

# INTERIM REPORT



for the six months ended 30 September 2006

Company registration no. 1906/000622/06  
Share code ILV ISIN ZAE000083846

## **Basis of preparation**

This report incorporates financial statements which reflect both actual results based on International Financial Reporting Standards ("IFRS") and those determined on a sugar season basis which in the directors' opinion provide a better basis for evaluating the financial performance of the company.

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 the best basis for evaluating the performance and the results for the period. In respect of the sugar season basis results, operational profits for cane growing and sugar production comprise the company's view of the position at 30 September 2006 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 2007 which has been examined by our auditors, Deloitte & Touche. Their unqualified accountants' report is available for inspection at the company's registered office.

The unaudited actual results for the six months ended 30 September 2006 have been prepared using accounting policies that comply with IFRS and are prepared in accordance with IAS34 (Interim financial reporting). The accounting policies adopted are consistent with those of the previous financial period.

## **Review**

On a sugar season basis the group has achieved pleasing results for the half year with headline earnings of R259.2 million reflecting a 75% improvement over the same period in the previous year. Headline earnings per share of 75.7 cents represents a 73% increase.

Group operating profits which increased by 64% to R516.1 million benefited from a higher world sugar price, improved domestic market sales and prices, weaker exchange rates and operating cost reductions. Lower sugar production caused by adverse weather conditions in South Africa and Tanzania has partly offset these benefits.

Net financing costs have reduced by R11.2 million whilst borrowings at R1 453.1 million are R20.0 million lower compared to the same period last year.

The contributions to operating profit were: sugar production 65%, cane growing 28% and downstream 7%. By country contributions were: South Africa 24%, Malawi 33%, Zambia 23% Swaziland 9%, Tanzania 10% and Mozambique 1%.

The season to date has been affected by variable weather conditions in South Africa and severe drought in Tanzania during the early growing season. However the rest of the group has experienced normal weather which with effective irrigation and long sunshine hours has been conducive to good cane growth. In general the sugar factories have performed satisfactorily. Assuming normal growing and operating conditions for the remainder of the season, group sugar production is expected to be around 1.8 million tons which is 70 000 tons below that of last year. The main decrease in production has occurred in South Africa, where most of the cane is produced under rainfed conditions, which has seen a decline in both tons of cane per hectare and sucrose content in cane. The whole industry has been similarly affected. Production in Tanzania is down by 10% as a result of reduced cane production from the outgrowers who rely on seasonal rainfall. Record sugar production is forecast for both Malawi and Zambia. Group own cane production is anticipated to be 5.5 million tons which is 100 000 tons above that of last year.

Downstream operations have performed well and with the exception of furfural, which has been impacted by the lower cane tonnage at Sezela in South Africa, production levels are expected to be slightly higher than those achieved last season.

The world sugar price has been extremely volatile. Following a rise to almost US20 cents/lb earlier in the year it has declined to levels of around US12 cents/lb. Overall the average price is significantly higher than in the previous year. The South African sugar industry has sold around 80% of anticipated export raw sugar sales at US15.23 cents/lb. The improved world price has impacted favourably on export revenues from regional markets. Downstream product prices have improved in US dollar terms and the weaker rand has impacted favourably on export realisations. The majority of downstream output is exported.

The finalisation of the EU reform package, which came into effect from 1 July 2006, has created a period of certainty in respect of the EU market until September 2015, and will underpin the expansion plans of the group. During the period under review expansion projects commenced in Malawi, Zambia and Swaziland, whilst the refinery capacity increases in South Africa were completed. The United States Environmental Protection Agency recently conditionally registered furfural as a pesticide product for non-food greenhouse usage in that country which is an important first step in the process of developing a new market for furfural. Nevertheless, it will take at least 18 months for the project to achieve a commercial status.

### **Directorate**

As a result of the acquisition of 51% of the share capital of Illovo by ABF Overseas Limited, the following changes in directorate occurred on 5 September 2006:

Dr Mark Carr, and Messrs David Langlands and Paul Lister were appointed as non-executive directors, whilst Messrs Ami Mpungwe, Nigel Hawley and Mandla Hlatshwayo resigned from the board. We thank those directors who have resigned for their valued contribution to the board. Nigel Hawley and Mandla Hlatshwayo remain members of the group executive committee.

### **Dividend**

An interim dividend of 30.0 cents per share (2005 : 20.0 cents) has been declared. It is anticipated that for the full year the dividend will be twice covered by headline earnings.

### **Prospects**

Operations for the current year are progressing well, but results for the year will be influenced by the level of the rand compared to other currencies, the world sugar price and final sugar production.

Provided there is no major change to these factors and as an update to the trading statement issued on 13 September 2006, headline earnings for the full year to 31 March 2007 are expected to be between 35% and 45% higher than in the previous financial 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  
16 November 2006

## GROUP INCOME STATEMENTS

		Actual Unaudited Six months ended 30 September		Sugar season basis Unaudited Six months ended 30 September		Change	Actual Audited Year ended 31 March 2006
	Notes	2006 Rm	2005 Rm	2006 Rm	2005 Rm	%	Rm
<b>Revenue</b>		<b>2 822.1</b>	2 367.9	<b>3 258.9</b>	2 657.6	23	<b>5 468.8</b>
<b>Operating profit</b>		<b>639.0</b>	367.8	<b>516.1</b>	315.6	64	751.5
Net financing costs	1	<b>32.9</b>	44.1	<b>32.9</b>	44.1		100.9
<b>Profit before material items</b>		<b>606.1</b>	323.7	<b>483.2</b>	271.5		650.6
Material items	2	<b>0.4</b>	0.6	<b>0.4</b>	0.6		3.5
<b>Profit before taxation</b>		<b>606.5</b>	324.3	<b>483.6</b>	272.1		654.1
Taxation		<b>191.8</b>	94.4	<b>159.1</b>	82.6		197.3
<b>Profit after taxation</b>		<b>414.7</b>	229.9	<b>324.5</b>	189.5		456.8
Attributable to outside shareholders in subsidiary companies		<b>86.8</b>	64.4	<b>64.7</b>	40.9		99.1
<b>Net profit attributable to shareholders in Illovo Sugar Limited</b>		<b>327.9</b>	165.5	<b>259.8</b>	148.6	75	<b>357.1</b>
<b>Determination of headline earnings :</b>							
Net profit attributable to shareholders		<b>327.9</b>	165.5	<b>259.8</b>	148.6	75	357.7
Adjusted for :							
Profit on disposal of property		<b>(0.4)</b>	(0.6)	<b>(0.4)</b>	(0.6)		( 3.3)
Profit on disposal of plant and equipment		<b>(0.2)</b>	(0.3)	<b>(0.2)</b>	(0.3)		( 2.0)
<b>Headline earnings</b>		<b>327.3</b>	164.6	<b>259.2</b>	147.7	75	<b>352.4</b>
Number of shares in issue (millions)		<b>348.7</b>	337.5	<b>348.7</b>	337.5		340.1
Weighted average number of shares on which headline earnings per share are based (millions)		<b>342.3</b>	337.4	<b>342.3</b>	337.4		338.2
<b>Headline earnings per share (cents)</b>		<b>95.6</b>	48.8	<b>75.7</b>	43.8	73	104.2
Diluted headline earnings per share (cents)		<b>94.8</b>	48.0	<b>75.2</b>	43.2		101.4
Dividend per share (cents)		<b>30.0</b>	20.0	<b>30.0</b>	20.0	50	62.5

## ABRIDGED GROUP BALANCE SHEETS

	Actual Unaudited 30 September 2006		Sugar season basis Unaudited 30 September 2006		Actual Audited 31 March 2006
	Rm	2005 Rm	Rm	2005 Rm	Rm
<b>ASSETS</b>					
<b>Non-current assets</b>	<b>2 661.7</b>	2 339.1	<b>2 661.7</b>	2 339.1	2 362.6
Property, plant and equipment	1 910.4	1 700.4	1 910.4	1 700.4	1 704.9
Cane roots	677.8	557.6	677.8	557.6	589.1
Investments	73.5	81.1	73.5	81.1	68.6
<b>Current assets</b>	<b>3 082.1</b>	2 589.8	<b>3 082.1</b>	2 589.8	1 633.5
Inventories	1 433.3	1 327.5	1 433.3	1 327.5	470.8
Growing cane	739.8	412.6	739.8	412.6	657.9
Accounts receivable	840.4	849.7	840.4	849.7	504.8
Financial instruments	68.6	-	68.6	-	-
<b>Total assets</b>	<b>5 743.8</b>	<b>4 928.9</b>	<b>5 743.8</b>	<b>4 928.9</b>	<b>3 996.1</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Total equity</b>	<b>2 161.9</b>	1 697.1	<b>2 071.7</b>	1 656.7	1 813.5
Equity holders' interest	1 706.4	1 313.5	1 638.3	1 296.6	1 425.5
Minority shareholders' interest	455.5	383.6	433.4	360.1	388.0
<b>Non-current liabilities</b>	<b>2 026.4</b>	1 949.7	<b>2 026.4</b>	1 938.1	922.5
Deferred taxation	573.3	476.6	573.3	465.0	481.5
Net borrowings	1 453.1	1 473.1	1 453.1	1 473.1	441.0
<b>Current liabilities</b>	<b>1 555.5</b>	1 282.1	<b>1 645.7</b>	1 334.1	1 260.1
Accounts payable and provisions	1 555.5	1 210.8	1 645.7	1 262.8	1 170.7
Financial instruments	-	71.3	-	71.3	89.4
<b>Total equity and liabilities</b>	<b>5 743.8</b>	<b>4 928.9</b>	<b>5 743.8</b>	<b>4 928.9</b>	<b>3 996.1</b>

## OTHER SALIENT FEATURES

Operating margin (%)	22.6	15.5	15.8	11.9	13.7
Gearing (%)	67.2	86.8	70.0	88.9	24.3
Interest cover (times)	19.4	8.3	15.7	7.2	7.4
Net asset value per share (cents)	620.0	502.8	594.1	490.9	533.2
Depreciation	72.7	64.4	72.7	64.4	127.7
Capital expenditure	108.1	68.9	108.1	68.9	205.0
- expansion	62.1	27.8	62.1	27.8	75.4
- product registration costs	3.7	2.0	3.7	2.0	8.8
- replacement	42.3	39.1	42.3	39.1	120.8
Capital commitments	199.4	175.7	199.4	175.7	284.2
- contracted	44.0	81.3	44.0	81.3	28.1
- approved but not contracted	155.4	94.4	155.4	94.4	256.1
Lease commitments	160.9	169.1	160.9	169.1	171.2
- land and buildings	93.9	88.1	93.9	88.1	102.8
- other	67.0	81.0	67.0	81.0	68.4
Contingent liabilities	6.3	11.2	6.3	11.2	10.5

**ABRIDGED GROUP CASH FLOW STATEMENTS**

	Actual		Sugar season basis		Actual
	Unaudited		Unaudited		Audited
	Six months ended		Six months ended		Year ended
	30 September		30 September		31 March
	2006	2005	2006	2005	2006
	Rm	Rm	Rm	Rm	Rm
<b>Cash flows from operating and investing activities</b>					
Cash operating profit	678.5	575.1	555.6	522.9	710.5
Working capital requirements	(1 001.9)	(980.8)	(879.0)	(928.6)	117.2
Cash (utilised by)/generated from operations	(323.4)	(405.7)	(323.4)	(405.7)	827.7
Replacement capital expenditure	(42.3)	(39.1)	(42.3)	(39.1)	(120.8)
Financing costs, taxation and dividend	(350.6)	(165.1)	(350.6)	(165.1)	(341.3)
Net investment in future operations	(71.2)	(45.9)	(71.2)	(45.9)	(98.7)
Other movements	2.3	2.6	2.3	2.6	43.9
<b>Net cash (outflow) / inflow before financing activities</b>	<b>(785.2)</b>	<b>(653.2)</b>	<b>(785.2)</b>	<b>(653.2)</b>	<b>310.8</b>

**STATEMENT OF CHANGES IN EQUITY**
**Share capital and share premium**

Balance at beginning of the period	298.4	282.5	298.4	282.5	282.5
Issue of new shares	55.3	1.5	55.3	1.5	15.9
Balance at end of the period	353.7	284.0	353.7	284.0	298.4

**Share-based payments reserve**

Balance at beginning of the period	8.1	4.4	8.1	4.4	4.4
Share-based payment expense	2.7	1.5	2.7	1.5	3.7
Balance at end of the period	10.8	5.9	10.8	5.9	8.1

**Non-distributable reserves**

Balance at beginning of the period	122.1	95.4	122.1	95.4	95.4
Realised profit on disposal of land	-	-	-	-	0.2
Effect of foreign currency translation	80.8	55.5	80.8	55.5	26.6
Effect of cash flow hedges	(40.7)	-	(40.7)	-	(0.1)
Transfer to retained surplus - Foreign Currency Translation Reserve (FCTR)	-	(58.8)	-	(58.8)	-
Balance at end of the period	162.2	92.1	162.2	92.1	122.1

**Retained surplus**

Balance at beginning of the period	852.3	707.2	852.3	707.2	707.2
Realised loss on disposal of land	-	-	-	-	(0.2)
Transfer to dividend reserve	(103.2)	(67.5)	(103.2)	(67.5)	(212.4)
Transfer from non-distributable reserves - FCTR	-	58.8	-	58.8	-
Net profit for the period	327.9	165.5	259.8	148.6	357.7
Balance at end of the period	1 077.0	864.0	1 008.9	847.1	852.3

**Dividend reserve**

Balance at beginning of the period	144.6	45.5	144.6	45.5	45.5
Transfer from retained surplus	103.2	67.5	103.2	67.5	212.4
Dividends paid	(145.1)	(45.5)	(145.1)	(45.5)	(113.3)
Balance at end of the period	102.7	67.5	102.7	67.5	144.6

**Equity holders' interest**

	1 706.4	1 313.5	1 638.3	1 296.6	1 425.5
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**Minority shareholders' interest**

Balance at beginning of the period	388.0	330.9	388.0	330.9	330.9
Effect of foreign currency translation	24.9	3.1	24.9	3.1	(6.7)
Dividends paid	(47.1)	(14.8)	(47.1)	(14.8)	(37.6)
Increase in shareholding	2.9	-	2.9	-	2.3
Net profit for the period	86.8	64.4	64.7	40.9	99.1
Balance at end of the period	455.5	383.6	433.4	360.1	388.0

**Total equity**

	2 161.9	1 697.1	2 071.7	1 656.7	1 813.5
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## SEGMENTAL ANALYSIS

	Actual		Sugar season basis				Actual
	Unaudited		Unaudited				Audited
	Six months ended		Six months ended				Year ended
	30 September		30 September				31 March
	2006	2005	2006		2005		2006
	Rm	Rm	Rm	%	Rm	%	Rm

### BUSINESS SEGMENTS

#### Revenue

Sugar production	1 672.1	1 368.2	2 348.1	72	1 933.0	73	3 883.2
Cane growing	910.4	787.8	671.2	21	512.7	19	1 081.5
Downstream	239.6	211.9	239.6	7	211.9	8	504.1
	<u>2 822.1</u>	<u>2 367.9</u>	<u>3 258.9</u>		<u>2 657.6</u>		<u>5 468.8</u>

#### Operating profit

Sugar production	224.8	257.0	336.5	65	220.5	70	456.9
Cane growing	380.4	86.1	145.8	28	70.4	22	235.3
Downstream	33.8	24.7	33.8	7	24.7	8	59.3
	<u>639.0</u>	<u>367.8</u>	<u>516.1</u>		<u>315.6</u>		<u>751.5</u>

#### Total assets

Sugar production	3 549.0	3 225.1	3 549.0	62	3 225.1	65	2 060.8
Cane growing	1 882.4	1 465.7	1 882.4	33	1 465.7	30	1 701.9
Downstream	312.4	238.1	312.4	5	238.1	5	233.4
	<u>5 743.8</u>	<u>4 928.9</u>	<u>5 743.8</u>		<u>4 928.9</u>		<u>3 996.1</u>

### GEOGRAPHICAL SEGMENTS

#### Revenue

South Africa	1 175.2	919.2	1 477.5	46	1 268.3	47	2 631.1
Malawi	443.7	468.9	535.1	16	442.2	17	938.0
Zambia	484.9	384.7	592.3	18	389.3	15	784.9
Swaziland	370.7	381.0	321.7	10	290.0	11	586.1
Tanzania	176.9	86.5	232.6	7	181.9	7	353.9
Mozambique	170.7	127.6	99.7	3	85.9	3	174.8
	<u>2 822.1</u>	<u>2 367.9</u>	<u>3 258.9</u>		<u>2 657.6</u>		<u>5 468.8</u>

#### Operating profit

South Africa	107.5	30.0	126.4	24	59.3	19	156.8
Malawi	179.8	156.9	171.6	33	107.2	34	293.3
Zambia	198.0	37.1	119.8	23	83.4	26	153.2
Swaziland	71.0	82.1	44.4	9	31.6	10	73.0
Tanzania	36.8	39.7	50.4	10	36.4	12	68.6
Mozambique	45.9	22.0	3.5	1	(2.3)	(1)	6.6
	<u>639.0</u>	<u>367.8</u>	<u>516.1</u>		<u>315.6</u>		<u>751.5</u>

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## NOTES TO THE FINANCIAL STATEMENTS

	Unaudited Six months ended 30 September <b>2006</b> Rm	2005 Rm	Audited Year ended 31 March 2006 Rm
<b>1. Net financing costs</b>			
Interest paid	<b>92.6</b>	80.8	159.6
Interest received	<b>( 47.0)</b>	( 43.7)	( 46.0)
Foreign exchange gains and losses	<b>( 11.6)</b>	7.8	( 11.7)
Dividend income	<b>( 1.1)</b>	( 0.8)	( 1.0)
	<u><b>32.9</b></u>	<u>44.1</u>	<u>100.9</u>
<b>2. Material items</b>			
Profit / (loss) on disposal of property	<b>0.4</b>	0.6	3.5
<b>Material profit before taxation</b>	<b>0.4</b>	0.6	3.5
Taxation	-	-	( 0.2)
<b>Material profit attributable to shareholders in Illovo Sugar Limited</b>	<u><b>0.4</b></u>	<u>0.6</u>	<u>3.3</u>

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Company Registration no. 1906/000622/06  
Share code ILV  
ISIN ZAE000083846

## DECLARATION OF DIVIDEND NO. 30

Notice is hereby given that an interim dividend of 30.0 cents per share has been declared on the ordinary shares of the company in respect of the six months ended 30 September 2006.

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	Thursday, 28 December 2006
Shares commence trading ex-dividend	Friday, 29 December 2006
Record date	Friday, 5 January 2007
Payment of dividend	Monday, 8 January 2007

Share certificates may not be dematerialised / rematerialised between Friday, 29 December 2006 and Friday, 5 January 2007, both days inclusive.

By order of the Board

G D Knox                      Mount Edgecombe  
*Company Secretary*        16 November 2006

### Directors :

R A Williams (Chairman)\*, D G MacLeod (Managing Director), M I Carr##. G J Clark (Australian), B P Connellan\*, D Konar\*, D R Langlands##, P A Lister##, P M Madi\*, I N Mkhize\*, R A Norton\*, J T Russell, M J Shaw\*, B M Stuart, K Zarnack

# British    \* *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 :

Link Market Services South Africa (Proprietary) Limited : 11 Diagonal Street, Johannesburg, 2001,  
P O Box 4844, Johannesburg, 2000

### Auditors :

Deloitte & Touche

### Sponsor :

J P Morgan Equities Limited