

INTERIM REPORT



for the six months ended 30 September 2004

Company Registration No. 1906/000622/06

This report incorporates alternative financial statements which reflect both actual results based on South African Statements of Generally Accepted Accounting Practice and those determined on a sugar season basis which in the directors' opinion is necessary to achieve fair presentation.

The accounting policies used for the actual results in all respects conform to South African Statements of Generally Accepted Accounting Practice.

The sugar industry is a seasonal agriculturally based business and the payment processes are such that cash flows throughout the season, which runs from 1 April to 31 March, are derived from the expected tonnages and prices that will be achieved for the season as a whole. The effect of this is that product sales tonnages and prices received, and raw material prices paid are provisional in nature until the conclusion of the season. For this reason the directors consider that profit figures based on actual cash flows may not represent a fair presentation of the performance and the results for the period. In respect of the sugar season basis results, operational profits from cane growing and sugar production comprise the company's view of the position at 30 September 2004 as it relates to the season as a whole. All other results are based on actual performance. The amounts disclosed in respect of cane growing and sugar production operations are based on a profit forecast for the year ending 31 March 2005 which has been examined by our auditors, Deloitte & Touche. Their unqualified accountants' report is available for inspection at the company's registered office.

The group has adopted AC501 (Accounting for Secondary Tax on Companies (STC)) with effect from 1 April 2004. As required by AC501, it has been retrospectively applied, with the comparative figures from the previous year being restated accordingly. The effect of this application on headline earnings is an increase of R5.8 million for the current six month period, a reduction of R9.4 million for the previous comparative six months, and a reduction of R18.9 million for the year ended 31 March 2004. In addition, the group has adopted AC140 (Business Combinations). In terms of this statement, previously recognised negative goodwill has been derecognised at the beginning of the period with a corresponding adjustment to opening retained income.

In all other material respects the principal accounting policies have been consistently applied.

Review

On a sugar season basis the group experienced disappointing results for the half year with headline earnings of R65,4 million reflecting a 31,3% decline over the same period in the previous year. Headline earnings per share of 19,6 cents represents a 31,5% decrease. The results are however in line with previously advised expectations of financial performance for the period. Actual profits, headline earnings and headline earnings per share for the six months were also impacted by the difficult trading conditions.

Group operating profits, which decreased by 36,5% to R210,8 million, were severely affected by the continuing strong rand in respect of both sugar and downstream exports and the translation of profits. Operating profits in Africa increased in local currencies. The dry weather conditions in South Africa have caused lower cane, sugar and furfural production, which together with the difficult operating environment in the United States have also negatively affected profits. In addition, as a result of the strong rand, local sugar prices in both South Africa and Swaziland have remained at their previously reduced levels.

Net financing costs have decreased by R65,8 million due to the cash inflow from the sale of Gledhow sugar factory and cane growing estates, lower interest rates and reduced core debt. Borrowings have decreased by R568,2 million compared to the same period last year.

The contributions to operating profit by sugar production were 63%, cane growing 22% and downstream 15%, and by country were South Africa 3%, Malawi 37%, Zambia 41%, Swaziland 9%, Tanzania 23%, Mozambique (2%) and the United States (11%). The results in South Africa were particularly disappointing.

In South Africa, the season to date has been characterised by dry conditions which have resulted in the current sugar production estimate being 18% below last year. Elsewhere in the group growing conditions have been favourable with cane and sugar production forecast to exceed that achieved last year. In general the sugar factories have performed well. Assuming normal growing and operating conditions for the remainder of the season, group sugar production is expected to be 1 825 000 tons which is around 100 000 tons lower than last year excluding the Gledhow and Monitor operations which have been sold. Company cane production is anticipated to be 5,3 million tons which is 70 000 tons below last year when the Gledhow operations are excluded. A number of initiatives to reduce operating costs in South Africa are in the process of implementation.

Downstream factory performance has been good but output of the furfural and related plants has been negatively impacted by the reduced cane supplies arising from the dry conditions in South Africa.

The world sugar price has continued to be volatile. However, in recent months the price has been significantly better than earlier in the year with the futures prices rising from US 6.50 cents/lb. in May to over US 9.0 cents/lb. by the end of September. The South African industry has sold around 80% of anticipated export raw sugar sales at US 7.14 cents/lb. Furfural and furfuryl alcohol prices have continued to improve in US dollar terms as a result of strong demand in China.

During the period under review the sale of the Gledhow sugar factory and cane growing estates on the north coast of KwaZulu-Natal to a broad-based BEE company was concluded. The sale of the company's shareholding in Monitor Sugar Company in the United States was finalised on 30 September 2004 with the proceeds from the sale being received on 5 October 2004. The company has also entered into discussions with interested BEE parties regarding the possible sale of the Umfolozi mill at Mtubatuba in KwaZulu-Natal. These actions are part of the process to strengthen the balance sheet, re-align the assets and expand the business through increased production in existing areas of operation in the rest of Africa and through future acquisitions.

Proposals for reform of the European Sugar sector could have a significant positive future impact on the company in respect of existing production and on potential expansion. Negotiations are continuing and the company is actively participating in the process and providing technical input to the discussions. It is envisaged that the reform package will be finalised by the middle of 2005.

Dividend

An interim dividend of 12.0 cents per share (2003 : 18.0 cents) has been declared. It is anticipated that for the full year, 60% of headline earnings will be paid as a dividend.

Prospects

The results for the year will be considerably impacted by the level of the rand compared to other currencies, particularly the US dollar. Operations in the current year are progressing well although the dry conditions in South Africa have influenced anticipated output of both sugar and downstream operations.

At current exchange rates it is anticipated that the percentage decline in profit for the full year will be slightly higher than in the first six months on a sugar season basis. Borrowings at the year end are anticipated to be substantially less than at the end of the previous year. The profit forecast has been examined by our auditors Deloitte & Touche and their unqualified accountants' report is available for inspection at the company's registered office.

On behalf of the Board

R A Williams
Chairman

D G MacLeod
Managing Director

Mount Edgecombe
17 November 2004

GROUP INCOME STATEMENTS

	Notes	Actual Unaudited Six months ended 30 September		Sugar season basis Unaudited Six months ended 30 September		Change %	Actual Audited Year ended 31 March 2004
		2004 Rm	2003 Restated Rm	2004 Rm	2003 Restated Rm		Restated Rm
Revenue		2 346.1	2 761.0	2 780.5	3 319.7	(16.2)	6 488.2
Profit from operations		202.5	273.3	210.8	332.0	(36.5)	726.6
Net financing costs	1	66.5	132.3	66.5	132.3		256.4
Profit before abnormal items		136.0	141.0	144.3	199.7	(27.7)	470.2
Abnormal items	2	(68.3)	2.8	(68.3)	2.8		1.9
Profit before taxation		67.7	143.8	76.0	202.5		472.1
Taxation		35.0	41.8	41.4	62.0		141.4
Profit after taxation		32.7	102.0	34.6	140.5		330.7
Attributable to outside shareholders in subsidiary companies		45.4	44.7	35.1	40.3		90.2
Net (loss)/profit attributable to shareholders in Illovo Sugar Limited		(12.7)	57.3	(0.5)	100.2		240.5
Headline earnings		53.2	52.3	65.4	95.2	(31.3)	237.6
Determination of headline earnings :							
Net (loss)/profit attributable to shareholders		(12.7)	57.3	(0.5)	100.2		240.5
Adjusted for :							
Net loss on sale of Gledhow and Monitor Sugar		65.6	-	65.6	-		-
Loss/(profit) on disposal of property		2.7	(2.8)	2.7	(2.8)		(1.9)
Profit on disposal of plant and equipment		(2.4)	(1.6)	(2.4)	(1.6)		(1.1)
Amortisation of goodwill		-	(0.6)	-	(0.6)		(1.1)
Reorganisation of long-term debt		-	-	-	-		1.2
Headline earnings		53.2	52.3	65.4	95.2	(31.3)	237.6
Number of shares in issue (millions)		334.4	333.3	334.4	333.3		333.8
Weighted average number of shares on which headline earnings per share are based (millions)		334.0	333.1	334.0	333.1		333.3
Headline earnings per share (cents)		15.9	15.7	19.6	28.6	(31.5)	71.3
Diluted headline earnings per share (cents)		15.9	14.6	19.4	27.5		68.0
Dividend per share (cents)		12.0	18.0	12.0	18.0	(33.3)	46.0

BUSINESS SEGMENTAL ANALYSIS

	Actual		Sugar season basis				Actual
	Unaudited		Unaudited				Audited
	Six months ended		Six months ended				Year ended
	30 September		30 September				31 March
2004	2003	2004		2003		2004	
	Restated			Restated		Restated	
	Rm	Rm	Rm	%	Rm	%	Rm
Revenue							
Sugar production	1 481.6	1 770.5	2 101.2	76	2 542.1	77	4 892.1
Cane growing	652.1	740.3	466.9	17	527.4	16	1 040.7
Downstream	212.4	250.2	212.4	7	250.2	8	555.4
	<u>2 346.1</u>	<u>2 761.0</u>	<u>2 780.5</u>		<u>3 319.7</u>		<u>6 488.2</u>
Profit from operations							
Sugar production	145.6	166.4	132.7	63	198.8	60	424.7
Cane growing	25.5	79.0	46.7	22	105.3	32	236.8
Downstream	31.4	27.9	31.4	15	27.9	8	65.1
	<u>202.5</u>	<u>273.3</u>	<u>210.8</u>		<u>332.0</u>		<u>726.6</u>

NOTES TO THE FINANCIAL STATEMENTS

	Unaudited		Audited
	Six months ended		Year ended
	30 September		31 March
	2004	2003	2004
	Rm	Rm	Rm
1. Net financing costs			
Interest paid	86.9	143.3	286.7
Interest received	(18.6)	(9.9)	(27.7)
Dividend income	(1.8)	(1.1)	(2.6)
	<u>66.5</u>	<u>132.3</u>	<u>256.4</u>
2. Abnormal items			
Net loss on sale of Gledhow and Monitor Sugar	(65.6)	-	-
(Loss) / profit on disposal of property	(2.7)	2.8	1.9
Abnormal (loss) / profit before taxation	(68.3)	2.8	1.9
Taxation	-	-	(0.2)
Abnormal (loss) / profit attributable to shareholders in Illovo Sugar Limited	(68.3)	2.8	1.7

3. Discontinuance of United States operation

Effective 30 September 2004, the group disposed of its investment in Monitor Sugar Company. The total consideration of US\$39.2 million was settled partly in cash of US\$36 million in October 2004 and the balance of US\$3.2 million by delivery of a ten year promissory note. Upon receipt of the cash the group immediately settled liabilities in Monitor Sugar Company of US\$20.9 million. The consideration net of costs associated with the disposal represents a deficit over the net asset value at 30 September 2004 of R242.7 million. In addition to the proceeds, the borrowings in Monitor Sugar were taken over by the purchaser. At 31 March 2004 these amounted to US\$48.7 million.

The results of the operations of Monitor Sugar Company to 30 September 2004 were as follows :

	Actual		Sugar season basis				Actual
	Unaudited		Unaudited				Audited
	Six months ended		Six months ended				Year ended
	30 September		30 September				31 March
2004	2003	2004		2003		2004	
	Restated			Restated		Restated	
	Rm	Rm	Rm	Rm	Rm	Rm	
Revenue	334.5	374.4	334.5		415.7		727.3
Loss from operations	(22.8)	(7.6)	(22.8)		(7.0)		(10.6)
Net financing costs	2.9	3.5	2.9		3.5		7.3
Loss before taxation	(25.7)	(11.1)	(25.7)		(10.5)		(17.9)
Taxation	(7.7)	(3.1)	(7.7)		(2.9)		(6.1)
Loss after taxation	(18.0)	(8.0)	(18.0)		(7.6)		(11.8)

The net cash flow attributable to Monitor Sugar Company to 30 September 2004 was as follows :

Cash flow from operating activities	152.3	89.6	152.3		89.6		25.8
Cash flow from investing activities	1.7	8.5	1.7		8.5		8.2
Net cash flow before financing activities	154.0	98.1	154.0		98.1		34.0
Cash flow from financing activities	(156.3)	(103.4)	(156.3)		(103.4)		(42.6)
Net movement in cash	(2.3)	(5.3)	(2.3)		(5.3)		(8.6)

ABRIDGED GROUP BALANCE SHEETS

	Actual Unaudited 30 September 2004		Sugar season basis Unaudited 30 September 2004		Actual Audited 31 March 2004
	Rm	2003 Restated Rm	Rm	2003 Restated Rm	Restated Rm
ASSETS					
Non-current assets	2 445.9	3 349.0	2 445.9	3 349.0	3 159.2
Property, plant and equipment	1 916.4	2 781.3	1 916.4	2 781.3	2 581.2
Cane roots	442.1	460.8	442.1	460.8	518.4
Investments	87.4	129.6	87.4	129.6	80.6
Goodwill	-	(22.7)	-	(22.7)	(21.0)
Current assets	2 438.7	2 685.2	2 438.7	2 685.2	1 802.1
Total assets	4 884.6	6 034.2	4 884.6	6 034.2	4 961.3
EQUITY AND LIABILITIES					
Capital and reserves	1 174.5	1 309.7	1 186.7	1 352.6	1 295.1
Interest of outside shareholders in subsidiaries	430.4	358.5	420.0	354.1	409.9
Deferred taxation	482.4	556.4	488.8	576.9	608.5
Net borrowings	1 717.0	2 285.2	1 717.0	2 285.2	1 366.3
Current liabilities	1 080.3	1 524.4	1 072.1	1 465.4	1 281.5
Total equity and liabilities	4 884.6	6 034.2	4 884.6	6 034.2	4 961.3

OTHER SALIENT FEATURES

Operating margin (%)	8.6	9.9	7.6	10.0	11.2
Gearing (%)	107.0	137.0	106.9	133.9	80.1
Interest cover (times)	3.0	2.1	3.2	2.5	2.8
Net asset value per share (cents)	351.2	392.9	354.9	405.8	388.0
Depreciation	109.3	117.5	109.3	117.5	236.2
Capital expenditure	104.5	97.1	104.5	97.1	198.5
- expansion	18.0	7.7	18.0	7.7	27.1
- product registration costs	1.7	3.2	1.7	3.2	12.5
- replacement	84.8	86.2	84.8	86.2	158.9
Capital commitments	268.9	222.7	268.9	222.7	242.1
- contracted	35.9	29.8	35.9	29.8	19.4
- approved but not contracted	233.0	192.9	233.0	192.9	222.7
Lease commitments	112.9	584.6	112.9	584.6	495.3
- land and buildings	40.5	518.4	40.5	518.4	429.7
- other	72.4	66.2	72.4	66.2	65.6
Contingent liabilities	13.4	8.3	13.4	8.3	16.0

ABRIDGED GROUP CASH FLOW STATEMENTS

	Actual Unaudited Six months ended 30 September 2004		Sugar season basis Unaudited Six months ended 30 September 2004		Actual Audited Year ended 31 March 2004
	Rm	Restated Rm	Rm	Restated Rm	Restated Rm
Cash flows from operating and investing activities					
Cash operating profit	481.5	523.4	489.8	582.9	816.7
Working capital requirements	(1 055.9)	(810.8)	(1 064.2)	(870.3)	42.3
Cash (utilised by)/generated from operations	(574.4)	(287.4)	(574.4)	(287.4)	859.0
Replacement capital	(85.0)	(86.2)	(85.0)	(86.2)	(158.9)
Interest, taxation and dividend	(202.8)	(321.5)	(202.8)	(321.5)	(600.4)
Net investment in future operations	395.5	(21.1)	395.5	(21.1)	(46.4)
Other movements	7.6	8.6	7.6	8.6	41.7
Net cash (outflow) / inflow before financing activities	(459.1)	(707.6)	(459.1)	(707.6)	95.0

STATEMENT OF CHANGES IN EQUITY

Share capital and share premium

Balance at beginning of the period	264.3	259.9	264.3	259.9	259.9
Movements during the period	2.9	2.6	2.9	2.6	4.4
Balance at end of the period	267.2	262.5	267.2	262.5	264.3

Non-distributable reserves

Balance at beginning of the period	109.4	91.7	109.4	91.7	91.7
Effect of foreign currency translation	(33.2)	(283.6)	(33.2)	(283.6)	(390.9)
Effect of cash flow hedges	(4.2)	-	(4.2)	-	4.2
Transfer from retained surplus	30.4	286.4	30.4	286.4	404.4
Balance at end of the period	102.4	94.5	102.4	94.5	109.4

Retained surplus

Balance at beginning of the period	921.4	1 283.5	921.4	1 283.5	1 264.6
Restatement of prior year in terms of AC501	-	21.9	-	21.9	21.9
Reserve arising on implementation of AC133	-	16.3	-	16.3	(1.3)
Derecognition of negative goodwill	20.1	-	20.1	-	-
Dividends paid	(93.5)	(139.9)	(93.5)	(139.9)	(199.9)
Transfer to non-distributable reserves	(30.4)	(286.4)	(30.4)	(286.4)	(404.4)
Net (loss)/profit for the period	(12.7)	57.3	(0.5)	100.2	240.5
Balance at end of the period	804.9	952.7	817.1	995.6	921.4
Ordinary shareholders' equity	1 174.5	1 309.7	1 186.7	1 352.6	1 295.1



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

DECLARATION OF DIVIDEND NO. 26

Notice is hereby given that an interim dividend of 12.0 cents per share has been declared on the ordinary shares of the company in respect of the six months ended 30 September 2004.

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, 31 December 2004
Shares commence trading ex-dividend	Monday, 3 January 2005
Record date	Friday, 7 January 2005
Payment of dividend	Monday, 10 January 2005

Share certificates may not be dematerialised/rematerialised between Monday, 3 January 2005 and Friday, 7 January 2005, both days inclusive.

By order of the Board

G D Knox	Mount Edgecombe
<i>Secretary</i>	17 November 2004

Directors :

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

* *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

Transfer Secretaries :

Computershare Investor Services 2004 (Pty) Ltd, 70 Marshall Street, Johannesburg, 2001

Auditors :

Deloitte & Touche

Sponsor :

Cazenove South Africa (Proprietary) Limited