

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The directors of Illovo Sugar Limited are responsible for overseeing the preparation and the integrity of the annual financial statements of the group and the company and the objectivity of other information presented in this report.

In order to fulfil this responsibility, the group maintains internal accounting and administrative control systems designed to provide assurance that assets are safeguarded and that transactions are executed and recorded in accordance with the group's policies and procedures.

The annual financial statements, prepared in terms of International Financial Reporting Standards, are examined by independent auditors in conformity with International Standards on Auditing.

An audit committee of the board of directors, chaired by a non-executive director, meets periodically with the auditors and management to discuss internal accounting controls and auditing and financial reporting matters. The auditors have unrestricted access to the audit committee.

The annual financial statements of the group and the company which were prepared on the going concern basis and which appear on pages 47 to 93, were approved by the board of directors on 18 May 2006 and are signed on its behalf by -



R A Williams
Chairman



D G MacLeod
Managing Director

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AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ILLOVO SUGAR LIMITED

We have audited the group and company annual financial statements of Illovo Sugar Limited for the year ended 31 March 2006 set out on pages 47 to 93. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the group and the company at 31 March 2006, and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 1973.



Deloitte & Touche
Registered Auditors

2 Pencarrow Crescent
La Lucia Ridge Office Estate, Durban

Per C A Sagar
Partner

18 May 2006

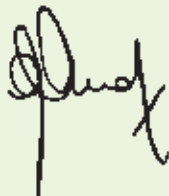
National Executive: V Naidoo (Chief Executive) R M W Dunne (Chief Operating Officer) G M Pinnock (Audit) D L Kennedy (Tax) G G Gelink (Consulting) M G Crisp (Financial Advisory) C R Beukman T J Brown A E Swiegers N T Mtoba (Chairman of the Board) J Rhynes (Deputy Chairman of the Board)

Regional Leader: G C Brazier

A full list of partners and directors is available on request.

LODGEMENT OF RETURNS WITH THE REGISTRAR OF COMPANIES

I hereby certify that for the year ended 31 March 2006, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act, 1973, as amended, and that all such returns are true, correct and up to date.



G D Knox
Company Secretary

Mount Edgecombe
18 May 2006

STATUTORY INFORMATION

Nature of business

The nature of business of the company and its subsidiaries is fully described under the Group profile appearing on page 2.

Review of operations

Detailed commentary is given on pages 13 to 28.

Share capital

Full details of the current authorised and issued share capital are set out in note 24 to the financial statements on page 79.

During the year under review, the issued ordinary share capital of the company increased by 2 933 300 shares to 340 127 800 shares as a result of options being exercised in terms of the Illovo Sugar 1992 Share Option Scheme.

At the forthcoming annual general meeting, as included in the notice of such meeting on pages 95 and 96, members will be requested to grant the directors by special resolution, a general authority, valid until the following annual general meeting of members, to purchase up to 20% of the company's issued share capital, subject to the requirements of the Companies Act, 1973, and the JSE Limited.

Shareholders

An analysis of shareholders and their shareholdings is given on page 94.

Pursuant to the provisions of Section 140A of the Companies Act, 1973, an analysis of the relevant disclosures by nominee shareholders as at 31 March 2006 revealed four beneficial shareholdings equal to or exceeding 5% of the issued ordinary share capital. Details are given on page 94.

Illovo Sugar 1992 Share Option Scheme

During the year under review, the board approved the introduction of the Illovo Sugar Phantom Share Scheme, which is more fully explained on page 53, to replace the further granting of share options in terms of the Illovo Sugar 1992 Share Option Scheme (the option scheme). The option scheme, however, will continue to operate relative to share options previously granted.

The Remuneration / Nomination Committee has approved the granting of all share options in terms of the option scheme. Vesting periods for the share options are one-third after three years, two-thirds after four years, and the full allocation after five years, with the maximum period for the exercising of options being ten years. In terms of the rules of the option scheme, all share options are granted at the closing market price of the shares on the JSE Limited on the trading day immediately preceding the day on which the relevant options are granted.

As approved at the annual general meeting of members held on 17 July 2002, a total of 33 000 000 ordinary shares were reserved and placed under the control of the directors for the purpose of the option scheme.

Options granted to executive directors and senior managers as at 31 March 2006 comprise -

| | <u>No. of shares</u> |
|--|----------------------|
| Options granted and unexpired as at 1 April 2005 | 28 352 200 |
| Less : Options forfeited during the year under review | <u>(325 400)</u> |
| Total options granted and unexpired as at 31 March 2006 | 28 026 800 |
| Less : Options exercised by retired and former employees | <u>(3 949 600)</u> |
| | <u>24 077 200</u> |

This determines an aggregate of 8 922 800 shares not granted as options and which, given its closure, will no longer be required to be reserved for the purpose of the option scheme.

During the year under review, options were exercised in respect of 2 933 300 shares which were allotted and issued by the directors, bringing the aggregate number of shares allotted and issued since the inception of the option scheme to 14 484 900.

The options granted and unexpired or unexercised as at 31 March 2006 are categorised as -

| No. of shares | Expiry date | Option price (cents) |
|-------------------|-------------------|-------------------------|
| 100 000 | 21 April 2006 | 925 |
| 1 737 600 | 30 August 2008 | 435 |
| 1 210 200 | 29 August 2009 | 562 |
| 666 800 | 11 July 2010 | 443 |
| 432 100 | 12 September 2010 | 520 |
| 1 713 800 | 6 June 2011 | 650 |
| 2 101 900 | 20 May 2012 | 805 |
| 3 516 500 | 20 May 2013 | 680 |
| 2 063 000 | 1 June 2014 | 770 |
| <u>13 541 900</u> | | |

STATUTORY INFORMATION CONTINUED

Options granted to executive directors and unexpired or unexercised as at 31 March 2006 are determined as –

| | Options as at 31 March 2005 | Option price (cents) | Options exercised during the year | Options as at 31 March 2006 | Expiry date |
|----------------------|--------------------------------|----------------------------|--|--------------------------------|-------------|
| Clark G J | 26 800 | 443 | – | 26 800 | 11.07.2010 |
| | 90 000 | 650 | – | 90 000 | 06.06.2011 |
| | 110 000 | 805 | – | 110 000 | 20.05.2012 |
| | 140 000 | 680 | – | 140 000 | 20.05.2013 |
| | 94 000 | 770 | – | 94 000 | 01.06.2014 |
| | | | | <u>460 800</u> | |
| Hawley N M | 60 000 | 562 | – | 60 000 | 29.08.2009 |
| | 40 000 | 443 | – | 40 000 | 11.07.2010 |
| | 55 000 | 650 | – | 55 000 | 06.06.2011 |
| | 45 000 | 805 | – | 45 000 | 20.05.2012 |
| | 60 000 | 680 | – | 60 000 | 20.05.2013 |
| | 42 000 | 770 | – | 42 000 | 01.06.2014 |
| | | | | <u>302 000</u> | |
| Hlatshway M I | 10 200 | 562 | – | 10 200 | 29.08.2009 |
| | 6 800 | 520 | – | 6 800 | 12.09.2010 |
| | 22 500 | 650 | – | 22 500 | 06.06.2011 |
| | 20 000 | 805 | – | 20 000 | 20.05.2012 |
| | 160 000 | 680 | – | 160 000 | 20.05.2013 |
| | 36 000 | 770 | – | 36 000 | 01.06.2014 |
| | | | | <u>255 500</u> | |
| MacLeod D G | 185 000 | 435 | – | 185 000 | 30.08.2008 |
| | 200 000 | 562 | – | 200 000 | 29.08.2009 |
| | 315 000 | 443 | – | 315 000 | 11.07.2010 |
| | 250 000 | 650 | – | 250 000 | 06.06.2011 |
| | 250 000 | 805 | – | 250 000 | 20.05.2012 |
| | 350 000 | 680 | – | 350 000 | 20.05.2013 |
| | 215 000 | 770 | – | 215 000 | 01.06.2014 |
| | | | | <u>1 765 000</u> | |
| Russell J T | 140 000 | 435 | – | 140 000 | 30.08.2008 |
| | 80 000 | 562 | – | 80 000 | 29.08.2009 |
| | 80 000 | 443 | – | 80 000 | 11.07.2010 |
| | 90 000 | 650 | – | 90 000 | 06.06.2011 |
| | 110 000 | 805 | – | 110 000 | 20.05.2012 |
| | 140 000 | 680 | – | 140 000 | 20.05.2013 |
| | 87 000 | 770 | – | 87 000 | 01.06.2014 |
| | | | | <u>727 000</u> | |
| Stuart B M | 110 000 | 435 | – | 110 000 | 30.08.2008 |
| | 85 000 | 562 | – | 85 000 | 29.08.2009 |
| | 80 000 | 443 | – | 80 000 | 11.07.2010 |
| | 90 000 | 650 | – | 90 000 | 06.06.2011 |
| | 110 000 | 805 | – | 110 000 | 20.05.2012 |
| | 140 000 | 680 | – | 140 000 | 20.05.2013 |
| | 94 000 | 770 | – | 94 000 | 01.06.2014 |
| | | | | <u>709 000</u> | |
| | <u>4 219 300</u> | – | – | <u>4 219 300</u> | |

Illovo Sugar Phantom Share Scheme

During the year under review, pursuant to a recommendation by the Remuneration / Nomination Committee, the board approved the adoption of the Illovo Sugar Phantom Share Scheme (the phantom scheme).

Whilst the rules of the phantom scheme are modelled on those of the option scheme, the important difference is that options under the phantom scheme are "cash settled" rather than "equity settled". The vesting periods remain unchanged; one-third becoming vested on each of the third, fourth and fifth anniversaries of the relevant grant date, with the maximum period for the exercising of options being ten years.

The advantages to the company in adopting the phantom scheme include –

- no necessity to issue new shares when options are exercised i.e. no share dilution;
- ease of administration; and
- tax effectiveness of expense in the hands of the company (expensing of conventional options not being tax deductible).

The participants will receive the same net proceeds as under the option scheme, but without incurring broking fees which are payable under the option scheme upon the disposal of shares.

The first allocations in terms of the phantom scheme were granted on 13 July 2005; an aggregate of 704 000 share options being granted to the executive directors and a further 1 465 750 share options being granted to senior management.

Illovo Sugar Employees' Share Purchase Scheme

The Illovo Sugar Employees' Share Purchase Scheme (the purchase scheme) was established in 1996 to give employees the opportunity of sharing directly in the profitability and growth of the company by assisting them to acquire shares in the company. Subject to exchange control regulations, the purchase scheme is available to all permanent employees, except directors and those employees who are participants in the option scheme or the phantom scheme.

Any contribution made by an employee for the purchase of shares is enhanced by a 10% company contribution, and the company pays for any trading costs. Either by means of regular salary deductions or once-off payments, employees may acquire up to 5 000 shares in the aggregate and 1 000 shares in a continuous 12 month period. Shares so acquired must be held for a minimum of 12 months.

The purchase scheme is administered by a trust, the trustees of which are appointed by the board.

During the year under review, the trustees of the purchase scheme undertook net sales of 15 433 shares in the company

thereby reducing the total number of shares held to 165 270. Of these shares, which are all registered in the name of the trustees, 165 252 are held on behalf of 291 participants. All such shares have been fully paid for by the participants.

A similar purchase scheme is operated in Malawi in respect of shares in Illovo Sugar (Malawi) Limited.

Dividends

An interim ordinary dividend (No. 28) of 20.0 cents per share was declared on 16 November 2005, and a final ordinary dividend (No. 29) of 42.5 cents per share was declared on 18 May 2006, making the total distribution for the year 62.5 cents per share.

The interim dividend was paid on 9 January 2006 and the final dividend will be paid on 10 July 2006.

Subsidiary companies

The names and financial information concerning the subsidiaries of the company are set out in note 14 to the financial statements on page 75.

Directorate and secretary

The names of the directors and the secretary in office at the date of this report along with the company's business and postal addresses, are set out on pages 6 and 7, and 9 respectively.

Ms K Zarnack was appointed as financial director on 1 October 2005, and Ms I N Mkhize was appointed as a non-executive director on 1 November 2005.

Mr R D Hamilton retired from the board with effect from 3 November 2005.

In terms of the company's articles of association, Messrs B P Connellan, N M Hawley, A R Mpungwe, M J Shaw and R A Williams retire by rotation at the forthcoming annual general meeting. All these directors are eligible and offer themselves for re-election.

The beneficial interests of the directors in the issued ordinary share capital of the company as at 31 March 2006 were as follows -

| | 2006 | | 2005 | |
|----------------|----------------|---------------|---------|----------|
| | Direct | Indirect | Direct | Indirect |
| Clark G J | 30 000 | | 30 000 | |
| Connellan B P | 25 224 | 3 242 | 25 224 | 3 242 |
| Hawley N M | 35 000 | | 35 000 | |
| Hlatshwayo M I | 35 000 | | 35 000 | |
| MacLeod D G | 300 000 | | 300 000 | |
| Russell J T | 100 000 | | 100 000 | |
| Stuart B M | 128 400 | | 128 400 | |
| Williams R A | 37 194 | 7 101 | 37 194 | 7 101 |
| | 690 818 | 10 343 | 690 818 | 10 343 |
| Total | 701 161 | | 701 161 | |

STATUTORY INFORMATION

CONTINUED

No non-beneficial interests were held by any of the directors.

There have been no changes in the above interests since the end of the year under review.

The register of interests of directors and others in the shares of the company is available for inspection at the registered office.

Directors' fees

At the forthcoming annual general meeting, members will be requested to approve increases in the fees payable to non-executive directors with effect from 1 April 2006 as follows –

| | Rands per annum | |
|---------------------------------------|-----------------|-----------|
| | Current | Proposed |
| Board : | | |
| Chairman * | 1 125 000 | 1 400 000 |
| Other members | 105 000 | 125 000 |
| Audit Committee : | | |
| Chairman | 90 000 | 100 000 |
| Other members | 50 000 | 60 000 |
| Remuneration / Nomination Committee : | | |
| Chairman | 70 000 | 80 000 |
| Other members | 50 000 | 60 000 |
| Risk Management Committee : | | |
| Chairman | 60 000 | 65 000 |
| Other members | 50 000 | 50 000 |

* Fee inclusive of committee membership fees and payable monthly in arrears. All other fees are paid quarterly in arrears.

Holding company

Illovo Sugar Limited does not have a holding company.

Auditors

Deloitte & Touche will continue in office in accordance with the provisions of Section 270(2) of the Companies Act, 1973.

Special resolutions passed by subsidiary companies

A number of special resolutions were passed by certain subsidiary companies during the period under review, but are not considered to deal with material matters which would affect the understanding of the group.

Post balance sheet event

Subsequent to the end of the period under review, a joint announcement has been made by the company and Associated British Foods plc (ABF), setting out the details of the firm intention by ABF to make an offer to acquire 51% of the issued ordinary shares of the company for a cash consideration of R21.00 per share, through a scheme of arrangement or substitute offer. The board has considered the terms of the offer, and has expressed the opinion that such terms are fair and reasonable to the shareholders.

INCOME STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2006

| | Notes | Group | | Company | |
|--|-------|---------------------|---------------------------------|---------------------|---------------------------------|
| | | March 2006 Rm | March 2005 Restated Rm | March 2006 Rm | March 2005 Restated Rm |
| Revenue | 4 | 5 468.8 | 5 102.7 | 2 588.7 | 2 368.9 |
| Cost of sales | | 3 448.8 | 3 545.5 | 2 018.7 | 1 961.9 |
| Gross profit | | 2 020.0 | 1 557.2 | 570.0 | 407.0 |
| Distribution expenses | | 419.2 | 380.1 | 223.1 | 194.3 |
| Administrative expenses | | 621.0 | 494.1 | 220.1 | 191.2 |
| Other operating expenses | | 228.3 | 259.3 | 13.8 | 1.6 |
| Operating profit | 5 | 751.1 | 423.7 | 113.0 | 19.9 |
| Dividend income | | 1.0 | 2.6 | 113.1 | 235.0 |
| Net financing costs | 6 | 101.9 | 156.5 | 82.7 | 113.4 |
| Interest paid | | 159.6 | 180.8 | 109.0 | 130.9 |
| Interest received | | (46.0) | (31.9) | (24.2) | (16.7) |
| Foreign exchange (gains)/losses | | (11.7) | 7.6 | (2.1) | (0.8) |
| Profit before taxation and material items | | 650.6 | 269.8 | 143.4 | 141.5 |
| Material items | 7 | 3.5 | (79.2) | 3.1 | (72.1) |
| Profit before taxation | | 654.1 | 190.6 | 146.5 | 69.4 |
| Taxation | 8 | 197.3 | 88.9 | 17.8 | (11.2) |
| Profit for the year | | 456.8 | 101.7 | 128.7 | 80.6 |
| Attributable to: | | | | | |
| Shareholders of Illovo Sugar Limited | | 357.7 | 51.7 | 128.7 | 80.6 |
| Minority interest | | 99.1 | 50.0 | | |
| | | 456.8 | 101.7 | 128.7 | 80.6 |
| Earnings per share (cents)* | | | | | |
| Basic | | 105.8 | 15.4 | | |
| Diluted | | 103.0 | 16.3 | | |

* See Note 10 for headline earnings per share.

BALANCE SHEETS

AT 31 MARCH 2006

| | Notes | Group | | Company | |
|--|-------|------------------|------------------------------|------------------|------------------------------|
| | | March 2006 Rm | March 2005 Restated Rm | March 2006 Rm | March 2005 Restated Rm |
| ASSETS | | | | | |
| Non-current assets | | 2 373.6 | 2 323.0 | 1 577.1 | 1 689.7 |
| Property, plant and equipment | 11 | 1 675.7 | 1 631.2 | 669.0 | 620.5 |
| Cane roots | 12 | 589.1 | 543.7 | 80.8 | 82.8 |
| Product registrations | 13 | 29.2 | 30.4 | 29.1 | 29.1 |
| Investment in subsidiaries | 14 | | | 779.1 | 923.9 |
| Investment in associates | 15 | | | – | – |
| Investment in joint ventures | 16 | | | 0.6 | 0.6 |
| Available-for-sale investments | 17 | 1.3 | 1.3 | 1.3 | 1.3 |
| Loans | 18 | 67.3 | 85.6 | 7.6 | 2.2 |
| Deferred taxation asset | 31 | 11.0 | 30.8 | 9.6 | 29.3 |
| Current assets | | 2 261.7 | 1 867.2 | 881.6 | 656.7 |
| Inventories | 19 | 325.6 | 281.0 | 81.5 | 90.6 |
| Growing cane | 20 | 657.9 | 534.5 | 62.0 | 51.3 |
| Trade and other receivables | 21 | 504.8 | 580.7 | 345.4 | 332.8 |
| Factory overhaul costs | 22 | 145.2 | 123.5 | 61.4 | 51.6 |
| Derivative financial instruments | 23 | 0.9 | 1.9 | 0.9 | 1.1 |
| Cash and cash equivalents | | 627.3 | 345.6 | 330.4 | 129.3 |
| Total assets | | 4 635.3 | 4 190.2 | 2 458.7 | 2 346.4 |
| EQUITY AND LIABILITIES | | | | | |
| Equity attributable to shareholders in Illovo Sugar Limited | | 1 425.5 | 1 135.0 | 909.2 | 873.5 |
| Share capital and premium | 24 | 298.4 | 282.5 | 298.4 | 282.5 |
| Share-based payment reserve | 25 | 8.1 | 4.4 | 8.1 | 4.4 |
| Non-distributable reserves | 26 | 122.1 | 95.4 | 308.4 | 307.7 |
| Dividend reserve | 27 | 144.6 | 45.5 | 144.6 | 45.5 |
| Retained earnings | 28 | 852.3 | 707.2 | 149.7 | 233.4 |
| Minority interest | | 388.0 | 330.9 | | |
| Total equity | | 1 813.5 | 1 465.9 | 909.2 | 873.5 |
| Non-current liabilities | | 664.7 | 698.8 | 124.8 | 127.1 |
| Long term borrowings | 29 | 172.2 | 237.5 | – | – |
| Deferred taxation liability | 31 | 492.5 | 461.3 | 124.8 | 127.1 |
| Current liabilities | | 2 157.1 | 2 025.5 | 1 424.7 | 1 345.8 |
| Short term borrowings | 30 | 805.0 | 799.9 | 752.9 | 752.7 |
| Trade and other payables | 32 | 913.3 | 811.0 | 450.6 | 371.6 |
| Bank overdraft | | 91.1 | 109.8 | – | – |
| Taxation | | 70.7 | 35.7 | 1.8 | 1.8 |
| Provisions | 33 | 186.7 | 175.0 | 129.1 | 125.6 |
| Derivative financial instruments | 23 | 90.3 | 94.1 | 90.3 | 94.1 |
| Total liabilities | | 2 821.8 | 2 724.3 | 1 549.5 | 1 472.9 |
| Total equity and liabilities | | 4 635.3 | 4 190.2 | 2 458.7 | 2 346.4 |

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2006

| | Notes | Group | | Company | |
|--|-------|------------------|------------------------------|------------------|------------------------------|
| | | March 2006 Rm | March 2005 Restated Rm | March 2006 Rm | March 2005 Restated Rm |
| Cash flows from operating activities | | | | | |
| Operating profit before working capital movements | a | 710.5 | 533.0 | 169.7 | 87.2 |
| Working capital movements | b | 117.2 | 134.7 | 225.2 | (58.5) |
| Cash generated from operations | | 827.7 | 667.7 | 394.9 | 28.7 |
| Net financing costs | | (101.9) | (156.5) | (82.7) | (113.4) |
| Taxation paid | c | (89.5) | (60.1) | (0.7) | (10.7) |
| Dividend income | | 1.0 | 2.6 | 113.1 | 235.0 |
| Dividends paid | e | (150.9) | (174.3) | (113.3) | (133.8) |
| Net cash inflow from operating activities | | 486.4 | 279.4 | 311.3 | 5.8 |
| Cash flows from investing activities | | | | | |
| Replacement of property, plant and equipment | | (120.8) | (134.1) | (30.1) | (42.2) |
| Acquisition of operating leases | | – | (172.2) | – | (172.2) |
| Expansion capital expenditure | | (75.4) | (18.5) | (75.4) | (0.2) |
| Capitalisation of product registrations | | (8.8) | (7.3) | (8.8) | (7.3) |
| Proceeds on disposal of plant and equipment | | 4.9 | 23.9 | 2.1 | 11.6 |
| Proceeds on disposal of property | | 25.3 | – | 5.8 | – |
| Proceeds on disposal of businesses | d | – | 429.9 | – | 331.1 |
| Research and development expenditure | | (14.5) | (17.4) | (14.5) | (17.4) |
| Net movement on investments and loans | | 13.7 | 2.7 | (5.4) | 0.8 |
| Net cash (outflow)/inflow from investing activities | | (175.6) | 107.0 | (126.3) | 104.2 |
| Net cash inflow before financing activities | | 310.8 | 386.4 | 185.0 | 110.0 |
| Cash flows from financing activities | | | | | |
| Long term borrowings repaid | | (15.2) | (133.1) | – | – |
| Short term borrowings (repaid)/paid | | (42.9) | (169.1) | 0.2 | (47.7) |
| Capitalised finance leases repaid | | (0.2) | (0.5) | – | – |
| Proceeds from issue of share capital | f | 15.9 | 18.2 | 15.9 | 18.2 |
| Net cash (outflow)/inflow from financing activities | | (42.4) | (284.5) | 16.1 | (29.5) |
| Net increase in cash and cash equivalents | | 268.4 | 101.9 | 201.1 | 80.5 |
| Cash and cash equivalents at beginning of the year | g | 358.9 | 243.7 | 129.3 | 48.8 |
| Cash and cash equivalents at end of the year | | 627.3 | 345.6 | 330.4 | 129.3 |

NOTES TO THE CASH FLOW STATEMENTS

| | Group | | Company | |
|--|------------|------------------------|------------|------------------------|
| | 2006 Rm | 2005 Restated Rm | 2006 Rm | 2005 Restated Rm |
| a Operating profit movements is calculated as follows: | | | | |
| Operating profit before interest and taxation | 751.5 | 423.7 | 113.0 | 19.9 |
| Material items | 3.5 | (79.2) | 3.1 | (72.1) |
| Total income | 755.0 | 344.5 | 116.1 | (52.2) |
| Add back: Depreciation | 127.7 | 161.2 | 47.3 | 56.3 |
| Change in fair value of cane roots | (77.9) | (61.0) | (6.5) | (7.7) |
| Change in fair value of growing cane | (121.6) | (9.8) | (15.2) | (0.1) |
| (Profit)/loss on disposal of property, plant and equipment | (0.9) | 4.9 | 1.9 | 7.5 |
| Loss on disposal of businesses | – | 72.7 | – | 63.7 |
| Amortisation of product registration costs | 10.0 | 0.7 | 8.8 | 0.7 |
| Research and development expenditure | 14.5 | 17.4 | 14.5 | 17.4 |
| Share based payments expense | 3.7 | 2.8 | 2.8 | 2.1 |
| Gains on derivative financial instruments | – | (0.4) | – | (0.5) |
| Operating profit before working capital movements | 710.5 | 533.0 | 169.7 | 87.2 |
| b Working capital movements comprise the following: | | | | |
| Inventories | (44.1) | 226.9 | 9.0 | 15.8 |
| Trade and other receivables | 85.1 | (171.7) | 84.0 | (118.8) |
| Factory overhaul costs | (19.0) | (3.1) | (9.8) | 8.6 |
| Trade and other payables | 95.2 | 82.6 | 142.0 | 35.9 |
| Working capital movements | 117.2 | 134.7 | 225.2 | (58.5) |
| c Taxation paid is reconciled to the amounts disclosed in the income statements as follows: | | | | |
| Amounts unpaid at beginning of year | (32.4) | (9.7) | (1.8) | (1.8) |
| Translation rate adjustment | 1.5 | (0.3) | – | – |
| Other | – | (0.5) | – | – |
| Per income statements (excluding deferred taxation) | (126.1) | (82.0) | (0.7) | (10.7) |
| Amounts unpaid at end of year, net of overpayments | 67.5 | 32.4 | 1.8 | 1.8 |
| Total taxation paid | (89.5) | (60.1) | (0.7) | (10.7) |

| | Group | | Company | |
|--|----------------|------------------------|----------------|------------------------|
| | 2006 Rm | 2005 Restated Rm | 2006 Rm | 2005 Restated Rm |
| d Proceeds on disposal of businesses | | | | |
| The fair value of the assets and liabilities of businesses disposed of were as follows: | | | | |
| Inventories | - | 110.2 | - | 13.6 |
| Growing cane | - | 24.0 | - | 24.0 |
| Cane roots | - | 38.1 | - | 38.1 |
| Trade and other receivables | - | 138.9 | - | 5.2 |
| Factory overhaul costs | - | 7.8 | - | 7.8 |
| Property, plant and equipment | - | 753.9 | - | 420.8 |
| Trade and other payables | - | (284.4) | - | (45.5) |
| Long term liabilities | - | (5.7) | - | - |
| Short term loans | - | (146.3) | - | - |
| Deferred tax liability | - | (100.8) | - | (47.9) |
| Net asset value to group | - | 535.7 | - | 416.1 |
| Portion of purchase price still unpaid | - | (105.8) | - | (85.0) |
| Net proceeds on disposal of business | - | 429.9 | - | 331.1 |
| e Dividends paid are reconciled as follows: | | | | |
| Dividend paid to shareholders of Illovo Sugar Limited (per note 9 to the financial statements) | (113.3) | (133.8) | (113.3) | (133.8) |
| Dividends paid to outside shareholders of subsidiary companies | (37.6) | (40.5) | | |
| Total dividends paid | (150.9) | (174.3) | (113.3) | (133.8) |
| f Proceeds from issue of share capital | | | | |
| During the year the company issued 2 933 300 (2005: 3 363 800) new shares. | 15.9 | 18.2 | 15.9 | 18.2 |
| g Cash and cash equivalents at beginning of year | | | | |
| Cash and cash equivalents consist of cash on hand and balances with banks and investments in money market instruments. | | | | |
| Cash and cash equivalents at the beginning of the year | | | | |
| Per the balance sheet | 345.6 | 242.9 | 129.3 | 48.8 |
| Translation adjustment on opening balance of cash and cash equivalents | 13.3 | 0.8 | | |
| Per the cashflow statement | 358.9 | 243.7 | 129.3 | 48.8 |

STATEMENT OF CHANGES IN EQUITY

| | Share capital and premium Rm | Share based payment reserve Rm | Translation reserve Rm | Other non-distributable reserves Rm |
|---|---------------------------------|-----------------------------------|---------------------------|--|
| Group | | | | |
| Balance at 31 March 2004 | 264.3 | – | – | 109.4 |
| Changes in accounting policies | | 1.6 | | (2.8) |
| Net gains and losses not recognised in the income statement:- | – | 2.8 | – | (11.2) |
| Realised profits - disposal of land | | | | (1.5) |
| Adjustments for cashflow hedges | | | (31.3) | (9.7) |
| Currency translation differences | | | | |
| Derecognition of negative goodwill | | 2.8 | | |
| Recognition of share-based payments | | | | |
| Transfer to dividend reserve | | | | |
| Transfer of debit foreign currency translation reserve to retained earnings | | | 31.3 | |
| Profit for the year | | | | |
| Dividends paid | | | | |
| Issue of share capital | 18.2 | | | |
| Restated balance at 31 March 2005 | 282.5 | 4.4 | – | 95.4 |
| Net gains and losses not recognised in the income statement:- | – | 3.7 | 26.6 | 0.1 |
| Realised losses - disposal of land | | | | 0.2 |
| Change in shareholding | | | | (0.1) |
| Adjustments for cashflow hedges | | | | |
| Currency translation differences | | | 26.6 | |
| Recognition of share-based payments | | 3.7 | | |
| Transfer to dividend reserve | | | | |
| Profit for the year | | | | |
| Dividends paid | | | | |
| Issue of share capital | 15.9 | | | |
| Balance at 31 March 2006 | 298.4 | 8.1 | 26.6 | 95.5 |
| Company | | | | |
| Balance at 31 March 2004 | 264.3 | – | – | 317.5 |
| Changes in accounting policies | | 1.6 | | |
| Net gains and losses not recognised in the income statement:- | – | 2.8 | – | (9.8) |
| Recognition of share-based payments | | 2.8 | | |
| Transfer to dividend reserve | | | | |
| Adjustments for cashflow hedges | | | | (9.8) |
| Profit for the year | | | | |
| Dividends paid | | | | |
| Issue of share capital | 18.2 | | | |
| Restated balance at 31 March 2005 | 282.5 | 4.4 | – | 307.7 |
| Net gains and losses not recognised in the income statement:- | – | 3.7 | – | 0.7 |
| Adjustments for cashflow hedges | | | | 0.7 |
| Recognition of share-based payments | | 3.7 | | |
| Transfer to dividend reserve | | | | |
| Profit for the year | | | | |
| Dividends paid | | | | |
| Issue of share capital | 15.9 | – | | |
| Balance at 31 March 2006 | 298.4 | 8.1 | – | 308.4 |

| Dividend reserve Rm | Retained surplus Rm | Attributable to the shareholders of Illovo Sugar Limited Rm | Minority interest Rm | Total Rm |
|------------------------|---|---|----------------------------|---|
| – | 921.3 (77.9) | 1 295.0 (79.1) | 409.9 (79.8) | 1 704.9 (158.9) |
| 179.3 | (187.9) | (17.0) | (8.7) | (25.7) |
| 179.3 | 1.5 0.2 21.0 (179.3) (31.3) | – (9.5) (31.3) 21.0 2.8 – – | (8.7) | – (9.5) (40.0) 21.0 2.8 – – |
| (133.8) | 51.7 | 51.7 (133.8) 18.2 | 50.0 (40.5) | 101.7 (174.3) 18.2 |
| 45.5 | 707.2 | 1 135.0 | 330.9 | 1 465.9 |
| 212.4 | (212.6) | 30.2 | (4.4) | 25.8 |
| 212.4 | (0.2) (212.4) | – (0.1) 26.6 3.7 – | 2.3 (6.7) | – 2.3 (0.1) 19.9 3.7 – |
| (113.3) | 357.7 | 357.7 (113.3) 15.9 | 99.1 (37.6) | 456.8 (150.9) 15.9 |
| 144.6 | 852.3 | 1 425.5 | 388.0 | 1 813.5 |
| – | 353.8 (21.9) | 935.6 (20.3) | | |
| 179.3 | (179.1) | (6.8) | | |
| 179.3 | (179.3) 0.2 | 2.8 – (9.6) | | |
| (133.8) | 80.6 – | 80.6 (133.8) 18.2 | | |
| 45.5 | 233.4 | 873.5 | | |
| 212.4 | (212.4) | 4.4 | | |
| 212.4 | (212.4) | 0.7 3.7 – | | |
| (113.3) | 128.7 | 128.7 (113.3) 15.9 | | |
| 144.6 | 149.7 | 909.2 | | |

NOTES TO THE FINANCIAL STATEMENTS

I ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the group's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

- presentation of financial statements (IAS 1)
- property, plant and equipment (IAS 16 (Revised))
- share-based payments (IFRS 2)

At the date of approval of these financial statements, the following relevant Standards and Interpretations were in issue, but not yet effective:

- IFRS 7 Financial instruments: Disclosures
- IFRIC 3 Emission Rights
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 7 Financial reporting in hyperinflationary economies
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of embedded derivatives

The group is in the process of evaluating the effects of these new Standards and Interpretations; they are not expected to have a significant impact on the group's results and disclosures.

1.1 IAS 1 Presentation of financial statements

In terms of the requirements of IAS 1 to present financial statements fairly, the group has made two changes to its accounting policies:

The group has transferred out of retained earnings, the full amount of the estimated final dividend declared for the year ended 31 March 2006 to a separate dividend reserve. The dividend has not been accrued; but has been shown as a separate component of equity.

The group has reallocated all foreign exchange gains and losses out of operating profit to net financing costs.

1.2 IAS 16 Property, Plant and Equipment (Revised)

In accordance with IAS 16, the group has adopted the componentisation approach to property, plant and equipment. This requires depreciation to be determined separately for each significant part of an item of property, plant and equipment. In addition, costs relating to the moving and certain indirect costs relating to the rehabilitation of items of property, plant and equipment which were previously capitalised to the asset, are now written off in the period in which they are incurred. The group has made an election in terms of IFRS 1 (First time adoption of IFRS) for certain items of property, plant and equipment whereby their fair value at the date of transition is deemed to be cost.

1.3 IFRS 2 Share-based Payments

IFRS 2 Share-based Payments requires the recognition of equity-settled share-based payments at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period adjusted for actual and expected levels of vesting. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the current fair value determined at each balance sheet date. Prior to the adoption of IFRS 2, the group did not recognise the financial effect of share-based payments until such payments were settled.

In accordance with the transitional provisions of IFRS 2, the Standard has been applied retrospectively to all grants of equity instruments issued after 7 November 2002 that were unvested as of 1 January 2005.

1.4. Other changes in accounting policies

1.4.1 IAS 17 Leases

In accordance with circular 7/2005 of SAICA in respect of the accounting treatment of operating leases, the group now reports all operating leases with fixed rate escalations as an expense on a straight-line basis over the period of the lease.

1.4.2 IAS 31 Interest in joint ventures

In accordance with IAS 31, the group now accounts for investments in jointly-controlled entities using the proportionate consolidation method, whereas previously the group accounted for these entities using the full consolidation method.

2 SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards for the first time.

The principal accounting policies adopted are set out below.

2.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the group, except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

2.2 Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date, except for non-current 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, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. 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.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

2.3 Investments in associates

An associate is an entity over which the group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policy decisions.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost, as adjusted for post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the group's interest in that associate are not recognised.

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the group, profits and losses are eliminated to the extent of the group's interest in the relevant associate.

2.4 Interests in joint ventures

A joint venture is a contractual arrangement whereby the group and other parties undertake an economic activity that is subject to joint control: that is, when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly-controlled entities. The group reports its interests in jointly-controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The group's share of the assets, liabilities, income and expenses of jointly-controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Where the group transacts with its jointly-controlled entities, unrealised profits and losses are eliminated to the extent of the group's interest in the joint venture.

2.5 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

2.6 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

2.7 Foreign currencies

The individual financial statements of each group entity 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 Currency Units, which is the functional currency of the company, and the presentation currency for the consolidated financial statements.

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations (including comparatives) are expressed in Currency Units using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.8 Borrowing 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.

2.9 Retirement benefit costs

The group provides retirement benefits for its employees through a number of defined contribution and defined benefit plans.

Contributions to defined contribution retirement benefit plans are expensed as they fall due. Contributions made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out every three years. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the group's defined benefit obligation and the fair value of plan assets, are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

All plans are funded. Funding shortfalls arising in defined benefit plans are met by group companies through lump sum payments or increased future contributions.

Additional severance liabilities in terms of legislative regulations are assessed annually and provided for.

Historically, qualifying employees have been granted certain post retirement medical benefits. Although the post retirement medical benefit is now closed, a liability still exists in respect of current and retired employees to whom the benefit was granted. These costs are provided on the accrual basis, determined actuarially.

2.10 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on 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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such 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 the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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.

2.11 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the group's accounting policy.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. Depreciation commences when the assets are ready for their intended use. Land is not depreciated.

Management reviews the residual values annually, considering market conditions and projected disposal values. In assessing useful lives, maintenance programmes and technological innovations are considered.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement 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.

2.12 Cane roots and growing cane

Cane roots and growing cane are valued at fair value determined on the following bases:

Cane roots - the escalated average cost, using appropriate inflation related indices, of each year of planting adjusted for the remaining expected life.

Growing cane - the estimated sucrose content valued at the estimated sucrose price for the following season, less the estimated costs for harvesting and transport.

2.13 Factory overhaul costs

Factory overhaul costs represent expenditure actually incurred on plant and equipment for the overhaul of the factory in preparation for the new sugar season commencing after the year-end. This expenditure is written off in full in the following year.

2.14 Research and development expenditure

Expenditure on research and development activities is recognised as an expense in the period in which it is incurred.

2.15 Product Registrations

Expenditure incurred in obtaining the registration of a product to enable sales to be made in specific markets, is capitalised and amortised over the expected useful life of the registration on the straight line basis.

Subsequent expenditure, which increases the life of the registration or increases future economic benefits, is capitalised in the year in which it is incurred. Expenditure to maintain the registration is expensed in the year in which it is incurred.

2.16 Impairment of tangible and intangible assets excluding goodwill

At each balance sheet 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.

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.

2.17 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises 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.

2.18 Financial instruments

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

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At subsequent reporting dates, debt securities that the group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss.

Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the group's accounting policy for borrowing costs (see above).

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the company are recorded at the value of the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

The group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates.

The group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. The

significant interest rate risk arises from bank loans. When appropriate the group converts a proportion of its floating rate debt to fixed rates. The group designates these as cash flow hedges of interest rate risk.

The use of financial derivatives is governed by the group's policies, which provide written principles on the use of financial derivatives consistent with the group's risk management strategy. The group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in profit or loss. The group's policy with respect to hedging the foreign currency risk of a firm commitment is to designate it as a cash flow hedge. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in profit or loss in the same period in which the hedged item affects profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial guarantee contracts are accounted for as insurance contracts and consequently are measured initially at cost and thereafter in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

2.19 Provisions

Provisions are recognised when the group has a present obligation as a result of a past event, and it is probable that the group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

2.20 Share-based payments

The group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferrability, exercise restrictions and behavioural considerations.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

3.1 Critical accounting judgements made by management

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

Impairment of assets

In making its judgement, management has assessed at each balance sheet 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.

3.2 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 balance sheet 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 11 to the financial statements.

Cane roots valuation

The escalated average cost of planting cane roots is adjusted for the remaining expected life. This requires an estimation by management of the average number of ratoons expected from the crop. The carrying value of cane roots is disclosed in note 12 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 estimated sucrose content requires management to assess the expected cane and sucrose yields for the following season considering weather conditions and harvesting programmes. In assessing the estimated sucrose price, management is required to assess into which markets the forthcoming crop will be sold and assess domestic and export prices as well as the related foreign currency exchange rates. The carrying value of growing cane is disclosed in note 20 to the financial statements.

There are no other key assumptions concerning the future, or key sources of estimation uncertainty at the balance sheet date, that management have assessed as having a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4 REVENUE

| | Group | | Company | |
|---------------------------------------|----------------|------------------------|----------------|------------------------|
| | 2006 Rm | 2005 Restated Rm | 2006 Rm | 2005 Restated Rm |
| Revenue represents the proceeds from: | | | | |
| – sugar production | 3 883.2 | 3 740.3 | 2 068.0 | 1 896.7 |
| – cane growing | 1 081.5 | 893.6 | 86.0 | 83.3 |
| – downstream | 504.1 | 468.8 | 434.7 | 388.9 |
| | 5 468.8 | 5 102.7 | 2 588.7 | 2 368.9 |
| Includes export revenue of: | 2 026.7 | 1 604.2 | 910.6 | 686.9 |

5 OPERATING PROFIT

| | Group | | Company | |
|---|--------------|------------------------|--------------|------------------------|
| | 2006 Rm | 2005 Restated Rm | 2006 Rm | 2005 Restated Rm |
| Operating profit has been determined after taking into account the following items: | | | | |
| Depreciation | 127.7 | 161.2 | 47.3 | 56.3 |
| – buildings | 4.8 | 11.7 | 3.3 | 3.7 |
| – leasehold properties | 7.1 | 5.9 | – | 0.1 |
| – plant, machinery and other | 115.8 | 143.6 | 44.0 | 52.5 |
| Loss/(profit) on disposal of plant and equipment | 2.6 | (1.6) | 5.0 | (0.9) |
| Amortisation of product registration costs | 10.0 | 0.7 | 8.8 | 0.7 |
| Amortisation of factory overhaul costs | 127.3 | 119.4 | 51.6 | 60.2 |
| Fair value adjustments | | | | |
| – cane roots | 77.9 | 61.0 | 6.5 | 7.7 |
| – growing cane | 121.6 | 9.8 | 15.2 | 0.1 |
| – financial instruments | – | (0.3) | – | (0.3) |
| Operating lease charges | | | | |
| – property | 9.2 | 19.0 | 8.7 | 19.0 |
| – plant and equipment | 27.5 | 25.6 | 6.8 | 9.4 |
| Auditors' remuneration | 6.1 | 8.1 | 3.0 | 5.4 |
| – audit fees | 5.2 | 4.9 | 2.4 | 2.5 |
| – fees for other services | 0.2 | 2.7 | 0.2 | 2.6 |
| – expenses | 0.7 | 0.5 | 0.4 | 0.3 |
| Research and development costs | 14.5 | 17.4 | 14.5 | 17.4 |
| Staff costs | 941.0 | 945.0 | 402.0 | 430.0 |

6 NET FINANCING COSTS

| | | | | |
|---|---------------|--------|---------------|--------|
| Interest paid on: | | | | |
| Long term borrowings | 14.0 | 14.8 | – | – |
| Bank and short term borrowings | 139.2 | 161.9 | 97.9 | 120.4 |
| Capitalised finance leases | 2.3 | 0.3 | – | – |
| Other | 4.1 | 3.8 | 11.1 | 10.5 |
| Total borrowing costs | 159.6 | 180.8 | 109.0 | 130.9 |
| Interest received on loans and deposits | (46.0) | (31.9) | (24.2) | (16.7) |
| Foreign exchange (gains)/losses | (11.7) | 7.6 | (2.1) | (0.8) |
| | 101.9 | 156.5 | 82.7 | 113.4 |

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7 MATERIAL ITEMS

| | Group | | Company | |
|---|------------|------------------------|------------|------------------------|
| | 2006 Rm | 2005 Restated Rm | 2006 Rm | 2005 Restated Rm |
| Profit/(loss) arising on disposal of properties | 3.5 | (6.5) | 3.1 | (8.4) |
| Loss arising on disposal of businesses | – | (72.7) | – | (63.7) |
| Per income statement | 3.5 | (79.2) | 3.1 | (72.1) |
| Taxation | (0.2) | (24.3) | (0.1) | (24.3) |
| | 3.3 | (103.5) | 3.0 | (96.4) |

8 TAXATION

| | | | | |
|--|-------|-------|-------|--------|
| South African normal taxation – current year | 2.6 | (1.0) | – | – |
| – prior year | 1.7 | – | – | – |
| Foreign taxation – current year | 123.6 | 81.5 | – | 10.7 |
| – prior year | (1.6) | 1.2 | – | – |
| Secondary tax on companies – current year | 13.5 | (9.7) | 13.5 | (9.7) |
| – prior year | – | – | 0.7 | – |
| Deferred taxation – current year | 62.7 | 8.5 | 8.8 | (16.8) |
| – prior year | (5.2) | 12.1 | (5.2) | 8.3 |
| – rate change adjustment | – | (3.7) | – | (3.7) |
| | 197.3 | 88.9 | 17.8 | (11.2) |

| Reconciliation of rate of taxation | % | % | % | % |
|--|-------|-------|--------|--------|
| South African normal rate of taxation | 29.0 | 30.0 | 29.0 | 30.0 |
| Less increase/(reduction) in charge for year due to: | 1.2 | 2.9 | (16.6) | (41.5) |
| Adjustment from prior years | (3.3) | 0.2 | (8.8) | (3.3) |
| Adjustment in respect of material items | – | 9.6 | 0.1 | 18.6 |
| Exempt income | (3.1) | (8.9) | (26.5) | (55.3) |
| Assessed losses created/(utilised) | 0.1 | (0.5) | – | – |
| Reduction in the tax rate | – | (1.5) | – | (2.8) |
| Disallowable expenditure | 5.7 | 15.8 | 11.3 | 16.2 |
| Secondary tax on companies | 0.1 | 0.1 | 0.5 | (7.4) |
| Temporary differences not provided | (0.6) | (8.7) | (2.6) | (15.8) |
| Taxation rate differentials - foreign subsidiaries | (0.5) | 3.5 | – | – |
| Other | 2.8 | (6.7) | 9.4 | 8.3 |
| Effective rate of taxation | 30.2 | 32.9 | 12.4 | (11.5) |
| The estimated tax losses at the end of the year aggregate: | 46.1 | 195.5 | 9.6 | 16.6 |

9 DIVIDENDS PAID

| | Group and Company | |
|---|-------------------|--------------|
| | 2006 Rm | 2005 Rm |
| Dividend no. 25 of 28.0 cents per share (final 2004) - paid 12 July 2004 | | 93.5 |
| Dividend no. 26 of 12.0 cents per share (interim 2005) - paid 10 January 2005 | | 40.3 |
| Dividend no. 27 of 13.5 cents per share (final 2005) - paid 11 July 2005 | 45.5 | |
| Dividend no. 28 of 20.0 cents per share (interim 2006) - paid 9 January 2006 | 67.8 | |
| | 113.3 | 133.8 |

In respect of the current year, the directors have declared a final dividend of 42.5 cents per share which will be paid to shareholders on 10 July 2006. No liability has been raised for this dividend in these financial statements.

The total estimated dividend to be paid has been transferred out of retained earnings to a separate dividend reserve. (refer note 27).

10 HEADLINE EARNINGS PER SHARE

Earnings

| | | |
|---|--------------|-------------|
| Earnings for the purposes of basic earnings per share | 357.7 | 51.7 |
| Dilutive effect of potential ordinary shares | | |
| – Share options | 4.5 | 5.7 |
| Earnings for the purposes of diluted earnings per share | 362.2 | 57.4 |

Number of shares

| | | |
|---|--------------------|-------------|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 338 220 000 | 335 019 478 |
| Dilutive effect of potential ordinary shares | | |
| – Share options | 13 541 900 | 16 660 600 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 351 761 900 | 351 680 078 |

Reconciliation of headline earnings:-

| | | |
|---|--------------|--------------|
| Net profit attributable to shareholders of Illovo Sugar Limited | 357.7 | 51.7 |
| Adjusted for: | | |
| (Profit)/loss on disposal of property, plant and equipment | (5.3) | 5.1 |
| Loss on disposal of businesses | – | 97.0 |
| Headline earnings | 352.4 | 153.8 |

Headline earnings per share

| | | |
|---------|--------------|------|
| Basic | 104.2 | 45.9 |
| Diluted | 101.4 | 45.4 |

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 PROPERTY, PLANT AND EQUIPMENT

| | 2006 | | 2005 | |
|-----------------------------|----------------|--------------------------|----------------|--------------------------|
| | Cost | Accumulated depreciation | Cost | Accumulated depreciation |
| | Rm | Rm | Restated Rm | Restated Rm |
| Group | | | | |
| Freehold land and buildings | 397.0 | 74.0 | 398.7 | 70.4 |
| Leasehold properties | 287.3 | 51.5 | 265.0 | 41.0 |
| Plant, machinery and other | 2 262.5 | 1 146.4 | 2 127.8 | 1 049.9 |
| Capitalised leased plant | 1.2 | 0.4 | 1.4 | 0.4 |
| | 2 948.0 | 1 272.3 | 2 792.9 | 1 161.7 |
| Net book value | 1 675.7 | | 1 631.2 | |
| Company | | | | |
| Freehold land and buildings | 262.8 | 42.7 | 263.7 | 39.7 |
| Leasehold properties | – | – | 2.2 | 1.5 |
| Plant, machinery and other | 993.8 | 544.9 | 906.3 | 510.5 |
| | 1 256.6 | 587.6 | 1 172.2 | 551.7 |
| Net book value | 669.0 | | 620.5 | |

With the exception of land and motor vehicles, the group's property, plant and equipment are insured at cost of replacement amounting to R14 666 million (2005: R13 989 million). Motor vehicles are insured at market value.

The group's properties are wide-ranging, amounting to approximately 108 343 hectares (2005: 112 407) in extent comprising largely the land on which the group's sugar milling and cane growing activities are situated. As the number of individual properties is extensive, a list is not published with these statements, but registers of land and buildings are available for inspection at the relevant registered offices of the group by members of the company or their representatives.

11 PROPERTY, PLANT AND EQUIPMENT CONTINUED

| | Freehold land and buildings | Leasehold properties | Plant machinery and other | 2006 Total | 2005 Total Restated |
|---|-----------------------------------|-------------------------|---------------------------------|-----------------------|---------------------------|
| | Rm | Rm | Rm | Rm | Rm |
| The carrying amount of the group's property, plant and equipment comprises: | | | | | |
| Group | | | | | |
| Net book value at beginning of year | 328.3 | 224.0 | 1 078.9 | 1 631.2 | 2 557.4 |
| Change in accounting policies | | | | | (206.8) |
| Additions | 22.5 | 3.8 | 169.9 | 196.2 | 324.8 |
| Disposal of businesses | – | – | – | – | (807.7) |
| Disposals | (21.1) | (0.8) | (7.4) | (29.3) | (74.3) |
| Exchange differences | (1.9) | 15.8 | (8.6) | 5.3 | (1.0) |
| | 327.8 | 242.8 | 1 232.8 | 1 803.4 | 1 792.4 |
| Depreciation | (4.8) | (7.1) | (115.8) | (127.7) | (161.2) |
| Net book value at end of year | 323.0 | 235.7 | 1 117.0 | 1 675.7 | 1 631.2 |
| The carrying amount of the company's property, plant and equipment comprises: | | | | | |
| Company | | | | | |
| Net book value at beginning of year | 223.8 | 0.8 | 395.9 | 620.5 | 737.0 |
| Change in accounting policies | | | | | (30.4) |
| Additions | 1.5 | – | 104.1 | 105.6 | 214.6 |
| Disposal of businesses | – | – | – | – | (232.0) |
| Disposals | (1.9) | (0.8) | (7.1) | (9.8) | (12.4) |
| | 223.4 | – | 492.9 | 716.3 | 676.8 |
| Depreciation | (3.3) | – | (44.0) | (47.3) | (56.3) |
| Net book value at end of year | 220.1 | – | 448.9 | 669.0 | 620.5 |

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12 CANE ROOTS

The carrying value of cane roots comprises:

| | Group | | Company | |
|---|------------|------------|------------|------------|
| | 2006 Rm | 2005 Rm | 2006 Rm | 2005 Rm |
| Carrying value at beginning of year | 543.7 | 518.4 | 82.8 | 117.5 |
| Change in fair value | 77.9 | 61.0 | 6.5 | 7.7 |
| Acquisition of farms | – | 4.0 | – | – |
| Disposal of businesses | – | (38.1) | – | (38.1) |
| Disposal of farms | (8.5) | (4.3) | (8.5) | (4.3) |
| Exchange rate translation | (24.0) | 2.7 | | |
| Carrying value at end of year | 589.1 | 543.7 | 80.8 | 82.8 |
| Area under cane at 31 March (hectares): | | | | |
| South Africa | 10 668 | 12 088 | 10 668 | 12 088 |
| Malawi | 18 381 | 18 421 | | |
| Zambia | 11 030 | 11 031 | | |
| Swaziland | 7 946 | 7 916 | | |
| Tanzania | 8 003 | 7 984 | | |
| Mozambique | 3 671 | 3 721 | | |
| | 59 699 | 61 161 | | |

13 PRODUCT REGISTRATIONS

Intangible assets comprise product registrations which represent registered rights to exclusively sell licensed products in specific countries.

| | | | | |
|--------------------------------------|--------|-------|-------|-------|
| Balance at the beginning of the year | 30.4 | 23.8 | 29.1 | 22.5 |
| Current year movements | | | | |
| – expenditure | 8.8 | 7.3 | 8.8 | 7.3 |
| – amortisation | (10.0) | (0.7) | (8.8) | (0.7) |
| Balance at the end of the year | 29.2 | 30.4 | 29.1 | 29.1 |

14 INVESTMENT IN SUBSIDIARIES

The principal subsidiaries of Illovo Sugar Limited are as follows:

2006

| | Issued capital | Effective percentage holding | Shares at cost | Amount owing by/(to) subsidiary company | Total investment |
|--|----------------|------------------------------|----------------|---|------------------|
| | Rm | % | Rm | Rm | Rm |
| Illovo Distributors (Pty) Limited | – | 100 | 0.4 | (9.5) | (9.1) |
| Illprop (Pty) Limited | 1.3 | 100 | 0.2 | 0.1 | 0.3 |
| Reynolds Brothers Limited | – | 100 | – | 4.1 | 4.1 |
| Eureka Trading Limited | – | 100 | – | 1.7 | 1.7 |
| Illovo Project Services Limited | – | 100 | – | – | – |
| CGS Investments (Pty) Limited | – | 100 | 0.9 | (1.5) | (0.6) |
| Glendale Sugar Limited | 5.6 | 100 | 20.9 | (17.7) | 3.2 |
| East African Supply (Pty) Limited | – | 100 | – | 13.5 | 13.5 |
| Illovo Sugar (Africa) Limited | 95.8 | 100 | 41.9 | (70.5) | (28.6) |
| Ubombo Sugar Limited | 49.5 | 60 | – | (46.6) | (46.6) |
| Illovo Sugar (Malawi) Limited | 41.9 | 76 | – | – | – |
| Zambia Sugar Plc | 5.1 | 90 | – | 1.0 | 1.0 |
| Maragra Açúcar SARL | 228.3 | 75 | – | 0.5 | 0.5 |
| Kilombero Sugar Company Limited | 0.1 | 55 | – | 1.4 | 1.4 |
| Illovo Group Holdings Limited - ordinary | – | 100 | – | 0.1 | 0.1 |
| Illovo Group Holdings Limited - preference | 1 034.4 | 100 | 815.6 | – | 815.6 |
| Palaa Consultores Marketing E Servicos Lda | – | 100 | – | 0.2 | 0.2 |
| Monitor Holdings Limited | 250.0 | 100 | 17.5 | 0.2 | 17.7 |
| Sucoma Holdings Limited | 388.9 | 100 | – | 2.2 | 2.2 |
| Illovo Tanzania Limited | – | 100 | – | – | – |
| Illovo Sugar Ireland | – | 100 | – | 1.2 | 1.2 |
| Illovo Sugar España, S.L. | – | 100 | – | 1.3 | 1.3 |
| | | | 897.4 | (118.3) | 779.1 |

2005

| | | | | | |
|--|---------|-----|--------------|-------------|--------------|
| Illovo Distributors (Pty) Limited | – | 100 | 0.4 | (7.1) | (6.7) |
| Illprop (Pty) Limited | 1.3 | 100 | 0.2 | 0.1 | 0.3 |
| Reynolds Brothers Limited | – | 100 | – | 5.1 | 5.1 |
| Eureka Trading Limited | – | 100 | – | (0.7) | (0.7) |
| Illovo Project Services Limited | – | 100 | – | (0.2) | (0.2) |
| CGS Investments (Pty) Limited | – | 100 | 0.9 | (1.5) | (0.6) |
| Glendale Sugar Limited | 5.6 | 100 | 20.9 | (17.6) | 3.3 |
| East African Supply (Pty) Limited | – | 100 | – | 15.9 | 15.9 |
| Illovo Sugar (Africa) Limited | 95.8 | 100 | 41.9 | (66.2) | (24.3) |
| Ubombo Sugar Limited | 49.5 | 60 | – | 0.9 | 0.9 |
| Illovo Sugar (Malawi) Limited | 51.5 | 76 | – | – | – |
| Zambia Sugar Plc | 3.6 | 90 | – | 0.5 | 0.5 |
| Maragra Açúcar SARL | 228.5 | 76 | – | (0.7) | (0.7) |
| Kilombero Sugar Company Limited | 0.1 | 55 | – | 0.4 | 0.4 |
| Illovo Group Holdings Limited - ordinary | – | 100 | – | – | – |
| Illovo Group Holdings Limited - preference | 1 035.4 | 100 | 815.6 | 84.8 | 900.4 |
| Palaa Consultores Marketing E Servicos Lda | – | 100 | – | 0.5 | 0.5 |
| Monitor Holdings Limited | 250.0 | 100 | 17.5 | 7.7 | 25.2 |
| Sucoma Holdings Limited | 389.3 | 100 | – | – | – |
| Illovo Tanzania Limited | – | 100 | – | – | – |
| Illovo Sugar Ireland | – | 100 | – | 3.3 | 3.3 |
| Illovo Sugar España, S.L. | – | 100 | – | 1.3 | 1.3 |
| | | | 897.4 | 26.5 | 923.9 |

A full list of subsidiaries is available on request from the Company Secretary.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15 INVESTMENT IN ASSOCIATES

| Principal associates of the group | Year end | Nature of business | Group | |
|---|------------|---------------------|----------------------|----------------------|
| | | | 2006 % holding | 2005 % holding |
| Southern Cross Sugar Exports (Pty) Limited | 31 March | Sugar export agents | 33.3% | 33.3% |
| Kilombero Sugar Distributors Limited | 31 October | Distribution agents | 20.0% | 20.0% |
| Investment in associate companies | | | Rm | Rm |
| Cost of investment in associate | | | | |
| Share of post acquisition profit net of dividend received | | | – | – |
| Directors' valuation of: | | | | |
| Shares and loans in unlisted associate companies | | | – | – |

16 INVESTMENT IN JOINT VENTURES

| Principal joint ventures of the group | Year end | Nature of business | Group | |
|---------------------------------------|----------|--------------------|----------------------|----------------------|
| | | | 2006 % holding | 2005 % holding |
| Glendale Distilling Company | 31 March | Alcohol distillers | 50.0% | 50.0% |
| Lacsa (Pty) Limited | 31 March | Lactulose producer | 50.0% | 50.0% |
| Relax Limited | 31 March | Lactulose agents | 50.0% | 50.0% |

The income statements and balance sheets of the above joint ventures are proportionately consolidated into the group's financial statements.

Glendale Distilling Company had the following capital commitments which have been included in note 37:

- contracted
- approved but not contracted

| | Rm | Rm |
|--|-----|-----|
| | – | 0.1 |
| | 0.6 | 1.6 |
| | 0.6 | 1.7 |

17 AVAILABLE-FOR-SALE INVESTMENTS

| | Group | | Company | |
|--------------------------------|------------|------------|------------|------------|
| | 2006 Rm | 2005 Rm | 2006 Rm | 2005 Rm |
| Available-for-sale investments | 1.3 | 1.3 | 1.3 | 1.3 |
| | 1.3 | 1.3 | 1.3 | 1.3 |

18 LOANS

| | Group | | Company | |
|--------------------------------------|-------------|------------|------------|------------|
| | 2006 Rm | 2005 Rm | 2006 Rm | 2005 Rm |
| Long term promissory note receivable | 19.3 | 20.0 | – | – |
| Loans | 48.0 | 65.6 | 7.6 | 2.2 |
| | 67.3 | 85.6 | 7.6 | 2.2 |

The long term promissory note receivable is unsecured and is denominated in US Dollars with the interest calculated at 6% per annum, payable monthly in arrears. The principal is payable in equal monthly instalments with the final payment due on 1 October 2014.

The other loans bear interest at varying rates and have no fixed terms of repayment.

19 INVENTORIES

| | | | | |
|----------------------------|--------------|-------|-------------|------|
| Finished goods | 130.6 | 64.1 | 29.9 | 23.9 |
| Consumables and components | 195.0 | 216.9 | 51.6 | 66.7 |
| | 325.6 | 281.0 | 81.5 | 90.6 |

20 GROWING CANE

The carrying value of growing cane comprises:

| | | | | |
|-------------------------------------|--------------|--------|-------------|--------|
| Carrying value at beginning of year | 534.5 | 547.4 | 51.3 | 77.6 |
| Change in fair value | 121.6 | 9.8 | 15.2 | 0.1 |
| Acquisition of farms | – | 0.5 | – | – |
| Disposal of businesses | – | (24.0) | – | (24.0) |
| Disposal of farms | (4.5) | (2.4) | (4.5) | (2.4) |
| Exchange rate translation | 6.3 | 3.2 | | |
| Carrying value at end of year | 657.9 | 534.5 | 62.0 | 51.3 |

The following assumptions have been used in the determination of the estimated sucrose tonnage at 31 March 2006:

| | South Africa | Malawi | Swaziland | Zambia | Tanzania | Mozambique |
|--------------------------------------|--------------|----------|-----------|----------|----------|------------|
| 2006 | | | | | | |
| Expected area to harvest (hectares) | 6 173.0 | 18 071.8 | 7 572.3 | 10 948.0 | 7 815.3 | 3 648.8 |
| Estimated yield (tons cane/hectare) | 69.0 | 109.0 | 105.9 | 118.0 | 76.0 | 102.1 |
| Average maturity of cane at 31 March | 56.10% | 66.67% | 66.67% | 66.67% | 50.00% | 66.67% |
| 2005 | | | | | | |
| Expected area to harvest (hectares) | 6 203.0 | 18 131.0 | 7 659.0 | 10 889.0 | 7 759.2 | 3 680.0 |
| Estimated yield (tons cane/hectare) | 67.0 | 105.0 | 99.0 | 116.5 | 85.2 | 90.9 |
| Average maturity of cane at 31 March | 56.10% | 66.67% | 66.67% | 66.67% | 50.00% | 66.67% |

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---------------------------|--------------|------------|--------------|------------|
| | 2006 Rm | 2005 Rm | 2006 Rm | 2005 Rm |
| Trade debtors | 278.2 | 340.8 | 188.0 | 165.2 |
| Other accounts receivable | 226.6 | 239.9 | 157.4 | 167.6 |
| | 504.8 | 580.7 | 345.4 | 332.8 |

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

An allowance has been made for impairment of receivables amounting to R11.0 million (2005: R9.4 million).

22 FACTORY OVERHAUL COSTS

| | | | | |
|----------------------------------|----------------|---------|---------------|--------|
| Balance at the beginning of year | 123.5 | 127.8 | 51.6 | 68.0 |
| Disposal of businesses | – | (7.8) | – | (7.8) |
| Capitalised during the year | 146.3 | 122.5 | 61.4 | 51.6 |
| Amortised during the year | (127.3) | (119.4) | (51.6) | (60.2) |
| Exchange rate translation | 2.7 | 0.4 | | |
| Balance at the end of year | 145.2 | 123.5 | 61.4 | 51.6 |

23 DERIVATIVE FINANCIAL INSTRUMENTS

| | Group | | Company | |
|--|---------------|------------|---------------|------------|
| | 2006 Rm | 2005 Rm | 2006 Rm | 2005 Rm |
| Forward exchange contracts - imports (refer note 41) | (0.1) | (0.2) | (0.1) | (0.2) |
| Forward exchange contracts - exports (refer note 41) | 0.9 | 0.5 | 0.9 | (0.3) |
| Sugar commodities futures contracts | (3.5) | 0.2 | (3.5) | 0.2 |
| Embedded derivatives | – | 0.1 | – | 0.1 |
| Cross currency interest rate swap (refer note 41) | (86.7) | (92.8) | (86.7) | (92.8) |
| | (89.4) | (92.2) | (89.4) | (93.0) |
| Comprising: | | | | |
| Assets | 0.9 | 1.9 | 0.9 | 1.1 |
| Liabilities | (90.3) | (94.1) | (90.3) | (94.1) |
| | (89.4) | (92.2) | (89.4) | (93.0) |

24 SHARE CAPITAL AND PREMIUM

| | Group and Company | |
|---|-------------------|-------|
| Authorised: 900 000 000 (2005: 900 000 000) ordinary shares of 4 cents each | 36.0 | 36.0 |
| Issued and fully paid: 340 127 800 (2005: 337 194 500) ordinary shares of 4 cents each | 13.6 | 13.5 |
| Share premium account | 284.8 | 269.0 |
| | 298.4 | 282.5 |
| The movement on the share capital and share premium accounts for the year was as follows: | | |
| – Balance at beginning of year | 282.5 | 264.3 |
| – Share options exercised | 15.9 | 18.2 |
| – Balance at end of year | 298.4 | 282.5 |

25 SHARE-BASED PAYMENTS RESERVE

| | | |
|------------------------------|------------|-----|
| Balance at beginning of year | 4.4 | – |
| Adoption of IFRS | – | 1.6 |
| Share-based payments expense | 3.7 | 2.8 |
| Balance at end of year | 8.1 | 4.4 |

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26 NON-DISTRIBUTABLE RESERVES

| | Group | | Company | |
|---|--------------|------------------------|--------------|------------------------|
| | 2006 Rm | 2005 Restated Rm | 2006 Rm | 2005 Restated Rm |
| Realised surpluses on sales of land and investments | 64.0 | 63.8 | 278.4 | 278.4 |
| Capital redemption reserve fund | 37.1 | 37.1 | 35.6 | 35.6 |
| Hedging reserve | (5.6) | (5.5) | (5.6) | (6.3) |
| Foreign currency translation reserve | 26.6 | – | – | – |
| Total non-distributable reserves | 122.1 | 95.4 | 308.4 | 307.7 |
| Balance at beginning of year | 95.4 | 109.4 | 307.7 | 317.5 |
| Change in accounting policies | – | (2.8) | – | – |
| Realised surpluses/(losses) - sale of land | 0.2 | (1.5) | – | – |
| Adjustments for cashflow hedges | (0.1) | (9.7) | 0.7 | (9.8) |
| Currency translation differences | 26.6 | (31.3) | – | – |
| Transfer of debit foreign currency translation reserve to retained earnings | – | 31.3 | – | – |
| Balance at end of year | 122.1 | 95.4 | 308.4 | 307.7 |

27 DIVIDEND RESERVE

| | | | | |
|---------------------------------|--------------|-------------|--------------|-------------|
| Balance at beginning of year | 45.5 | 93.5 | 45.5 | 93.5 |
| Transfer from retained earnings | 212.4 | 85.8 | 212.4 | 85.8 |
| Less dividends paid | (113.3) | (133.8) | (113.3) | (133.8) |
| Balance at end of year | 144.6 | 45.5 | 144.6 | 45.5 |

28 RETAINED EARNINGS

| | | | | |
|--|--------------|--------------|--------------|--------------|
| Balance at beginning of year | 707.2 | 921.3 | 233.4 | 353.8 |
| Change in accounting policies | – | (77.9) | – | (21.9) |
| Balance at beginning of year (restated) | 707.2 | 843.4 | 233.4 | 331.9 |
| Derecognition of negative goodwill | – | 21.0 | – | – |
| Adjustment for cashflow hedges | – | 0.2 | – | 0.2 |
| Profit for the year attributable to shareholders of Illovo Sugar Limited | 357.7 | 51.7 | 128.7 | 80.6 |
| Transfer of debit foreign currency translation reserve from non-distributable reserves | – | (31.3) | – | – |
| Realised (surpluses)/losses - sale of land | (0.2) | 1.5 | – | – |
| Transfer to dividend reserve | (212.4) | (179.3) | (212.4) | (179.3) |
| Balance at end of year | 852.3 | 707.2 | 149.7 | 233.4 |

29 LONG TERM BORROWINGS

| | Group | | Company | |
|---|------------|------------|------------|------------|
| | 2006 Rm | 2005 Rm | 2006 Rm | 2005 Rm |
| South African borrowings | 1.4 | 2.0 | - | - |
| Foreign currency borrowings | 225.1 | 247.1 | - | - |
| Total borrowings | 226.5 | 249.1 | - | - |
| Less: Current portion redeemable and repayable within one year | 54.3 | 11.6 | - | - |
| | 172.2 | 237.5 | - | - |
| The above borrowings are due for repayment in the following years ending 31 March | | | | |
| 2006 | | 11.6 | - | - |
| 2007 | 54.3 | 56.5 | - | - |
| 2008 | 60.1 | 62.1 | - | - |
| 2009 | 59.4 | 119.0 | - | - |
| 2010 | 16.1 | - | - | - |
| 2011 and thereafter | 36.6 | - | - | - |
| | 226.5 | 249.1 | - | - |

| | Foreign currency millions | Years of redemption/ payment | Interest rate % | Group | |
|--|---------------------------------|------------------------------------|-----------------------|--------------|--------------|
| | | | | 2006 Rm | 2005 Rm |
| South African borrowings | | | | | |
| Liabilities under capitalised finance leases | | 2007 - 2009 | 12.0 | 1.4 | 2.0 |
| Total South African borrowings | | | | 1.4 | 2.0 |
| Foreign borrowings | | | | | |
| Unsecured loans | | | | | |
| - Euro | 13.5 | 2007 - 2015 | 3.0 - 7.1 | 69.8 | 90.3 |
| - Swaziland Lilangeni | 0.1 | 2007 - 2010 | 10.0 | 0.1 | 0.1 |
| - Mozambican Metical | 3 440.0 | 2007 | 8.0 | 0.2 | 0.9 |
| Secured loans | | | | | |
| - US Dollar | 25.0 | 2007 - 2010 | 6.37 - 7.19 | 154.7 | 154.9 |
| - Mozambican Metical | 2 550.0 | 2007 - 2008 | 8.0 | 0.3 | 0.9 |
| Total foreign borrowings | | | | 225.1 | 247.1 |
| Total borrowings | | | | 226.5 | 249.1 |

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30 SHORT TERM BORROWINGS

| | Group | | Company | |
|---|--------------|------------------------|--------------|------------------------|
| | 2006 Rm | 2005 Restated Rm | 2006 Rm | 2005 Restated Rm |
| Amounts due to bankers | 750.7 | 788.3 | 752.9 | 752.7 |
| Current portion of long term borrowings (note 29) | 54.3 | 11.6 | – | – |
| | 805.0 | 799.9 | 752.9 | 752.7 |

31 DEFERRED TAXATION

| | | | | |
|---|--------------|---------|--------------|--------|
| Balance at beginning of year | 430.5 | 608.5 | 97.8 | 177.7 |
| Change in accounting policies | | (54.9) | | (8.9) |
| Provision on financial instrument taken to equity | 0.8 | (1.2) | 0.8 | (1.2) |
| Disposal of businesses | – | (117.1) | – | (47.9) |
| Changes during the year: | | | | |
| – Exchange rate translation difference | (18.7) | (12.0) | | |
| – Other | (2.1) | – | (0.6) | – |
| Charged/(credited) to income: | | | | |
| – Secondary tax on companies | 13.5 | (9.7) | 13.5 | (9.7) |
| – Temporary differences | 57.5 | 20.6 | 3.7 | (8.5) |
| – Rate change adjustment | – | (3.7) | – | (3.7) |
| Balance at end of year | 481.5 | 430.5 | 115.2 | 97.8 |
| Analysis of provision | | | | |
| – Property, plant and equipment | 271.9 | 261.7 | 96.0 | 97.8 |
| – Tax losses | (42.8) | (48.4) | (9.6) | – |
| – Other | 252.4 | 217.2 | 28.8 | – |
| Balance at end of year | 481.5 | 430.5 | 115.2 | 97.8 |
| – Assets | (11.0) | (30.8) | (9.6) | (29.3) |
| – Liability | 492.5 | 461.3 | 124.8 | 127.1 |

32 TRADE AND OTHER PAYABLES

| | | | | |
|------------------------------|--------------|-------|--------------|-------|
| Trade creditors and accruals | 331.6 | 293.3 | 150.4 | 106.9 |
| Other accounts payable | 581.7 | 517.7 | 300.2 | 264.7 |
| | 913.3 | 811.0 | 450.6 | 371.6 |

Trade creditors and accruals principally comprise amounts outstanding for trade purchase and ongoing costs. The directors consider that the carrying amount of trade payables approximate their fair value.

33 PROVISIONS

| | Group | | Company | |
|---------------------------------------|------------|------------|------------|------------|
| | 2006 Rm | 2005 Rm | 2006 Rm | 2005 Rm |
| Leave pay | | | | |
| Balance at beginning of year | 33.3 | 44.1 | 19.2 | 23.8 |
| Disposal of businesses | – | (10.9) | – | (6.0) |
| Raised/(utilised) during the year | 4.8 | (0.1) | 2.4 | 1.4 |
| Foreign currency translation movement | 0.1 | 0.2 | | |
| Balance at end of year | 38.2 | 33.3 | 21.6 | 19.2 |
| Post retirement benefits | | | | |
| Balance at beginning of year | 125.1 | 237.2 | 106.4 | 106.7 |
| Disposal of businesses | – | (109.0) | – | (4.1) |
| (Utilised)/raised during the year | (2.0) | (4.8) | (1.5) | 3.8 |
| Foreign currency translation movement | (1.3) | 1.7 | | |
| Balance at end of year | 121.8 | 125.1 | 104.9 | 106.4 |
| Other | | | | |
| Balance at beginning of year | 16.6 | 19.6 | – | – |
| Raised/(utilised) during the year | 10.1 | (3.0) | 2.6 | – |
| Balance at end of year | 26.7 | 16.6 | 2.6 | – |
| Total provisions | | | | |
| Balance at beginning of year | 175.0 | 300.9 | 125.6 | 130.5 |
| Disposal of businesses | – | (119.9) | – | (10.1) |
| Raised/(utilised) during the year | 12.9 | (7.9) | 3.5 | 5.2 |
| Foreign currency translation movement | (1.2) | 1.9 | | |
| Balance at end of year | 186.7 | 175.0 | 129.1 | 125.6 |

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

34 CHANGES IN ACCOUNTING POLICIES INCLUDING THE TRANSITION TO IFRS

34.1 Balance sheet

| ASSETS | As originally reported at 31 March | | | | | | As restated at 31 March |
|--|------------------------------------|-----------|-----------|-----------|----------|-----------|-------------------------|
| | 2005 Rm | IAS 16 Rm | IAS 17 Rm | IAS 31 Rm | IAS 1 Rm | IFRS 2 Rm | 2005 Rm |
| Non-current assets | 2 515.0 | (184.2) | – | (7.8) | – | – | 2 323.0 |
| Property, plant and equipment | 1 823.2 | (184.2) | | (7.8) | | | 1 631.2 |
| Cane roots | 543.7 | | | | | | 543.7 |
| Product registrations | 30.4 | | | | | | 30.4 |
| Available-for-sale investments | 1.3 | | | | | | 1.3 |
| Loans | 85.6 | | | | | | 85.6 |
| Deferred taxation asset | 30.8 | | | | | | 30.8 |
| Current assets | 1 892.7 | – | (0.8) | (24.7) | – | – | 1 867.2 |
| Inventories | 291.7 | | | (10.7) | | | 281.0 |
| Growing cane | 534.5 | | | | | | 534.5 |
| Trade and other receivables | 588.6 | | (0.8) | (7.1) | | | 580.7 |
| Factory overhaul costs | 123.5 | | | | | | 123.5 |
| Derivative financial instruments | 1.9 | | | | | | 1.9 |
| Cash and cash equivalents | 352.5 | | | (6.9) | | | 345.6 |
| Total assets | 4 407.7 | (184.2) | (0.8) | (32.5) | – | – | 4 190.2 |
| EQUITY AND LIABILITIES | | | | | | | |
| Equity attributable to shareholders in Illovo Sugar Limited | 1 200.3 | (66.5) | 0.9 | – | – | 0.3 | 1 135.0 |
| Share capital and premium | 282.5 | | | | | | 282.5 |
| Share-based payment reserve | – | | | | | 4.4 | 4.4 |
| Non-distributable reserves | 98.2 | (2.8) | | | | | 95.4 |
| Dividend reserve | – | | | | 45.5 | | 45.5 |
| Retained earnings | 819.6 | (63.7) | 0.9 | | (45.5) | (4.1) | 707.2 |
| Minority interest | 408.4 | (54.8) | | (22.4) | | (0.3) | 330.9 |
| Total equity | 1 608.7 | (121.3) | 0.9 | (22.4) | – | – | 1 465.9 |
| Non-current liabilities | 762.5 | (62.9) | (0.5) | (0.3) | – | – | 698.8 |
| Long term borrowings | 237.5 | | | | | | 237.5 |
| Deferred taxation liability | 525.0 | (62.9) | (0.5) | (0.3) | | | 461.3 |
| Current liabilities | 2 036.5 | – | (1.2) | (9.8) | – | – | 2 025.5 |
| Short term borrowings | 799.9 | | | | | | 799.9 |
| Trade and other payables | 821.6 | | (1.2) | (9.4) | | | 811.0 |
| Bank overdraft | 109.8 | | | | | | 109.8 |
| Taxation | 35.8 | | | (0.1) | | | 35.7 |
| Provisions | 175.3 | | | (0.3) | | | 175.0 |
| Derivative financial instruments | 94.1 | | | | | | 94.1 |
| Total liabilities | 2 799.0 | (62.9) | (1.7) | (10.1) | – | – | 2 724.3 |
| Total equity and liabilities | 4 407.7 | (184.2) | (0.8) | (32.5) | – | – | 4 190.2 |

34 CHANGES IN ACCOUNTING POLICIES INCLUDING THE TRANSITION TO IFRS CONTINUED

34.2 Income statement

| | As originally reported Rm | IAS 16 Rm | IAS 17 Rm | IAS 31 Rm | IAS 1 Rm | IFRS 2 Rm | As restated Rm |
|--|------------------------------------|--------------|--------------|--------------|-------------|--------------|----------------------|
| Revenue | 5 143.0 | | | (40.3) | | | 5 102.7 |
| Operating profit | 405.6 | 23.4 | (0.7) | (2.0) | 0.2 | (2.8) | 423.7 |
| Net financing costs | 153.5 | | | 0.2 | 0.2 | | 153.9 |
| Profit before taxation and material items | 252.1 | 23.4 | (0.7) | (2.2) | – | (2.8) | 269.8 |
| Material items | (79.2) | | | | | | (79.2) |
| Profit before taxation | 172.9 | 23.4 | (0.7) | (2.2) | – | (2.8) | 190.6 |
| Taxation | 82.9 | 6.5 | (0.2) | (0.3) | | | 88.9 |
| Profit for the year | 90.0 | 16.9 | (0.5) | (1.9) | – | (2.8) | 101.7 |
| Attributable to: | | | | | | | |
| Shareholders of Illovo Sugar Limited | 40.7 | 14.1 | (0.5) | | | (2.6) | 51.7 |
| Minority interest | 49.3 | 2.8 | – | (1.9) | | (0.2) | 50.0 |

35 RETIREMENT BENEFITS

A total of six defined benefit pension funds and eight defined contribution funds cover the large majority of employees, other than those covered by membership of various service based retirement arrangements.

During the year, an amount of R37.5 million (2005: R30.7 million) was expensed in respect of defined contribution plans and R4.0 million (2005: R15.3 million) was expensed in respect of defined benefit plans.

South Africa

All South African plans are funded, with their assets held in administered trust funds which are governed by the Pensions Fund Act of 1956. Plan assets primarily consist of listed shares, fixed income securities and investments in the money market.

Following the conversion in 1998, on a voluntary basis, of a large number of members from defined benefit plans to defined contribution plans, the remaining defined benefit plans operate as closed funds.

The defined benefit plans are actuarially valued at intervals of not more than three years. Any deficits that are identified, are funded by the companies concerned by way of increased future contributions or by the payment of an actuarially determined lump sum.

In terms of the requirements of IAS 19, a valuation using the projected unit credit method was last performed on the two defined benefit plans at 31 March 2006. These were found to be in a sound financial condition by an independent consulting actuary. In arriving at his finding, the actuary took into account a discount rate and expected rate of return on the assets of 8.25%, an expected rate of salary increase of 5.5%, an expected rate of pension increase of 2.38% and an expected rate of inflation of 4.5%. The assumptions and methods used are consistent with the requirements of the revised statement IAS 19, and not necessarily consistent with the assumptions and methods used in the statutory actuarial valuation used for assessing funding requirements. At the latest valuation date, the combined fair value of the benefit plan assets amounted to R796.0 million whilst the actuarial present value of promised retirement benefits totalled R396.4 million.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

35 RETIREMENT BENEFITS CONTINUED

The actuarial surplus per the statutory valuations as at 31 December 2002 of R28.1 million, has not been recognised as an asset in the financial statements due to the implications of the Pension Funds Second Amendment Act, 2001. In terms of this Act, surplus apportionment exercises are presently being carried out and are expected to be finalised during the forthcoming financial year.

The obligation of the company to pay medical aid contributions after retirement is no longer part of the conditions of employment for employees engaged after 1 December 1995. A number of pensioners and current employees, however, remain entitled to this benefit. The entitlement to this benefit for current employees is dependent upon the employees remaining in service until retirement age and completing a minimum service period.

Malawi

Pensions are provided for all senior employees through the Sucoma Group Defined Contribution Fund and the Sucoma Non-contributory Defined Contribution Fund. The assets are held in independently administered funds. The pension cost charge is recognised in the year in which it is incurred.

Retirement benefits for other staff are provided for by the Employment Act regulations.

Swaziland

The group provides retirement benefits for all its permanent employees through a defined contribution fund and a provident fund. The company contributions to these funds are treated as an expense in the financial period.

Arrangements have been concluded in respect of employees not entitled to pension benefits by which retirement gratuities are granted to eligible employees based on length of service. An actuarial valuation carried out by independent consulting actuaries at 31 January 2006 indicated that the provision in respect of these benefits and the statutory benefits was understated. The shortfall at 31 March 2006 was R5.8 million (2005: R1.8 million).

Zambia

The defined benefit pension scheme was closed to new members on 1 April 2004. Member's interests have been transferred to the defined contribution scheme set up for the benefit of permanent employees.

Total pension costs for the period to 31 March 2006 amounting to R0.1 million (2005: R1.6 million) were paid in respect of the defined benefit scheme for members that did not transfer to the defined contribution scheme.

An actuarial valuation of the defined benefit fund at 31 March 2005 identified a surplus of R8.1 million which has been refunded. The fair value of assets amounted to R34.0 million whilst the actuarial value of promised retirement benefits totalled R25.9 million. In arriving at this valuation, the actuary has taken into account a discount rate and expected rate of return on the assets of 14%, an expected rate of salary increase of 12% and an expected rate of pension increase equal to 7%.

With effect from 1 May 2002, the company established a defined contribution pension scheme and the pension costs are recognised when incurred. An amount of R5.3 million (2005: R2.5 million) was expensed during the year in respect of the defined contribution pension scheme.

Tanzania and Mozambique

There are no group retirement plans in Tanzania and Mozambique, however, employees are covered for retirement purposes by statutory social security arrangements established by the respective governments. The group contributes a percentage of the payroll in terms of the statutory requirements.

Post-retirement medical benefits

The group provides for post-retirement medical benefits on the accrual basis, determined actuarially. At 31 March 2006, the total provision amounted to R104.8 million (2005: R106.3 million). During the current year, R1.5 million was released (2005: R9.7 million charged) to the income statement whilst there were no foreign currency translations in the current year to reduce the provision (2005: R1.8 million).

36 SHARE-BASED PAYMENTS

Equity settled share option scheme

The Company has a share option scheme for certain employees of the group. Options are exercisable at a price equal to the closing market price of the company's shares on the JSE Limited on the day preceding the date of grant. Vesting periods for the share options are one-third after three years, two-thirds after four years, and the full allocation after five years.

Details of the share options movements during the year are as follows:

| | 2006 | | 2005 | |
|----------------------------------|-------------------------|--------------------------------------|-------------------------|--------------------------------------|
| | Number of share options | Weighted average exercise price Rand | Number of share options | Weighted average exercise price Rand |
| Outstanding at beginning of year | 16 800 600 | | 18 346 900 | |
| Granted | – | | 2 193 500 | |
| Forfeited | (325 400) | 7.18 | (376 000) | 6.84 |
| Exercised | (2 933 300) | 5.44 | (3 363 800) | 5.39 |
| Expired | – | | – | |
| Outstanding at end of year | 13 541 900 | | 16 800 600 | |
| Exercisable at end of year | 5 729 300 | | 6 537 700 | |

In accordance with the transitional provisions of IFRS 2, the Standard has been applied to all option grants issued after 7 November 2002 that were unvested as at 1 January 2005.

During the year, the group recognised total expenses of R3.7 million (2005: R2.8 million) related to equity-settled share-based payment transactions. In arriving at the valuation, the actuaries have taken the following into account:

- the closing share price at grant date to value the options.
- the expected lifetime at each grant, by considering separately each of the tranches available within that grant.
- an annualised standard deviation of the continuously compounded rates of return of the share to determine volatility.
- the implied yield on a SA zero-coupon government bond, with the appropriate expected lifetime of the option obtained from The Bond Exchange of South Africa as the risk free rate.
- a dividend yield based on the average for the period 31 March 2001 to 31 March 2003.

Cash settled equity instrument scheme

During the year under review, the group issued cash settled equity instruments to certain employees that require the group to pay the intrinsic value of the cash settled equity instrument at the date of exercise. At 31 March 2006, the group has recorded liabilities and an expense of R2.6 million (2005: nil). The fair value of the cash settled equity instruments has been determined actuarially.

Illovo Sugar Employees Share Purchase Scheme

Under the Illovo Sugar Employees Share Purchase Scheme, all employees, except directors and employees who are participants in the option scheme, may purchase the company's shares. Contributions made by employees are enhanced by a 10% contribution from the company, and the company pays for the trading costs. Employees may acquire up to 5 000 shares in the aggregate and 1 000 shares in a continuous 12 month period.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

37 CAPITAL EXPENDITURE COMMITMENTS

| | Group | | Company | |
|-------------------------------|------------|------------|------------|------------|
| | 2006 Rm | 2005 Rm | 2006 Rm | 2005 Rm |
| South Africa | | | | |
| - contracted | 18.2 | 3.6 | 18.2 | 3.6 |
| - approved but not contracted | 89.8 | 162.1 | 89.8 | 162.1 |
| Malawi | | | | |
| - contracted | 3.0 | 1.8 | | |
| - approved but not contracted | 54.6 | 21.3 | | |
| Zambia | | | | |
| - contracted | 3.6 | 4.4 | | |
| - approved but not contracted | 53.4 | 19.4 | | |
| Swaziland | | | | |
| - contracted | 0.9 | 0.1 | | |
| - approved but not contracted | 34.6 | 11.9 | | |
| Tanzania | | | | |
| - contracted | 2.3 | 1.7 | | |
| - approved but not contracted | 15.4 | 14.3 | | |
| Mozambique | | | | |
| - contracted | 0.1 | – | | |
| - approved but not contracted | 8.3 | 4.8 | | |
| Contracted | 28.1 | 11.6 | 18.2 | 3.6 |
| Approved but not contracted | 256.1 | 233.8 | 89.8 | 162.1 |
| | 284.2 | 245.4 | 108.0 | 165.7 |

The capital expenditure will be financed from cash resources and facilities negotiated and not yet utilised.

38 CONTINGENT LIABILITIES

| | | | | |
|--|------|------|-------|-------|
| Guarantees in respect of liabilities of third parties and claims against the group | 10.5 | 14.4 | 0.1 | 0.1 |
| Guarantees in respect of liabilities of subsidiary companies | | | 216.5 | 313.9 |
| | 10.5 | 14.4 | 216.6 | 314.0 |

39 OPERATING LEASE COMMITMENTS

The group's commitments in respect of operating leases are as follows:

| | 2007 Rm | 2008 Rm | 2009 Rm | 2010 Rm | 2011 onwards Rm | 2006 Rm | 2005 Rm |
|-------------------------|------------|------------|------------|------------|-----------------------|------------|------------|
| Property | 21.8 | 21.1 | 1.8 | 1.2 | 56.9 | 102.8 | 115.2 |
| Plant and equipment | 25.7 | 18.8 | 8.9 | 7.7 | 7.3 | 68.4 | 66.9 |
| Total lease commitments | 47.5 | 39.9 | 10.7 | 8.9 | 64.2 | 171.2 | 182.1 |

40 RELATED PARTY TRANSACTIONS

40.1 Compensation of key management personnel (R000)

The remuneration of key management personnel for the year ended 31 March 2006 was as follows:

| Name | Salary | Bonus | Retirement and medical contributions | Other benefits | Option gains | 2006 Total |
|----------------------|--------|--------|--|-------------------|-----------------|---------------|
| Executive directors: | | | | | | |
| G J Clark | 1 350 | 1 721 | 293 | 280 | – | 3 644 |
| N M Hawley | 849 | 1 078 | 195 | 190 | – | 2 312 |
| M I Hlatswayo | 790 | 951 | 183 | 214 | – | 2 138 |
| D G MacLeod | 2 649 | 3 461 | 534 | 102 | – | 6 746 |
| J T Russell | 1 335 | 1 650 | 280 | 148 | – | 3 413 |
| B M Stuart | 1 350 | 1 644 | 295 | 153 | – | 3 442 |
| K Zarnack * | 465 | 590 | 96 | 77 | – | 1 228 |
| Total | 8 788 | 11 095 | 1 876 | 1 164 | – | 22 923 |

* Appointed 1 October 2005.

The remuneration of key management personnel for the year ended 31 March 2005 was as follows:

| Name | Salary | Bonus | Retirement and medical contributions | Other benefits | Option Gains | 2005 Total |
|----------------------|--------|-------|--|-------------------|-----------------|---------------|
| Executive directors: | | | | | | |
| G J Clark | 1 248 | – | 289 | 62 | 770 | 2 369 |
| N M Hawley | 786 | – | 182 | 184 | 369 | 1 521 |
| M I Hlatswayo | 725 | – | 170 | 188 | 199 | 1 282 |
| D G MacLeod | 2 429 | – | 493 | 99 | 335 | 3 356 |
| J T Russell | 1 241 | – | 263 | 157 | 200 | 1 861 |
| B M Stuart | 1 248 | – | 282 | 123 | 200 | 1 853 |
| Total | 7 677 | – | 1 679 | 813 | 2 073 | 12 242 |

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

40 RELATED PARTY TRANSACTIONS CONTINUED

| | 2006 Fees R000 | 2005 Fees R000 |
|---|-------------------------------|----------------------|
| The fees paid to non-executive directors were as follows: | | |
| B P Connellan | 105 | 100 |
| D Konar | 195 | 175 |
| P M Madi | 155 | 102 |
| I N Mkhize * | 44 | – |
| A R Mpungwe | 155 | 102 |
| R A Norton | 225 | 210 |
| M J Shaw | 265 | 260 |
| R A Williams | 1 125 | 1 125 |
| Total | 2 269 | 2 074 |

* Appointed 1 November 2005.

Interests of the directors of the company in the share capital and share options is set out in the Statutory Information.

Benefits paid to past directors amounted to R42 951 for the year (2005: R51 805).

40.2 Subsidiaries, associates and joint ventures

Details of investments in principal subsidiaries, associates and joint ventures are disclosed in notes 14, 15 and 16 respectively.

40.3 Shareholders

Details of the major shareholders of the company and a summary of the categories of shareholders are disclosed on page 94.

40.4 Interests of directors in contracts

All directors of the company have confirmed that they were not materially interested in any contract of significance with the company or any of its subsidiary companies which could have resulted in a conflict of interest during the year.

40.5 Shareholders and related interests of directors and officers in share capital

Details have been included in the Statutory Information on pages 49 to 52.

40.6 Intercompany accounts with subsidiaries, associates and joint ventures

Details have been included in note 14.

40.7 Recovery of management services

Management fees are charged to all operating subsidiaries in order to recover the company's management time and effort.

4.1 FINANCIAL RISK MANAGEMENT

41.1 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 formulates treasury management strategies in light of prevailing market conditions and current economic forecasts. This committee operates within group policies approved by the board.

The derivative instruments used by the group, which are used solely for hedging purposes (ie. to offset foreign exchange, price and interest rate risks), comprise interest rate swaps, forward rate agreements, cross currency interest rate swaps, forward exchange contracts and sugar commodity futures. Such derivative instruments are used to alter the risk profile of an existing underlying exposure of the group, and forecast future transactions in line with the group's risk management policies.

It is the policy of the group not to trade in derivative financial instruments for speculative purposes.

41.2 Interest rate risk management

Taking cognisance of the seasonality of the group's cashflow and long term interest rate forecasts, the risk management committee positions the group's interest rate exposures according to expected movements in interest rates internationally as well as in the countries in which the group operates.

The interest rate profile at 31 March 2006 is as follows:

| | Floating rate | 1-6 months | Greater than 6 months | Long term borrowings | Current portion long term borrowings | Total borrowings |
|--------------------|---------------|------------|-----------------------|----------------------|--------------------------------------|------------------|
| Borrowings (Rm) | 91.1 | 565.1 | 185.6 | 172.3 | 54.2 | 1 068.3 |
| % total borrowings | 9% | 53% | 17% | 16% | 5% | 100% |

At year-end, the group did not have any open interest rate derivatives.

41.3 Currency risk management

In order to minimise the risk on a 120 million US Dollar revolving credit facility, the company has entered into a three-year cross currency interest rate swap which fixes the exchange rate on the capital and swaps out the floating US Dollar LIBOR interest rate for a floating JIBAR rate and a fixed Rand interest rate (refer note 23).

The group has entered into certain forward exchange contracts which relate to specific items appearing on the balance sheet or were entered into to cover forecast foreign currency proceeds not yet receivable. The contracts will be utilised for purposes of trade during the 2006 financial year.

| | Group | | | Group | | |
|------------------------------|--------------------------|-------------------|--------------|--------------------------|-------------------|--------------|
| | Foreign currency million | 2006 Average rate | Amount in Rm | Foreign currency million | 2005 Average rate | Amount in Rm |
| Foreign currency sold | | | | | | |
| US Dollars | 4.6 | 6.35 | 29.2 | 6.0 | 6.20 | 37.2 |
| Euros | 1.0 | 7.62 | 7.6 | 2.7 | 8.11 | 21.9 |

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4.1 FINANCIAL RISK MANAGEMENT CONTINUED

41.3 Currency risk management (continued)

Unhedged and uncovered foreign currency monetary items which are repayable within twelve months comprise:

| | Group 2006 | | Group 2005 | |
|--------------------|--------------------------------|--------------------|--------------------------------|--------------------|
| | Foreign currency million | Amount in Rm | Foreign currency million | Amount in Rm |
| Assets | | | | |
| US Dollars | 16.3 | 101.1 | 6.0 | 37.3 |
| Euros | 0.3 | 2.2 | - | - |
| | | 103.3 | | 37.3 |
| Liabilities | | | | |
| US Dollars | 25.0 | 155.9 | 1.3 | 7.9 |
| Euros | 5.3 | 40.1 | 0.1 | 0.7 |
| Other | | 27.9 | 0.1 | 0.7 |
| | | 223.9 | | 9.3 |

41.4 Credit risk management

Credit risk consists mainly of short term cash deposits and cash equivalent investments, accounts receivables and loans. The group only deposits short-term cash with major banks of high quality credit standing and limits the amount of credit exposure to any one counter-party. Accounts receivables and loans comprise a widespread base, and group companies undertake ongoing credit evaluations of the financial condition of the other parties. Where appropriate, credit guarantee insurance cover is purchased. At 31 March 2006, the group does not consider there to be any material credit risk that has not been insured or adequately provided for.

41.5 Liquidity risk management

In terms of the company's Articles of Association, the directors may from time to time, at their discretion, raise or borrow for the purpose of the company as they think fit.

The group treasury has access to the following local and foreign banking facilities at 31 March 2006:

| | Rm |
|--|----------------|
| Local, fixed and flexible term, general banking facilities | 2 588.0 |
| Foreign, fixed and flexible term, general banking facilities | 779.0 |
| | 3 367.0 |

In terms of a US Dollar denominated revolving credit facility, the total consolidated net borrowings of the group are constrained to a percentage of the group's operating profit.

42 SEGMENTAL ANALYSIS

Business segmental analysis

31 March 2006

| | Group | | | | |
|------------------|----------------|---------------------------|-----------------------|------------------------------|--------------------|
| | Revenue Rm | Operating profit Rm | Total assets Rm | Capital expenditure Rm | Depreciation Rm |
| Sugar production | 3 883.2 | 456.9 | 2 060.8 | 148.3 | 91.6 |
| Cane growing | 1 081.5 | 235.3 | 1 701.9 | 41.6 | 25.6 |
| Downstream | 504.1 | 59.3 | 233.4 | 6.2 | 10.5 |
| | 5 468.8 | 751.5 | 3 996.1 | 196.1 | 127.7 |

31 March 2005 restated

| | Group | | | | |
|------------------|----------------|---------------------------|-----------------------|------------------------------|--------------------|
| | Revenue Rm | Operating profit Rm | Total assets Rm | Capital expenditure Rm | Depreciation Rm |
| Sugar production | 3 740.3 | 294.9 | 2 058.4 | 263.6 | 125.7 |
| Cane growing | 893.6 | 63.8 | 1 524.8 | 42.4 | 25.8 |
| Downstream | 468.8 | 65.0 | 228.7 | 18.7 | 9.7 |
| | 5 102.7 | 423.7 | 3 811.9 | 324.7 | 161.2 |

Geographical segmental analysis

| | Group | | | |
|--------------|----------------|---------------------------|----------------|---------------------------|
| | 2006 | | 2005 restated | |
| | Revenue Rm | Operating profit Rm | Revenue Rm | Operating profit Rm |
| South Africa | 2 631.1 | 156.8 | 2 409.4 | 61.5 |
| Malawi | 938.0 | 293.3 | 722.9 | 140.4 |
| Zambia | 784.9 | 153.2 | 632.1 | 153.9 |
| Swaziland | 586.1 | 73.0 | 507.5 | 14.3 |
| Tanzania | 353.9 | 68.6 | 348.1 | 81.8 |
| Mozambique | 174.8 | 6.6 | 148.2 | (5.4) |
| USA | | | 334.5 | (22.8) |
| | 5 468.8 | 751.5 | 5 102.7 | 423.7 |