

# PROFIT AND DIVIDEND ANNOUNCEMENT



Audited results for the year ended 31 March 2006

Company registration no. 1906/000622/06  
Share code ILV ISIN ZAE000003547

- Record production levels
- Strong growth in headline earnings and dividends
- Good cash generation
- Major reduction in borrowings and gearing

## Review

During the past year the group achieved excellent results with headline earnings increasing by 129% to R352.4 million and headline earnings per share increasing by 127% to 104.2 cents. This was largely due to increased sugar production in South Africa and record sugar output in all the group's other countries of operation, combined with a general improvement in domestic sales, a significant increase in world and regional sugar prices, cost savings and a material reduction in financing costs. The change in the value of growing cane, largely as a result of increased sugar prices, enhanced earnings from cane growing.

In the financial year ended 31 March 2006, the group achieved turnover of R5.5 billion and operating profit of R751.5 million. Compared to the previous year, and impacted by the sale of certain businesses in 2004/05, turnover increased by 7% and operating profit by 77%. Net financing costs decreased from R153.9 million to R100.9 million, whilst the effective tax rate, excluding material items was 30.3%. Cash generation was strong with group borrowings of R441.0 million reflecting a major decrease of R360.6 million, resulting in gearing of 24.3%.

The contributions to operating profit were: sugar production 61%, cane growing 31% and downstream 8%. By country, contributions were: South Africa 21%, Malawi 39%, Zambia 20%, Swaziland 10%, Tanzania 9% and Mozambique 1%.

Group sugar and cane production of 1.87 million tons and 5.46 million tons respectively were higher than that achieved in the previous season. Overall, the season was characterised by variable weather conditions. The importance of good irrigation sources and infrastructure was particularly evident in Zambia and Swaziland where very dry conditions were offset by effective irrigation. As a result of good cane yields, record cane production was achieved in Malawi, Zambia and Mozambique.

Factory performance continued to improve with high levels of mechanical and operational efficiency. Major refinery expansions have been undertaken at the Pongola and Noodsberg factories which will enable refined sugar production in South Africa to exceed the levels which existed prior to the sale of the Umfolozi mill. The performance of the downstream operations across the group was good, with record production of diacetyl and ethyl alcohol.

Sales of sugar and downstream products into domestic markets contributed 63% to total revenue, whilst exports to 102 countries contributed the balance. A strength of the group is that 69% of sugar by volume and 80% by value was sold into the domestic or premium-priced export markets. Domestic sales of sugar have shown an improvement across the group as a result of marketing initiatives and improved distribution, particularly in rural areas. Despite the overall improvement in domestic market offtake, it is of concern that illegal sugar imports into some of the countries in Africa have again been an issue. However, generally the authorities have responded positively to counter these illegal imports. It is disappointing that in Tanzania the issue of government protection to domestic producers of refined sugar remains unresolved. The matter is receiving attention with support from the Sugar Board of Tanzania.

The world sugar price, although continuing to be volatile, made a most welcome upward adjustment during the past year. The improvement in price also resulted in a firming of sugar revenue realisations in the regional markets supplied by Illovo. World raw sugar prices commenced the 2005/06 season at around US8.0 cents/lb, peaked at around US19.7 cents/lb in February 2006 and ended the financial year in the US17.0 to US18.0 cents/lb range. The upward movement in prices was fuelled by a number of factors, including a global production deficit which is currently in its third year, the European Union (EU) sugar regime reform, and growing world-wide interest in ethanol from sugar cane as a bio-renewable energy source. In addition, weather-related factors in certain major producing regions such as the United States, Thailand, China and Brazil impacted on production in the current year. The increase in world consumption of around 2% per annum, together with the structural changes of the EU sugar regime, and the increasing demand for ethanol, have created a positive background for continuing stronger sugar prices compared to the more recent past. The EU reform is expected to result in a decline in production in Europe of between five and seven million tons of sugar per annum. The cost of new sugar production to meet consumer demand around the world will also be impacted by energy prices, as the installation of new productive capacity will be compared with the alternative of using sugar cane for ethanol.

The reform of the EU sugar regime was finalised early in 2006. The implementation date is 1 July 2006 and the new regime will be effective until 30 September 2015. The detailed rules and regulations to govern the regime are currently being finalised. Illovo supports the reform of the EU sugar sector. The EU raw sugar reference price payable to quota holders under the African, Caribbean and Pacific (ACP) Sugar Protocol (in the case of Illovo, affecting mainly its Swaziland operation) will reduce by 5% on 1 July 2006. This will equalise the price paid for all raw sugar imported into the EU. The price for all suppliers of raw sugar will then remain unchanged until 30 September 2008, after which it will be reduced by 32.5% in two tranches on 1 October 2008 and 1 October 2009. As a result, no significant price reduction impact on Illovo is expected until the 2009 financial year. Whilst the price cut will impact negatively on revenue from existing export quotas into the EU, a phased reduction in duty commencing from 2006 and culminating in duty-free and quota-free access for exports from 2009 in respect of sugar supplied by Least Developed Countries (including the group's operations in Malawi, Zambia, Tanzania and Mozambique) will provide Illovo with opportunities to both substantially increase export volumes into the EU market and extend the range of sugar products supplied. The finalisation of the reform package creates a period of certainty in respect of the EU market until September 2015, which will underpin the expansion plans of the group.

During the year, R120,8 million was spent on replacement of plant and equipment to ensure that the group's operating assets are maintained in a sound condition, that strategic plant is adequately protected against breakdown, and that product quality is of the highest standard. In addition, R84,2 million was invested in expansion projects and on product registrations.

Details of the group's compliance with the Code of Corporate Practices and Conduct as contained in the King Report on Corporate Governance for South Africa 2002, are disclosed in the 2006 Annual Report which is to be issued in the third week of June 2006.

### **Dividend**

The final dividend has been increased to 42.5 cents per share (2005 : 13.5 cents) which results in a total distribution of 62.5 cents (2005 : 25.5 cents) for the full year.

### **Outlook**

The existing factory and field operations have significant expansion potential in the longer term. In the current year, the group will commence these expansions which will be phased-in over a four year period. New investment opportunities in Africa continue to be pursued. The group's feasibility studies on power generation are well advanced.

In the current year, own cane, sugar and downstream production are anticipated to exceed the levels achieved in the past year. World sugar prices have improved considerably, and world and regional sales will earn better prices than those attained in the past year. The results for the current year will again be impacted by the level of the rand compared to other currencies, particularly the US dollar. However, good growth in earnings is anticipated at current exchange rates and world sugar prices.

**Firm intention to acquire 51% of Illovo Sugar Limited**

Attention is drawn to the joint announcement by Illovo 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 Illovo for a cash consideration of R21.00 per share through a scheme of arrangement or substitute offer.

The Illovo board has considered the terms of the offer, and is of the opinion that such terms are fair and reasonable to shareholders.

On behalf of the Board

**R A Williams**  
*Chairman*

**D G MacLeod**  
*Managing Director*

Mount Edgecombe  
18 May 2006

## GROUP INCOME STATEMENTS

	Notes	Year ended 31 March		Change %
		2006 Rm	2005 Restated Rm	
<b>Revenue</b>		<b>5 468.8</b>	5 102.7	7
<b>Profit from operations</b>		<b>751.5</b>	423.7	77
Net financing costs	4	<b>100.9</b>	153.9	
<b>Profit before material items</b>		<b>650.6</b>	269.8	
Material items	5	<b>3.5</b>	( 79.2)	
<b>Profit before taxation</b>		<b>654.1</b>	190.6	
Taxation		<b>197.3</b>	88.9	
<b>Profit after taxation</b>		<b>456.8</b>	101.7	
Attributable to outside shareholders in subsidiary companies		<b>99.1</b>	50.0	
<b>Net profit attributable to shareholders in Illovo Sugar Limited</b>		<b>357.7</b>	51.7	
<b>Determination of headline earnings :</b>				
Net profit attributable to shareholders		<b>357.7</b>	51.7	
Adjusted for :				
Net loss on sale of businesses	5	-	97.0	
(Profit)/loss on disposal of property	5	<b>( 3.3)</b>	6.5	
Profit on disposal of plant and equipment		<b>( 2.0)</b>	( 1.4)	
<b>Headline earnings</b>		<b>352.4</b>	153.8	129
Number of shares in issue (millions)		<b>340.1</b>	337.2	
Weighted average number of shares on which headline earnings per share are based (millions)		<b>338.2</b>	335.0	
<b>Headline earnings per share (cents)</b>		<b>104.2</b>	45.9	127
Diluted headline earnings per share (cents)		<b>101.4</b>	45.4	
Dividend per share (cents)		<b>62.5</b>	25.5	145

The results for the year ended 31 March 2006 have been audited by Deloitte & Touche. Their unmodified audit opinion is available for inspection at the registered office of the company.

## ABRIDGED GROUP BALANCE SHEETS

31 March  
**2006**                      2005  
    Restated  
**Rm**                              Rm

### ASSETS

<b>Non-current assets</b>	<b>2 362.6</b>	2 292.2
Property, plant and equipment	1 704.9	1 661.6
Cane roots	589.1	543.7
Investments	68.6	86.9
<b>Current assets</b>	<b>1 633.5</b>	1 519.7
Inventories	470.8	404.5
Growing cane	657.9	534.5
Accounts receivable	504.8	580.7
<b>Total assets</b>	<b>3 996.1</b>	3 811.9

### EQUITY AND LIABILITIES

<b>Total equity</b>	<b>1 813.5</b>	1 465.9
Equity holders' interest	1,425.5	1,135.0
Minority shareholders' interest	388.0	330.9
<b>Non-current liabilities</b>	<b>922.5</b>	1 232.1
Deferred taxation	481.5	430.5
Net borrowings	441.0	801.6
<b>Current liabilities</b>	<b>1 260.1</b>	1 113.9
Accounts payable and provisions	1 170.7	1 021.7
Financial instruments	89.4	92.2
<b>Total equity and liabilities</b>	<b>3 996.1</b>	3 811.9

### OTHER SALIENT FEATURES

Operating margin (%)	13.7	8.3
Gearing (%)	24.3	54.7
Interest cover (times)	7.4	2.8
Return on net assets (%)	25.2	11.1
Net asset value per share (cents)	533.2	434.7
Depreciation	127.7	161.2
<b>Capital expenditure</b>	<b>205.0</b>	332.1
- expansion	75.4	18.5
- product registration costs	8.8	7.3
- operating leases	-	172.2
- replacement	120.8	134.1
<b>Capital commitments</b>	<b>284.2</b>	245.4
- contracted	28.1	11.6
- approved but not contracted	256.1	233.8
<b>Lease commitments</b>	<b>171.2</b>	182.1
- land and buildings	102.8	115.2
- other	68.4	66.9
<b>Contingent liabilities</b>	<b>10.5</b>	14.4

## ABRIDGED GROUP CASH FLOW STATEMENTS

	Year ended 31 March	
	2006	2005
		Restated
	Rm	Rm
<b>Cash flows from operating and investing activities</b>		
Cash operating profit	710.5	533.0
Working capital requirements	117.2	134.7
Cash generated from operations	827.7	667.7
Replacement capital expenditure	(120.8)	(306.3)
Financing costs, taxation and dividend	(341.3)	(388.3)
Net investment in future operations	(98.7)	(43.2)
Cash flow from businesses sold	-	429.9
Other movements	43.9	26.6
<b>Net cash inflow before financing activities</b>	<b>310.8</b>	<b>386.4</b>

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## STATEMENT OF CHANGES IN EQUITY

	Year ended 31 March	
	2006	2005 Restated
	Rm	Rm
<b>Share capital and share premium</b>		
Balance at beginning of the period	282.5	264.3
Issue of new shares	15.9	18.2
Balance at end of the period	<u>298.4</u>	<u>282.5</u>
<b>Share-based payments reserve</b>		
Balance at beginning of the period	4.4	-
Restatement of opening balance	-	1.6
Share-based payment expense	3.7	2.8
Balance at end of the period	<u>8.1</u>	<u>4.4</u>
<b>Non-distributable reserves</b>		
Balance at beginning of the period	95.4	109.4
Restatement of opening balance	-	(2.8)
Realised profit/(loss) on sale of land	0.2	(1.5)
Effect of foreign currency translation	26.6	(31.3)
Effect of cash flow hedges	(0.1)	(9.7)
Transfer from retained surplus - Foreign Currency Translation Reserve (FCTR)	-	31.3
Balance at end of the period	<u>122.1</u>	<u>95.4</u>
<b>Retained surplus</b>		
Balance at beginning of the period	707.2	921.3
Restatement of opening balance		(77.9)
Dividend reserve opening balance transfer		(93.5)
Realised (loss)/profit on disposal of land	(0.2)	1.5
Reserve arising out of IAS 39		0.2
Derecognition of negative goodwill		21.0
Transfer to dividend reserve	(212.4)	(85.8)
Transfer to non-distributable reserves - FCTR	-	(31.3)
Net profit for the period	357.7	51.7
Balance at end of the period	<u>852.3</u>	<u>707.2</u>
<b>Dividend reserve</b>		
Balance at beginning of the period	45.5	93.5
Transfer from retained surplus	212.4	85.8
Dividends paid	(113.3)	(133.8)
Balance at end of the period	<u>144.6</u>	<u>45.5</u>
<b>Equity holders' interest</b>		
	<u>1,425.5</u>	<u>1,135.0</u>
<b>Minority shareholders' interest</b>		
Balance at beginning of the period	330.9	409.9
Restatement of opening balance		(79.8)
Effect of foreign currency translation	(6.7)	(8.7)
Dividends paid	(37.6)	(40.5)
Increase in shareholding	2.3	-
Net profit for the period	99.1	50.0
Balance at end of the period	<u>388.0</u>	<u>330.9</u>
<b>Total equity</b>	<u>1,813.5</u>	<u>1,465.9</u>

## SEGMENTAL ANALYSIS

	Year ended 31 March			
	2006		2005	
	Rm	%	Restated Rm	%
<b>BUSINESS SEGMENTS</b>				
<b>Revenue</b>				
Sugar production	3 883.2	71	3 740.3	73
Cane growing	1 081.5	20	893.6	18
Downstream	504.1	9	468.8	9
	<b>5 468.8</b>		<b>5 102.7</b>	
<b>Profit from operations</b>				
Sugar production	456.9	61	294.9	70
Cane growing	235.3	31	63.8	15
Downstream	59.3	8	65.0	15
	<b>751.5</b>		<b>423.7</b>	
<b>Total assets</b>				
Sugar production	2 060.8	51	2 058.4	54
Cane growing	1 701.9	43	1 524.8	40
Downstream	233.4	6	228.7	6
	<b>3 996.1</b>		<b>3 811.9</b>	
<b>GEOGRAPHICAL SEGMENTS</b>				
<b>Revenue</b>				
South Africa	2 631.1	48	2 409.4	47
Malawi	938.0	17	722.9	14
Zambia	784.9	14	632.1	12
Swaziland	586.1	11	507.5	10
Tanzania	353.9	7	348.1	7
Mozambique	174.8	3	148.2	3
USA	-		334.5	7
	<b>5 468.8</b>		<b>5 102.7</b>	
<b>Profit from operations</b>				
South Africa	156.8	21	61.5	15
Malawi	293.3	39	140.4	33
Zambia	153.2	20	153.9	36
Swaziland	73.0	10	14.3	3
Tanzania	68.6	9	81.8	19
Mozambique	6.6	1	( 5.4)	( 1)
USA	-		( 22.8)	( 5)
	<b>751.5</b>		<b>423.7</b>	

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Basis of preparation

The group has adopted IFRS with a transition date of 1 April 2004. The audited results for the year ended 31 March 2006 have been prepared using accounting policies that comply with IFRS and the comparatives have been restated accordingly. The group is reporting under IFRS for the first time for the year ended 31 March 2006.

The accounting policies adopted are consistent with those of the previous financial period, except for those described in note 2.

### 2. New accounting policies adopted:

#### 2.1 Share-based payments (IFRS 2)

In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity-settled payments after 7 November 2002 that were unvested as at 1 January 2005. The group issued equity-settled instruments to certain qualifying employees under an employee share option scheme to purchase shares in the company's authorised but unissued share capital. Equity share-based payments are measured at the fair value of the equity instruments at the date of the grant. The deferred share-based compensation is expensed over the vesting period, based on the company's estimate of the shares that are expected to eventually vest with a corresponding credit to a share-based payments reserve in equity.

#### 2.2 Property, plant and equipment (IAS 16)

In accordance with IAS 16, the group has adopted the componentisation approach to property, plant and equipment. This requires amortisation 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.

#### 2.3 Operating leases (IAS 17)

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.

#### 2.4 Interests in Joint Ventures (IAS 31)

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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**3. Reconciliation of changes in accounting policies**

	Actual Audited Year ended 31 March 2005 Rm	IFRS transition date 1 April 2004 Rm
<b>Balance sheet</b>		
<b>Equity holders' interest</b>		
As previously reported	1,200.3	1,295.0
Effect of IAS 16 (note 2.2)	(80.2)	(79.1)
Effect of IAS 17 (note 2.3)	1.1	-
Effect of IFRS 2 (note 2.1)	2.8	-
Effect of changes on the income statement	11.0	-
As restated	1,135.0	1,215.9
<b>Minority shareholders' interest</b>		
As previously reported	408.4	409.9
Effect of IAS 16 (note 2.2)	(57.6)	(59.5)
Effect of IAS 31 (note 2.4)	(20.5)	(20.3)
Effect of IFRS 2 (note 2.1)	(0.1)	-
Effect of changes on the income statement	0.7	-
As restated	330.9	330.1
<b>Income Statement</b>		
Net profit as previously reported	40.7	
Effect of IFRS 2 (note 2.1)	(2.6)	
Effect of IAS 16 (note 2.2)	14.1	
Effect of IAS 17 (note 2.3)	(0.5)	
As restated	51.7	
	Year ended 31 March	
	<b>2006</b>	2005
		Restated
	<b>Rm</b>	Rm
<b>4. Net financing costs</b>		
Interest paid	<b>161.4</b>	191.8
Interest received	<b>( 59.5)</b>	( 35.3)
Dividend income	<b>( 1.0)</b>	( 2.6)
	<b>100.9</b>	<b>153.9</b>
<b>5. Material items</b>		
Net loss on sale of businesses	-	( 72.7)
Profit / (loss) on disposal of property	<b>3.5</b>	( 6.5)
<b>Material profit/(loss) before taxation</b>	<b>3.5</b>	( 79.2)
Taxation	<b>( 0.2)</b>	( 24.3)
<b>Material profit/(loss) attributable to shareholders in Illovo Sugar Limited</b>	<b>3.3</b>	<b>( 103.5)</b>



Company registration no. 1906/000622/06  
Share code ILV  
ISIN ZAE000003547

## DECLARATION OF DIVIDEND NO. 29

Notice is hereby given that a final dividend of 42.5 cents per share has been declared on the ordinary shares of the company in respect of the year ended 31 March 2006. This dividend, together with the interim dividend of 20.0 cents per share which was declared on 16 November 2005, makes a total distribution in respect of the year ended 31 March 2006 of 62.5 cents per share.

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

Last day to trade cum-dividend	Friday, 30 June 2006
Shares commence trading ex-dividend	Monday, 3 July 2006
Record date	Friday, 7 July 2006
Payment of dividend	Monday, 10 July 2006

Share certificates may not be dematerialised / rematerialised between Monday, 3 July 2006 and Friday, 7 July 2006, both days inclusive.

By order of the Board

G D Knox	Mount Edgecombe
<i>Company Secretary</i>	18 May 2006

### Directors :

R A Williams (Chairman)\*, D G MacLeod (Managing Director), G J Clark (Australian), B P Connellan\*, N M Hawley, M I Hlatshwayo (Swazi), D Konar\*, P M Madi\*, I N Mkhize\*, A R Mpungwe (Tanzanian)\*, R A Norton\*, J T Russell, M J Shaw\*, B M Stuart, K Zarnack

\* *Non-executive*

### Registered office :

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

### Postal address :

P O Box 194, Durban, 4000

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

### Transfer Secretaries :

Ultra Registrars (Proprietary) Limited : 11 Diagonal Street, Johannesburg, 2001  
P O Box 4844, Johannesburg, 2000

### Auditors :

Deloitte & Touche

### Sponsor :

JP Morgan Equities Limited