Headline earnings are defined as profit after tax.

	GROUP & COMPANY	
	2021	2020
	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.

First interim dividend paid (for current year)	4 281	-
Second interim dividend paid (for previous year)	-	-
Final dividend paid (for previous year)	357	357
	4 638	357
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)	650	50

The board of directors recommend payment of K4.281 million as dividend for the year ended 31 August 2021 (August 2020: K 357 million).

24. Compensation of key management personnel

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

Short-term benefits	3 801	3 388
Post-retirement benefits	166	191
Other long-term benefits	1 818	2 263
	5 785	5 842

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 2020: 7.5%) and 12.4% (August 2020: 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 2020: 5.0%) and 12.5% (August 2020: 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 K993 million (August 2020: K956 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 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	25 022	33 168	58 190
Property, plant and equipment	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
Derivative financial asset	33	-	-
Amount due from related parties	524	-	524
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
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

Revenue from one customer from the sugar production segment amounted to K29.7 billion (August 2020: K29.5 billion).
The geographical breakdown of revenue has been disclosed on note 2.

26. Segmental analysis (continued)

GROUP Year to 31 August 2020	Sugar production K million	Cane growing K million	TOTAL K million
Revenue	102 204	44 749	146 953
Operating profit	25 580	(17 443)	8 137
Dividend income	28	-	28
Finance costs	(1 561)	(2 341)	(3 902)
Interest income	9	13	22
Taxation	(618)	(928)	(1 546)
Statements of financial position			
Non-current assets			
Property, plant and equipment	22 199	33 299	55 498
	22 199	33 299	55 498
Current assets	60 232	27 591	87 823
Inventories	43 372	3 547	46 919
Growing cane	-	22 831	22 831
Trade and other receivables	14 678	1 213	15 891
Amount due from related parties	1 864	-	1 864
Bank balances and cash	318	-	318
Current liabilities	28 616	21 939	50 555
Trade and other payables	11 846	14 797	26 643
Amount due to related parties	4 498	-	4 498
Short-term borrowings	9 011	6 008	15 019
Bank overdrafts	1 561	-	1 561
Taxation payable	1 700	1 134	2 834
Non-current liabilities	11 617	7 836	19 453
Shareholders equity	42 198	31 115	73 313
Property, plant and equipment transactions are categorised as follows:			
Purchases during the year	4 029	2 161	6 190
Depreciation	4 718	2 118	6 836

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 2021	Group 2020	Company 2021	Company 2020
Financial assets				
Financial assets carried at armotised cost	23 127	18 073	69 183	18 770
Unlisted equity instruments at FVTOCI	604	494	-	-
Derivative financial assets/(liabilities) at FVTPL	33	(145)	33	-
	23 764	18 422	69 216	18 770
The details of financial assets at armotised cost are as follows:				
Trade and other receivables	18 681	15 891	17 502	14 784
Bank balances and cash	3 922	318	3 922	318
Amount due from related parties	524	1 864	47 759	3 668
	23 127	18 073	69 183	18 770
Financial liabilities				
Financial liabilities measured at amortised cost	45 541	51 454	120 069	75 739
The details of financial liabilities at amortised costs are as follows:				
Trade and other payables	27 414	26 643	22 074	22 847
Amount due to related parties	4 237	4 498	88 626	33 892
Short-term borrowings	-	15 019	-	15 019
Lease liabilities	10 390	3 733	5 869	2 420
Bank overdrafts	3 500	1 561	3 500	1 561
	45 541	51 454	120 069	75 739

27.1 Categories of financial instruments (continued)

The following table illustrates the fair value measurement hierarchy for assets and liabilities as at 31 August 2021:	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)	28 865	-	-	28 865
Foreign exchange forward contracts (note 17)	33	-	33	-
Unlisted investment (note 7)	604	-	-	604

For trade receivables, trade payables, short term borrowings, and amounts due and from related parties, the carrying amounts as at 31 August 2021 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.

	GROUP 2021 K million	GROUP 2020 K million	COMPANY 2021 K million	COMPANY 2020 K million

27.4 Foreign currency risk management (continued)

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 2021 K million	GROUP 2020 K million	COMPANY 2021 K million	COMPANY 2020 K million
Assets				
Great Britain Pound	2	67	2	67
European Euro	2 238	2 484	2 238	2 484
South African Rand	967	28	967	28
United States Dollar	3 103	243	3 103	243
	6 310	2 822	6 310	2 822
Liabilities				
European Euro	-	145	-	145
South African Rand	1 890	2 179	1 610	1 138
United States Dollar	587	3 192	587	2 812
	2 477	5 516	2 197	4 095

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.

	European Euro impact		South African Rand impact		United States Dollar impact	
	2020 K million	2020 K million	2021 K million	2020 K million	2021 K million	2020 K million
Profit or loss	224	234	(92)	(215)	252	(295)

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 2021 would move by K139 million (August 2020: K1 billion). 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.

27.5.2 Credit risk management (continued)

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."

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 K10,647 million (August 2020: K10,483 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.

	GROUP 2021 K million	GROUP 2020 K million	COMPANY 2021 K million	COMPANY 2020 K million
Net debt				
Short-term borrowings	-	15 019	-	15 019
Lease liabilities	**10 390**	3 733	**5 869**	2 420
Trade and other payables	**27 414**	26 643	**22 074**	22 847
Amount due to related parties	**4 237**	4 498	**88 626**	33 892
Bank overdrafts	**3 500**	1 561	**3 500**	1 561
Bank balances and cash	**(3 922)**	(318)	**(3 922)**	(318)
	41 619	51 136	**116 147**	75 421

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 2021				
Bank overdraft	**13.1**	**3 500**	**-**	**3 500**
Short-term borrowings	**13.8**	**-**	**-**	**-**
Lease liabilities	**14.8**	**2 449**	**7 941**	**10 390**
		5 949	**7 941**	**13 890**
31 August 2020				
Bank overdraft	13.5	1 561	-	1 561
Short-term borrowings	10.5	15 019	-	15 019
Lease liabilities	18	1 875	1 858	3 733
		18 455	1 858	20 313

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 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
31 August 2020					
Trade and other receivables	15 891	-	-	-	15 891
Amount due from related parties	1 864				1 864
Bank balances and cash	318	-	-	-	318
	18 073	-	-	-	18 073

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 K604 million. Sensitivity analyses of this investments has been provided in Note 7.

27.8 COVID-19

COVID-19 affected business operations across the world in the calendar years 2021 and 2020. The group took cognisance of the potentially ravaging impact of the COVID-19 pandemic to its sales, operations, and the wellbeing of its staff and other stakeholders. Various interventions were therefore pursued to ensure the ultimate safety of staff and all stakeholders in close interaction with the business. Donations and other initiatives were arranged to ensure that proper support was provided to the community surrounding the business, to enable sustainability of all key stakeholders during the pandemic.

An impairment assessment was done on the business in the year and it was noted that there was no risk to the going concern status of the business as a result of COVID-19 or any known events.

28 Events after the reporting period

The Malawi Kwacha weakened relative to major trading currencies after year end. The assessment is ongoing and the arising exchange differences impact on the results and the financial position will reflect in the financial statements for the year ending August 2022.

On 9th November 2021, the board approved a second interim dividend of MK7.1 billion representing MK10 per share.

There were no other events after the reporting date that require disclosure or adjustment to the financial statements.

ANALYSIS OF SHAREHOLDERS

31 August 2021

Category			Shareholders Number	Shareholders %	Ordinary Shares Number held	Ordinary Shares % of shares issued
Individuals						
1	–	5 000	1604	74.60%	2 040 175	0.29%
5 001	–	10 000	237	11.02%	1 802 359	0.25%
10 001	–	50 000	195	9.07%	3 647 541	0.51%
50 001	–	100 000	22	1.02%	964 371	0.14%
100 001	–	200 000	26	1.21%	2 321 584	0.33%
200 001	–	500 000	26	1.21%	5 732 237	0.80%
500 001	–	and over	40	1.86%	696 936 124	97.69%
			2 150	100%	713 444 391	100%

Category	Number	%	Number held	% of shares issued
Banks and nominees	56	2.60%	14 331 455	2.01%
Holding company and non-residents	60	2.79%	543 961 298	76.24%
Individuals	1901	88.42%	23 523 537	3.30%
Insurance, trust, pension and provident	86	4.00%	118 296 620	16.58%
Other corporate bodies	47	2.19%	13 331 481	1.87%
	2 150	100%	713 444 391	100%

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%
	653 412 870	

SHAREHOLDERS' DIARY

Financial / Statutory

Financial year-end	August
Annual general meeting	February

Reports and profit statements

Profit announcement for the year	November
Annual report and financial statements	February
Interim report	May

Notice is hereby given that the 57th Annual General Meeting of members of the company will be held at Ryalls Hotel, Blantyre on Tuesday, 22 February 2022 at 14h00 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 56th Annual General Meeting held on 24th February 2021.

2. FINANCIAL STATEMENTS

To receive and if deemed appropriate to adopt the annual financial statements for the year ended 31st August 2021 along with the Auditor's report.

3. DIVIDEND

To declare a final dividend of K2.9 billion representing K4 per share in respect of the financial year ended 31st August 2021 as recommended by the Board of Directors.

An interim dividend of K2.9 billion representing K4 per share was paid in June 2021 in addition to the second interim dividend of K7.1 billion representing K10 per share paid in December 2021. This will bring the total dividend for the year to K12.8 billion representing K18 per share against the prior year full dividend of K2 per share.

4. RE – APPOINTMENT OF AUDITORS

To approve the re-appointment of Ernst & Young (EY) as auditors for the year ending August 2022 and to authorize the Directors to determine their remuneration.

5. APPOINTMENT AND RE–ELECTION OF DIRECTORS

5.1 To confirm the appointment of J K Lipunga who was appointed during the year to fill a casual vacancy pursuant to Article 73(b).

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 MRA, Competition and Fair Trading Commission, Malawi Airlines, Lafarge Malawi Limited, Sunbird Tourism, MPICO Limited. He is currently on the board of Power Market Limited and NBM Capital Markets Limited.

5.2 To re-elect A Lubbe 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.

5.3 To re-elect D N Kasambala 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.

5.4 To re-appoint A Mpungwe (71) who has exceeded the age limit of seventy (70) years in terms of Section 164 (2) (b) of the Companies Act 2013, to hold office until the next Annul General Meeting in line with Section 169 (6) (a) of the Companies Ac, 2013.

6. NON – EXECUTIVE DIRECTORS' REMUNERATION

To approve the fees and sitting allowances for the non-executive directors for the year ending 31st August 2022.

6.1 Annual fees

K6 000 000 (2020: K 3 400 000 per annum).

6.2 Sitting allowances

K300 000 (2020:K160 000) for each committee and / or board meeting attended.

6.3 To authorise the non-executive directors to determine the remuneration of the executive directors for the year ending 31st August 2022.

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 virtual meeting is entitled to appoint a proxy to ask questions to be submitted electronically at the contact details above and vote in his/her stead. The proxy need not be a member of the company. Proxy forms should be sent through email or WhatsApp provided in II above to reach the Company not less than forty eight (48) hours before the start of the meeting.

By order of the board

Maureen Kachingwe
Company Secretary
Registered Offices: Churchill Road, Limbe, Malawi

ILLOVO SUGAR (MALAWI) PLC

FORM OF PROXY FOR THE 57TH 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 Tuesday, 22 February 2022 at 14h00 and at any adjournment thereof as follows:

FORM OF PROXY FOR THE 57TH ANNUAL GENERAL MEETING (continued)

Agenda Item		Mark with X where applicable		
		In favour	Against	Abstain
1	Approval of minutes			
2	Adoption of 2021 annual financial statements			
3	Dividend			
4	Re-appointment of Ernst & Young as auditors			
5	Election of directors			
	5.1 J K Lipunga			
	Re-election of directors			
	5.2 Andre Lubbe			
	5.3 Doug Kasambala			
	5.4 Ami Mpungwe			
6	Determination of directors' remuneration			
	6.1 Fixing directors' annual fees			
	6.2Fixing directors' sitting allowance			
	6.3 Remuneration of executive directors			

Signed at ____________ on this ____________ day of ____________ 2022

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 on Monday, 21 February 2021.
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