2019

ILLOVO SUGAR (MALAWI) PLC

ANNUAL REPORT FOR THE 12 MONTHS ENDED 31 AUGUST 2019

SUGAR ILLOVO MALAWI

AN **ILLOVO SUGAR AFRICA** COMPANY


TRUSTED
ILLOVO
QUALITY
Tseketseke
FINEST
BROWN SUGAR
VITAMIN A
500g
Brown Sugar
500g
FINEST
BROWN SUGAR
1kg

ILLOVO SUGAR (MALAWI) PLC
REPORT FOR THE YEAR ENDED 31 AUGUST 2019

KEY FEATURES

	2019	2018
Results (K million)		
Revenue	129 676	141 760
Operating profit	20 047	30 197
Net profit	10 083	16 449
Headline earnings	10 083	16 449
Share performance (tambala per share)		
Headline earnings	1 413	2 306
Net asset value	9 994	8 542
Year-end market price	21 000	24 000
Financial statistics		
Return on average shareholders' equity (%)	15.2	31.4
Return on net assets (%)	17.8	32.6
Interest cover (times)	3.7	5.1

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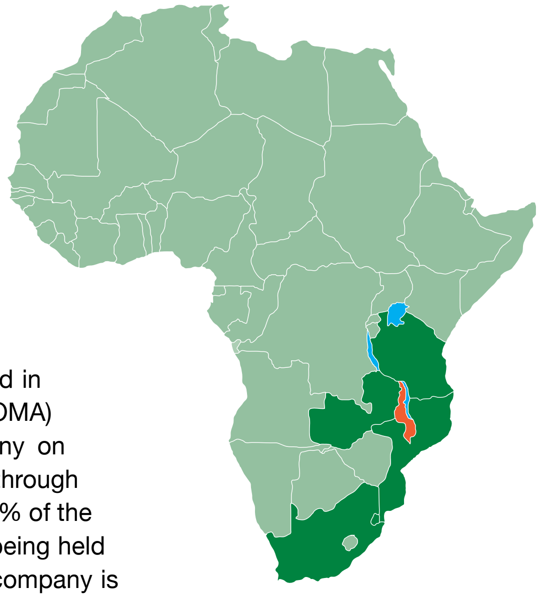
ILLOVO SUGAR (MALAWI) PLC

GROUP PROFILE



Illovo Sugar (Malawi) plc (Illovo Malawi / the Group) was incorporated in Malawi as a private company (The Sugar Corporation of Malawi (SUCOMA) Limited) on 31 May 1965 and then converted to a public company on 15 September 1997. Illovo Sugar Africa (Proprietary) Limited (Illovo) (through SUCOMA Holdings Limited), Africa's largest sugar producer, holds 76% of the issued share capital of Illovo Malawi with the balance of the shares being held by the public and other institutional investors. The ultimate holding company is Associated British Foods plc (ABF), domiciled in the United Kingdom, which as at 28 June 2016, following shareholder approval, acquired 100% (previously 51%) of Illovo's issued share capital.

Illovo Malawi is the country's biggest producer of sugar and plays a significant role within the Malawian economy. It has developed significant agricultural and milling assets at the Dwangwa Sugar Estate in the mid-central region at Nkhotakota and at the Nchalo Sugar Estate situated in the south of the country at Chikwawa. In a normal season, Illovo Malawi grows two million tons of sugarcane on both estates which, combined with 400 000 tons of cane grown by Malawian growers, enables the production of over 250 000 tons of sugar.

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

Over 60% of the sugar produced in a year is sold into the local direct consumption market through the company's established distribution channels and also into the local artisanal and industrial market, with the balance earning valuable foreign exchange through export sales into regional African markets and into markets in the European Union (EU) and the United States of America (USA).

Illovo Malawi is the country's largest private-sector employer providing employment for over 9 000 people and it is also a major contributor to the Malawian tax authorities through both direct and indirect taxes. Many local industries are dependent upon Illovo for their viability and the employment created by these businesses provides an income base for many more families than are directly employed. It further supports an estimated 3 700 people through various smallholder farmer sugarcane schemes.

Malawi is classified as one of the world's Least Developed Countries on the United Nations Human Development Index. The prevailing low Gross Domestic Product (GDP) per capita results in generally extremely high poverty levels particularly across Malawi's vast rural areas. Recognising the significant development needs of the communities in which it operates and to meet the Group's stated objective to ensure the creation of "thriving communities" surrounding its areas of operation Illovo Malawi undertakes creating shared value (CSV) initiatives together with a broader objective to complement Malawi's national strategy to alleviate poverty and to contribute towards national food security and a healthy population. The Group continues to partner with government, non-governmental organisations and other agencies to address these development issues.

The Group also fully recognises the essential role that a managed and protected environment plays in the growing of sugar cane used in the production of sugar and manages the impact of its activities, striving to maintain an environment which meets the needs of current and future generations and continues to develop its business in a socially responsible manner.

GROUP STRUCTURE AND SHAREHOLDING

CORPORATE INFORMATION

Company Secretary / Compliance Officer	:	M S Kachingwe
Business address and registered office	:	Illovo Sugar (Malawi) Plc, Churchill Road, Limbe, Malawi
Postal address	:	Private Bag 580, Limbe, Malawi
Telephone	:	+265 (0)1 843 988
Fax	:	+265 (0)1 840 761
E-mail address	:	illovomalawi@illovo.co.za
Website Address	:	www.illovosugar.com
Transfer secretaries	:	Standard Bank Limited Transfer Secretaries, Transactional Products and Services, Kaomba Centre, corner Sir Glyn Jones Road & Victoria Avenue, Blantyre, Malawi
Postal address	:	P O Box 1111, Blantyre, Malawi
Telephone	:	+265 (0)1 820 144
E-mail address	:	custodymalawi@standardbank.local
Auditors	:	Ernst & Young (EY)
Principal attorneys	:	Knight & Knight
Principal bankers	:	Standard Bank Malawi Plc

OPERATING LOCATIONS

KEY

- CANE ESTATES AND SUGAR FACTORIES
- OFFICES
- CAPITAL CITY

DIRECTORATE

CHAIRMAN – NON-EXECUTIVE

G B (Gavin) Dalgleish (53)
BScEng(Chem), MScEng(Chem)

Gavin was appointed as a director of Illovo Sugar (Malawi) plc (Illovo Malawi) in November 2011 and assumed the position of Chairman in August 2013. He holds a master's degree in chemical engineering and first joined the Illovo Sugar Group (Illovo) in 1988 as a postgraduate student. He has since held a number of technical, business-development, operational and general management positions in Illovo. He also spent three years leading the Australia-based global technology unit of AB Mauri, a yeast business which is a subsidiary of Associated British Foods plc, before returning to Illovo in December 2010. Gavin assumed the position of Operations Director of Illovo in 2012, and was appointed Managing Director of Illovo with effect from 1 September 2013. He is a member of the Nomination/Remuneration Committee.

EXECUTIVE DIRECTORS

M A (Mark) Bainbridge (51)
BEng(Hons) Engineering

Mark was appointed Managing Director of Illovo Malawi on 1 January 2017. He joined Illovo in June 2013 as the Managing Director of the Group's Tanzanian subsidiary, Kilombero Sugar Company. He has had seasoned and extensive multinational experience in nine sugar manufacturing environments since 1986 and previously served in various senior technical, project and leadership positions for British Sugar in the United Kingdom and AB Sugar in China. Prior to joining Illovo in 2013, Mark was the Development Director of Bo Tian Sugar Co. China. He is a Trustee of Mary's Meals in Malawi. Mark is also a Trustee of both the Shire Valley Cane Growers Trust and the Community Development Trust.

L L (Lekani) Katandula (44)
BAcc, FCCA, CA(Mw), CFA, CISA, MBA

Lekani was appointed Human Resources Director of Illovo Malawi in December 2017. He had until then served as Finance Director of the company since August 2015. Prior to joining the Group, he was employed by Deloitte Malawi for 19 years, where he was Audit and Advisory Partner in the final 11 years. He has a wealth of knowledge and experience in financial management, reporting and control, and leadership having operated in senior managerial and partnership levels in a reputable external audit practice. He currently also serves as a non-executive director at First Capital Bank Malawi, Ethanol Company Limited and Malawi Telecommunications Limited, and as a trustee of SUCOMA Group Pension Scheme. He also served as Chairman of the board of Trustees at Phoenix International School until June 2019 when he relinquished this role.

M F (Marc) Pousson (53)
NHDip (Elect HC), GCC(Elect)

Marc resigned from the board of Illovo Malawi on 18 July 2019. He had been a director of Illovo Malawi since May 2017. He joined Illovo in 1992 as an engineer-in-training and after successfully completing the programme he held a number of operational, technical and management positions at various operations in Illovo. Most recently he spent more than three years as Operations Director of Zambia Sugar Plc. Marc has over 20 years' experience in the sugar industry, all with Illovo.

E M (Edward) Namboya (43)
BAcc, FCCA, CA(Mw)

Edward was appointed Finance Director of Illovo Malawi in December 2017 having joined Illovo Malawi as Financial Controller in May 2014. Edward has extensive practical knowledge and experience in financial reporting standards, management and financial reporting, computer systems, taxation and leadership. He started his professional career at Deloitte Malawi where he worked for over ten years and rose to the position of Senior Audit Manager responsible for audit, training and technical matters. He joined Press Corporation plc in 2010 where he served as Group Financial Accountant for a period of two years and was later appointed as Chief Finance Officer for Malawi Telecommunications Limited, a subsidiary of PCL in 2012. He currently also serves as a member of the board of trustees for Saint Andrews International High School and non-executive board member of NBM Pension Administration Limited.

NON-EXECUTIVE DIRECTORS

M H (Mohammed) Abdool-Samad (48)
BCom, CA(SA)

Mohammed resigned from the board of Illovo Malawi effective 31 July 2019, when he also left the Illovo Group to pursue outside interests. He had been appointed as a director of Illovo Malawi in November 2011. He was appointed as Financial Director of Illovo in 2011. He holds a BCom degree and qualified as a chartered accountant in 1996. From 1996 to 2000, he held various managerial positions at Deloitte & Touche. In 2001 he joined Anglo American plc, providing risk management and treasury audit services. He was appointed Senior Finance Manager of Anglo Coal South Africa in 2005, Chief Financial Officer in 2006, and after a restructure of the business, Chief Financial Officer of Anglo American Thermal Coal in 2009, responsible for Anglo American's global thermal coal assets.

P W (Paul) Guta (47)
BSc(Hons),MSc(StratMgt), CertMkt

Paul was appointed as a director of Illovo Malawi in February 2017. Appointed as the Managing Director of Nedbank Malawi in 2014, a post which he still occupies, Paul previously has served in various business management roles in corporate and retail banking. From 1997 to 2003 he was in the oil industry with BP Malawi (now Puma Energy). He transitioned into the banking industry in July 2003, where he has taken up a number of management roles first at Standard Bank, before moving to Nedbank. He has been the President of the Bankers Association of Malawi until the expiry of His term in June 2019. He is also currently a board member and Chairman of the Finance Committee of AMREF Health Africa Limited as well as a member of the Roads Fund Administration (RFA) Board. He is currently a member of Illovo Malawi's Audit Committee.

G (Grace) Kumchulesi (Dr) (41)
BSocSci, MA Econ, PhD Econ

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

P A (Phillip) Madinga (47)
BSocSci(Econ), BBM&A(Hons), MBA

Phillip was appointed as a director of Illovo Malawi in February 2017. Currently he is the Chief Commercial Officer - Business at NBS Bank plc. Until June 2017 he was the Group General Manager, Corporate and Commercial Banking of First Merchant Bank Limited, a financial institution incorporated in Malawi and listed on the Malawi Stock Exchange. Prior to this he was Managing Director of FDH Bank Limited. He also worked for several banks as Executive Head of Corporate and Investment Banking with Standard Bank Limited, Head of Corporate Banking for Loita Bank (now EcoBank), Deputy Head of Credit for Nedbank Malawi Limited and Project Monitoring Officer for Investment and Development Bank of Malawi Limited. He has over 23 years' experience in banking and finance. In his own capacity, Phillip is the board Chairman of Sunbird Tourism, Commissioner on the Malawi National Planning Commission. He is Chairman of the Nomination/ Remuneration Committee and a member of the Audit Committee.

A R (Ami) Mpungwe (68)
BA(Hons), PGD International Law and Diplomacy, SMP, LCP

Ami has spent 25 years in the Tanzanian diplomatic service and has consequently during this time accumulated a wealth of political and commercial experience from operating on the African continent. He was the first Tanzanian High Commissioner to South Africa and retired from the service in 1999. He was a previous non-executive director of Illovo Sugar Proprietary Limited and in addition to being appointed as a non-executive director of Illovo Malawi in October 2006, he also still remains on the boards of Illovo's operating subsidiaries in Zambia, at Zambia Sugar Plc which is listed on the Lusaka Stock Exchange and in Tanzania, at Kilombero Sugar Company Limited. He is also a director of a number of other companies in Tanzania. He is a member of the Risk Management Committee and the Nomination/Remuneration Committee.

N A (Naomi) Ngwira (Dr) (58)
BSoc, MSc Econ, PhD Econ

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

N (Nelis) Saayman (Dr) (49)
BEng(Chem)(cum laude), PhD (Chem Eng), MBL

Nelis was appointed as Operations Director of Illovo in September 2018. Before joining Illovo Nelis served in various capacities in the Sasol Group, the last position being Senior Vice President – Group Planning and Optimisation. Nelis's career has spanned many years in the chemical industry ranging from research and development, engineering design, project execution, operations management and strategy amongst others. He is Chairman of the Risk Management Committee.

R (Ravi) Savjani (30)
BSc(Hons)(Econ), ACMA, CGMA

Ravi was appointed as a director of Illovo Malawi in May 2018. He holds a BSc First Class Honours degree in Economics from the University of Warwick. He trained in finance and corporate finance at Deloitte in London where he also commenced his accountancy qualification, which he completed soon thereafter. Ravi subsequently held a number of roles in the private equity industry in London and also assisted with the establishment of a financial services business headquartered in Dubai, where he currently serves as a Director. He is currently a consultant for financial services companies in the region. He is a member of the Risk Management Committee.

C (Craig) Taylor (48)
Postgrad Dip (Acc), BCom (Acc), SAICA CA(SA)

Craig Taylor was appointed to the board of Illovo Malawi on 13 August 2019. He is currently the Interim Group Financial Director for Illovo, following the departure of Mohammed Abdool-Samad. He brings with him a wealth of experience at the financial directorship and management level both in South Africa and the United States of America (USA). He served at that level in various companies in the information technology industry in the USA, including Microsoft, Depth Wire Corp and T-Mobile. He has also worked as a consultant for senior executives, especially in finance. He has over 26 years in internal and external audit, financial accounting and reporting, finance management, strategic management and related areas. He started out his career as auditor at Deloitte South Africa, having graduated from the University of KwaZulu-Natal also in South Africa. Craig is also a non-executive director on the boards of Zambia Sugar plc, Illovo Sugar South Africa (Proprietary) Ltd, Kilombero Sugar Company (Proprietary) Ltd, Illovo Distillers Tanzania (Proprietary) Ltd (Tanzania), Maragra Acucar SA (Proprietary) Ltd (Mozambique).

DIRECTORATE

Attendance at board and committee meetings during the year ended 31 August 2019

DIRECTOR	Board Meeting		Audit Committee Meeting		Risk Committee Meeting		Nomination/ Remuneration Committee Meeting		Annual General Meeting	
	A	B	A	B	A	B	A	B	A	B
M H Abdool-Samad (1)	4	3	2	2	2	2	2	2	1	1
M A Bainbridge	4	4	2	2	2	2	2	2	1	1
G B Dalgleish	4	4	N/A	N/A	N/A	N/A	2	2	1	1
P W Guta	4	3	2	2	N/A	N/A	N/A	N/A	1	1
L L Katandula	4	4	N/A	N/A	N/A	N/A	2	2	1	1
G Kumchulesi (2)	4	1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
P A Madinga	4	3	2	2	N/A	N/A	2	1	1	1
A R Mpungwe	4	3	N/A	N/A	2	2	2	2	1	0
E M Namboya	4	4	2	2	N/A	N/A	N/A	N/A	1	1
N A Ngwira (3)	4	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
M F Pousson (4)	4	3	N/A	N/A	N/A	N/A	N/A	N/A	1	1
N Saayman	4	4	N/A	N/A	2	2	N/A	N/A	1	1
R Savjani	4	4	N/A	N/A	2	2	N/A	N/A	1	1
C Taylor (5)	4	1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Column A indicates the number of meetings held during the year and column B indicates the number of meetings attended by the director whilst a member of the board/committee.

Note

1 M H Abdool-Samad resigned with effect from 31 July 2019.
2 G Kumchulesi was appointed with effect from 13 August 2019.
3 N A Ngwira was appointed with effect from 13 August 2019.
4 M F Pousson resigned with effect from 18 July 2019.
5 C Taylor was appointed with effect from 13 August 2019.

DIRECTORS' REPORT

OVERVIEW

During the first half of the year to February 2019, the two estates, Dwangwa and Nchalo experienced fluctuating wet and dry weather conditions. Although the inclement weather challenged pest control activities at Nchalo, pleasing cane yields were achievead from the recent field conversions to drip irrigation. Overall agricultural performance on both estates was generally in line with expectations. Smallholder farmers had a mixed season with the Dwangwa growers exceeding forecast while the Nchalo growers were down on the cane crop estimate having been significantly impacted by power shortages. Pests, particularly yellow aphid, continued to impact negatively on both own and grower cane.

The financial period under review spans the end of the 2018 crushing season and commencement of the 2019 season. Both mills operated well in the period especially Nchalo with reduced plant downtime and significantly improved extraction rates compared to the prior year. Dwangwa's crop was large and a nominal carryover of cane occurred with wet weather arriving early thereby closing the 2018 season slightly ahead of plan. The 2019 season start-up of estate operations went very well at Nchalo following a well-managed offcrop maintenance period. Dwangwa experienced some initial challenges with plant commissioning issues which progressed onto another solid performance in season once again operating at very high levels of extraction. New capital items at both locations were limited to essential business needs alone and were well executed on time and on budget focusing on improved cost, quality and operational efficiencies.

During the year, the on-going quality focus on all sugar products and formats, packing, warehousing and distribution of sugar, continued to deliver positive contribution.

Challenging market conditions, including pre- and post-election civil unrest, continued to be experienced in the commercial sphere with illegal sugar imports continuing unabated despite good support from the Malawi Revenue Authority (MRA) which had run several search and confiscation operations supported by the launch of sensitisation programs aimed at halting the illegal activities. The illegal sugar imports as well as increased competition resulted in a severe impact on the business cash flows and also on taxes paid to the MRA. Sugar sales also faced some challenges to do with export quality, pricing constraints, logistical challenges and increased transport costs. In order to counter some of this negative impact, the commercial and logistics teams have been very adaptive with a revised strategy to enhance sugar direct deliveries to customers and have also embarked on consumer promotional and activation initiatives and an optimised portfolio.

Management prioritised debt reduction and this initiative, coupled with revenue and volume enhancement strategies and on-going cost rationalisation across the entire business value chain to drive business sustainability, continued to be deployed to ensure the development of a business that will meet the needs of all stakeholders and significantly reduce the overall cost of sugar production.

Overall Illovo Malawi's socio-economic impact within the country remained significant in terms of employment, social investment and contribution to the Malawi fiscus.

PROSPECTS

It is expected that normal weather patterns and improvements in power generation by the Electricity Generation Company (Malawi) Limited, should have a positive impact on the agricultural output and factory throughput. In the longer term, the continuing positive effects of the Nchalo agricultural and factory recovery plans, focus on the use of more efficient irrigation systems and factory energy efficiency improvements, together with a focus on plant performance and reliability and packing capability at Dwangwa should show better operational results. Further, the development of strategies to turnaround the financial and operational stability to the smallholder sugarcane farmers, overall on-going business structural changes and upliftment of skill levels across the employee base will result in improved cane crop yields and sucrose content, improved plant reliability and performance and further quality improvements throughout the value chain.

With regards to the commercial environment, the business will continue its various initiatives in the local direct consumption market and extend the delivery footprint to the wider consumer market supported by an on-going focus on product pack sizes, branding, affordability and quality. Sugar exports, into very challenging regional and deep water markets, will continue to be an area of focus for the commercial teams who will strive to optimise value in every ton of sugar sold.

Exchange rates, inflation and interest rate movements, and the debt levels of the company will continue to have a marked effect on overall business profitability. However, the on-going performance, efficiency and cost control strategies that have been implemented, and continue to be deployed, will build real business sustainability and improve operating margins and generate positive free cash flows into the future.

CORPORATE GOVERNANCE

COMPLIANCE / GOVERNANCE

The directors are committed to best practice in corporate governance as enshrined under the Companies Act 2013 (The 2013 Act) and regulations made thereunder, the Malawi Code II Sector Guidelines for Listed Companies (The Code) (now incorporated into the 2013 Act) and the Malawi Stock Exchange Listing Requirements (MSELR). As far as it concerns the business of the Group the directors have adhered to The 2013 Act, The Code and the MSELR in all material respects for the year ended 31 August 2019 with the following exception which is currently being addressed to ensure full compliance in future:

- In terms of related party transactions the development of a policy regarding related party transactions has just commenced for completion within the next few months. Meanwhile the board has delegated authority to management who are professionals in the field to ensure that all transactions conducted with related parties are on an "arm's length" basis and in terms of generally accepted accounting practices and standards.

ANNUAL FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the auditor's report, is made for the purpose of clarifying to members the respective responsibilities of the directors and the auditors in the preparation of annual financial statements.

The directors are required by the Companies Act, 2013, to prepare financial statements for each financial year, which give a true and fair view of the state of affairs and profit or loss of the Group. The directors consider that, in preparing the financial statements, appropriate accounting policies are consistently applied and supported by reasonable and prudent judgements and estimates and confirm that all applicable accounting standards have been followed.

After making appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence in the year ahead. For this purpose, they continue to adopt the going-concern basis in preparing the financial statements. The external auditors concur with this opinion.

The directors have responsibility for ensuring that the Group maintains accounting records which disclose with reasonable accuracy at any time the financial position of the Group and which enable them to ensure that the financial statements comply with the requirements of the Companies Act, 2013.

The directors also have responsibility for safeguarding the assets of the Group and for the prevention and detection of fraud and other irregularities.

BOARD OF DIRECTORS

The Group has a unitary board of directors that is balanced between executive and non-executive directors.

The board supervises the management of the Group's business and affairs and is involved in all decisions that are material to the business. In doing so, the board acts at all times in the best interest of the Group.

The board meets at least once in each quarter with additional meetings held when appropriate. At each board meeting an extensive update on the affairs and business of the Group is presented by executive management.

In addition, the articles of association provide for decisions taken between meetings to be confirmed by way of directors' resolutions.

The roles of the chairman and the chief executive are separated and the chairman is a non-executive director. The board has nine non-executive directors five of whom are independent.

EXECUTIVE MANAGEMENT

Executive management meets regularly to discuss issues material to the operations of the Group.

To ensure that there is adequate interaction between management and the board, three members of executive management are directors.

AUDIT COMMITTEE

The audit committee comprises of three non-executive directors. The committee meets twice a year with management and has both external and internal auditors in attendance.

The committee sets materiality and reviews annual audited financial statements, the interim financial results and the external and internal auditors' reports and details its findings to the board for consideration when approving the financial statements for delivery to the shareholders.

The audit committee, on behalf of the board, reviews the scope and coverage of internal audit together with its findings.

In terms of section 4 103(e) of the Malawi Stock Exchange listing requirements the audit committee has considered the appropriateness of the experience and expertise of the Financial Director and will report at the annual general meeting of members that they are satisfied that E M Namboya has the relevant experience and expertise in this role.

“The Group spent over 17% of its total revenues on remuneration and employee benefits.”

RISK MANAGEMENT COMMITTEE

The risk management committee is chaired by a non-executive director and has four members. A comprehensive risk assessment audit is undertaken twice per annum of factors which could have a material impact on the Group results.

As well as financial assessment, other audited areas include agricultural, electrical and mechanical risk, health and safety, quality and food safety, environmental compliance and exposure to changes in the economic environment. The reports are reviewed by the committee to ensure that risk identification, mitigation and management are undertaken. A comprehensive enterprise risk management strategy has been adopted by the Group with robust risk improvement plans developed and business continuity planning and testing regularly undertaken.

NOMINATION/REMUNERATION COMMITTEE

The nomination/remuneration committee comprises three non-executive directors. The committee is responsible for reviewing compensation of the executive directors and executive management of the Group and recommending the appointment / reappointment of directors.

ETHICAL STANDARDS

The Group has adopted a code of management practices that applies to the Group’s management and staff. The code provides a benchmark against which employee conduct can be assessed to ensure that the highest ethical standards are met.

FRAUD CONTROL

The Group has an established and well-publicised fraud hotline that enables employees and members of the public to raise evidence of irregular activity directly with an independent entity.

The Group has implemented a comprehensive anti-bribery and corruption policy which has been implemented throughout the organisation to all officers and employees and has adopted a zero-tolerance approach to corruption and fraud.

INTERNAL CONTROL

The board has overall responsibility for the Group’s systems of internal control and for monitoring their effectiveness. The systems are designed to safeguard the Group’s assets and shareholders’ investments. The board has delegated matters of internal control to management who together with the internal audit function, provide assurance on the effectiveness of internal control.

The Group’s external auditors are granted unrestricted access to all information that may be required in the execution of their duties. Reports from the external auditors are regularly monitored to assess the effectiveness of the Group’s systems of internal control.

The directors and external auditors have not detected any adverse information that would indicate a material breakdown in systems of internal control during the year under review.

ADVOCACY / STAKEHOLDER ENGAGEMENT / SUSTAINABILITY

STRATEGIC INTENT

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

The Group continued its close working relationship with government and donor agencies to identify opportunities to work together for greater positive impact on communities within the Group's sphere of influence and supported the government's strategy to help reduce infant and maternal mortality by fortifying all sugar for direct domestic consumption with vitamin A. Illovo Malawi continued its efforts to help address community needs with several community-focussed construction and rehabilitation projects which were undertaken during the year. In an on-going effort to provide safe drinking water, the Group continued to drill and equip boreholes in areas surrounding the estates.

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

The Group remained a strong supporter of smallholder sugarcane schemes in terms of capacity, material and various technical inputs. Over 10% of total revenues were spent during the year procuring sugar cane from these smallholder farmers surrounding both estates and this represented significant support to the livelihoods of these farmers, their families and also to the local communities.

The Group spent over 20% of its total revenues on remuneration and employee benefits. All employees, including agricultural and factory workers, earn above the national minimum wage and the World Bank's poverty line and well above the Anker living wage calculation.

Infrastructure, normally provided by national government, is generally lacking in the areas of the Groups' operations and therefore the Group provides housing, water, and electricity, healthcare and schooling assistance to its employees and their dependants. It is estimated that more than 30 000 people live on the Group's premises at Dwangwa and Nchalo.

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

In total, 12 company-run clinics operate on both estates which are staffed by medical doctors and other qualified health personnel. On average, these clinics attend to more than 25 000 patients on a monthly basis, including members of local communities who do not have access to health care, and contractors.

During the year, almost 5 000 employees and their dependents attended voluntary HIV/AIDS counselling and testing programmes, with more than 3 000 affected patients registered on the company's "wellness" programme. Clinics also dispense antiretroviral drugs on behalf of the government. The business has entrenched and effective occupational health regimes and continues to look after the well-being of its own people, both in terms of health and the provision of a healthy and safe workplace.

The Group continued to fortify all sugar for direct consumption within the local market with vitamin A in an effort to contribute to government's aim to reduce micro-nutrient deficiencies within targeted segments of the community.

There are more than 13 000 pupils attending schools on the estates which are supported by the Group. The Group also continued its active involvement in school feeding programmes.

The Group believes that an effective staff development programme is important for sustainable development and as a consequence it has instituted staff training programmes as part of its business. The Group carries out business understanding programmes that assist in developing effective mechanisms for the sharing of relevant information, which enables employees to gain a better understanding of the business. The Group also undertakes discussions with employee representatives which facilitates effective consultation by management with the workforce before taking decisions that affect the workers and also helps in the speedy identification and effective resolution of conflict.

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

Illovo has made explicit commitments to protect land rights across its operations through its "Guidelines on Land and Land Rights". Through these guidelines, Illovo adopts a zero-tolerance policy for land grabs throughout its operations and calls for all its suppliers to do likewise. The guidelines also call for the company to broadly protect the land rights of others; engage in free, prior and informed consent (FPIC) before acquiring or influencing community and smallholder land

“There are more than 13 000 pupils attending schools on the estates which are supported by the Group. ”

rights; perform environmental and social impact assessments of its future land-related actions; use the results of such assessments to shape its consequent land-focused activities; provide for self and supplier monitoring and evaluation across its operations; and put in place grievance mechanisms that enable local communities and individual smallholders to register and track complaints and claims against the company. To implement these commitments, Illovo has formulated a “Road Map on Land Rights” and established a Land Policy Roundtable Committee to advise in implementing these land guidelines.

HEALTH AND SAFETY / ENVIRONMENT / QUALITY

Safety standards and methods are continually monitored and updated and safety awareness throughout the Group remained an important focus area with awareness and training activities aimed at protecting the safety and well-being of our own employees, external contractors and the wider community continuing throughout the year. Several safety programmes, intensive training and focussed initiatives were implemented during the year with daily briefings being undertaken to re-enforce safety measures and to inculcate a safety mind-set throughout all areas of the business.

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

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

Quality aspects of the business along the entire value chain remained an area of focus with several continuous improvement projects being implemented to ensure that the strictest standards of food safety and quality are observed in the manufacturing and delivery process. Both agricultural and factory operations retained accreditation under the ISO quality management system. The Nchalo factory retained its Foundation for Food Safety Certification (FFSC) accreditation, under the Food Safety System Certification (FSSC) 22000 carried out by the South African Bureau of Standards (SABS) and Dwangwa retained FSSC 22000 accreditation for refined sugar and obtained FSSC accreditation for raw sugar for the first time during the year ensuring that both factories have implemented a management system that delivers continuous process improvement to meet customer demands.

VALUE ADDED STATEMENT

The value added statement shows the wealth the Group has been able to create through manufacturing, trading and investing operations and its subsequent distribution and reinvestment in the business.

	2019 K million
Wealth created	
Revenue	129 676
Income from investments	2
Paid to growers for cane purchases	(14 973)
Cane growing and manufacturing costs	(60 178)
	54 527
Wealth distributed	
To employees as salaries, wages and other benefits	25 906
To lenders of capital as interest	5 367
To shareholders as dividends	-
To the government as taxation	5 789
	37 062
Wealth reinvested	
Retained profits in holding and subsidiary company	10 083
Depreciation	5 292
Deferred taxation	2 090
	17 465
	54 527
Analysis of taxes paid to and collected on behalf of central and local government	
Current taxation	3 802
Customs duties, import surcharges and other taxes	1 987
Total contribution to central and local government	5 789
The above amount contributed excludes the following:	
- employees taxation deducted from remuneration	4 500
- net VAT amount collected on behalf of the government	5 661
- withholding taxes	2 554
	12 715
Total contributed to government	18 504

Wealth distributed (%)

To employees as salaries, wages and other benefits	47
To lenders of capital as interest	10
To shareholders as dividends	-
To the government as taxation	11
	68

Wealth reinvested (%)

Retained profits in holding and subsidiary company	18
Depreciation	10
Deferred taxation	4
	32

REVIEW OF FIVE PERIODS

K million	Note		12 month ended 31-Aug-19	12 month ended 31-Aug-18	5 month ended 31-Aug-17	12 month ended 31-Mar-17	12 month ended 31-Mar-16
Statements of profit and loss and other comprehensive income							
Revenue			129 676	141 760	49 099	124 035	99 925
Operating profit			20 047	30 197	12 696	18 702	12 955
Dividend income			2	31	1	63	40
Net finance costs			(5 367)	(5 901)	(1 733)	(7 846)	(10 146)
Profit before taxation			14 682	24 327	10 964	10 919	2 849
Net profit for the period			10 083	16 449	7 735	7 080	1 804
Headline earnings			10 083	16 449	7 735	7 080	1 804
Dividends paid			-	-	-	-	-
Reconciliation of headline earnings							
Net profit for the period			10 083	16 449	7 735	7 080	1 804
Adjustments			-	-	-	-	-
Headline earnings			10 083	16 449	7 735	7 080	1 804
Statements of financial position							
Shareholders' equity			71 298	60 939	43 885	36 622	29 541
Deferred tax			21 420	19 212	15 112	19 913	15 910
Malawi government vitamin A grant			220	227	234	-	-
Interest-bearing debt			30 389	22 194	23 565	24 296	38 541
Total funding			123 327	102 572	82 796	80 831	83 992
Property, plant and equipment			56 144	50 481	41 252	38 268	32 447
Current assets - cash			722	249	33	146	-
Current assets - other			103 343	88 126	81 164	63 753	67 244
Total assets			160 209	138 856	122 449	102 167	99 691
Other current liabilities			(37 345)	(36 284)	(39 653)	(21 336)	(15 699)
Net assets			122 864	102 572	82 796	80 831	83 992
Earnings and dividends	Note						
Basic and diluted earnings per share	1	tambala	1 413	2 306	1 084	992	253
Headline earnings per share	2	tambala	1 413	2 306	1 084	992	253
Dividends paid and proposed per share		tambala	-	-	-	-	-
Dividend cover on headline earnings	3	times	-	-	-	-	-
Financial statistics							
Return on average shareholders' equity	4	%	15.2	31.4	19.2	17.0	6.0
Return on net assets	5	%	17.8	32.6	15.5	19.7	20.5
Debt to equity	6	%	41.6	36.0	53.6	66.1	82.0
Gearing	7	%	29.4	26.5	34.9	39.7	56.6
Interest cover	8	times	3.7	5.1	7.3	2.4	1.3
Net asset value per share	9	tambala	9 994	8 542	6 151	5 133	4 141

	12 month ended 31-Aug-19	12 month ended 31-Aug-18	5 month ended 31-Aug-17	12 month ended 31-Mar-17	12 month ended 31-Mar-16
Operational statistics					
Cane harvested (hectares)	18 656	17 758	11 795	19 412	19 198
Nchalo	12 399	11 764	8 168	12 925	12 905
Dwangwa	6 257	5 994	3 627	6 487	6 293
Tons cane per hectare (weighted average)	94	92	90	89	94
Nchalo	85	82	83	82	88
Dwangwa	114	112	108	102	108
Cane crushed (tons)	2 165 085	2 006 423	1 260 834	2 084 725	2 234 264
Nchalo	1 051 506	970 061	676 996	1 058 720	1 132 523
Dwangwa	707 213	662 533	389 894	662 337	681 145
Growers	406 366	373 829	193 944	363 668	420 596
Sucrose percent (weighted average)	14.14	14.02	13.97	13.98	14.39
Nchalo	13.85	13.78	13.91	13.63	13.93
Dwangwa	14.52	14.42	13.90	14.42	14.98
Growers	14.26	13.97	14.34	14.21	14.68
Sugar produced (tons)	252 375	230 020	146 568	239 951	269 389
Nchalo	135 950	122 203	84 704	128 689	147 987
Dwangwa	116 425	107 817	61 864	111 262	121 402
Analysis of sugar sales by destination (tons)	215 141	227 321	79 420	244 671	255 468
Domestic market	137 716	170 792	59 575	137 606	129 720
Export market	77 425	56 529	19 845	107 065	125 748

Note

1 Basic and diluted earnings per share

Net profit for the year divided by the weighted average number of ordinary shares in issue.

2 Headline earnings per share

Headline earnings divided by the weighted average number of ordinary shares in issue.

3 Dividend cover on headline earnings

Headline earnings per share divided by dividends per share.

4 Return on average shareholders' equity

Net profit for the year expressed as a percentage of average shareholders' equity.

5 Return on net assets

Operating profit expressed as a percentage of average net operating assets.

6 Debt to equity

Interest-bearing debt (net of cash) expressed as a percentage of shareholders' equity.

7 Gearing

Interest-bearing debt (net of cash) expressed as a percentage of Interest-bearing debt plus shareholders' equity.

8 Interest cover

Operating profit divided by net financing costs.

9 Net asset value per share

Shareholders' equity divided by the number of shares in issue at the end of the year.


TRUSTED
ILLOVO
QUALITY
Tseketseke
FINEST
BROWN SUGAR
500g
1kg
RUSTED
LOVO
UALITY
ketseke
FINEST
BROWN SUGAR

ILLOVO SUGAR (MALAWI) PLC

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2019

STATUTORY INFORMATION

1. NATURE OF BUSINESS

The principal activities of the Group are the growing of sugar cane and the manufacture of sugar. This is more fully described under the Group profile appearing on page 2.

2. REVIEW OF OPERATIONS

Detailed commentary is given in the directors' report on page 8.

3. ACQUISITIONS

There were no acquisitions of investments in the current year.

4. SHARE CAPITAL

Full details of the current authorised and issued share capital are set out in the consolidated and separate statements of changes in equity on page 44 of the consolidated and seperate financial statements. There have been no changes in the current year.

5. SHAREHOLDERS

An analysis of shareholders and their shareholdings is given on page 71.

The register of members reflects six beneficial shareholdings equal to or greater than 1% of the issued ordinary share capital. Details are given on page 71.

6. DIVIDENDS

The directors recommend a dividend of 50 tambala per share for the year ended 31 August 2019. The dividend is payable on 31 March 2020 to shareholders on the register at the close of business on 13 March 2020.

The wholly owned and only subsidiary of the company, Dwangwa Sugar Corporation Limited, did not pay any dividends during the year (2018: K nil) to the Group.

7. ILLOVO SUGAR MALAWI EMPLOYEES' SHARE PURCHASE SCHEME

During the year under review this scheme was discontinued and closed.

8. SUBSIDIARY COMPANY

Information concerning the subsidiary of the company is set out in note 7 to the consolidated and seperate financial statements.

9. SECRETARIES AND DIRECTORATE

The names of the secretaries and compliance officer together with the company's business and postal addresses and the directors in office at the date of this report, are set out on pages 3 and 5 to 6 respectively.

M H Abdool-Samad resigned from Illovo Sugar Africa (Proprietary) Limited and subsequently resigned as a director from Illovo Sugar (Malawi) plc on 31 July 2019. He was replaced by C Taylor on 13 August 2019 who is currently the Interim Group Financial Director for Illovo following the departure of M H Abdool-Samad.

In addition Dr G Kumchulesi and Dr N A Ngwira were appointed to the board as independent non-executive directors effective 13 August 2019.

In terms of the company's articles of association, a third of the non-executive directors retire by rotation at the forthcoming annual general meeting. Accordingly, Messrs P W Guta and A R Mpungwe will retire and being eligible, and after consideration and recommendation by the Nomination/Remuneration Committee, they offer themselves for re-election.

In terms of the Companies Act 2013 and Malawi Code II Sector Guidelines for Listed Companies to re-elect A R Mpungwe, who has served on the board in excess of six years as an independent non-executive director and on recommendation of the Nomination/Remuneration Committee, offers himself for re-election.

The beneficial interests of the directors holding office in the issued ordinary share capital of Illovo Sugar (Malawi) plc were as follows:

	2019		2018	
	Direct	**Indirect**	**Direct**	**Indirect**
M H Abdool-Samad	0	0	0	62 000
G B Dalgleish	0	0	0	172 000
E M Namboya	13 200	0	0	0

The register of shares of the company is available for inspection at the registered office.

10. DIRECTORS' FEES

At the last annual general meeting held on 27 February 2019 shareholders approved the fees payable to each non-executive independent director to be K 3 150 000 per annum and sitting allowances of K 150 000 for each committee and/or board meeting attended with effect from 1 September 2018. At the forthcoming annual general meeting it will be proposed to maintain the fees at the same level.

11. HOLDING COMPANY

SUCOMA Holdings Limited (incorporated in Mauritius) is the holding company of Illovo Sugar (Malawi) plc (incorporated in Malawi) with a 75.98% interest in its issued share capital. Illovo Sugar Africa (Proprietary) Limited (incorporated in the Republic of South Africa) owns 100% shareholding in Illovo Group Holdings Limited which in turn, owns 100% shareholding in SUCOMA Holdings Limited. The ultimate holding company is Associated British Foods plc (incorporated in the United Kingdom).

12. AUDITOR

Ernst & Young will continue in office in accordance with the provisions of the Companies Act, 2013.

13. SPECIAL RESOLUTIONS

During the financial year the board adopted a special resolution to amend the articles of association of the company to increase the maximum number of directors from 11 to 12.

14. POST BALANCE SHEET / YEAR END EVENTS

Subsequent to the year end the directors will recommend a dividend as highlighted in note 6 above.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The directors of Illovo Sugar (Malawi) plc are responsible for the preparation and the integrity of the annual financial statements of the Group and the company and the objectivity of other information presented in the annual financial statements. In order to fulfil this responsibility, the Group maintains internal accounting and administrative control systems designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with the Group's policies and procedures.

The going-concern basis has been adopted in preparing these financial statements. The directors have no reason to believe that the Group and the company will not be a going-concern in the foreseeable future.

The Group's external auditors, Ernst & Young, audited the financial statements and the auditor's report is presented on pages 21 to 23.

The annual consolidated and seperate financial statements of the Group and the company which appear on pages 24 to 70 were approved by the board of directors on 27 November 2019 and are signed on its behalf by:

G B Dalgleish
Chairman

M A Bainbridge
Managing Director

27 November 2019

Chartered Accountants (Malawi)
Apex House
Kidney Crescent
PO Box 530
Blantyre, Malawi

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

Opinion

We have audited the consolidated and separate financial statements of Illovo Sugar (Malawi) plc (the Group) set out on pages 24 to 70 which comprise the consolidated and separate statements of financial position as at 31 August 2019 and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and Company as at 31 August 2019, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act 2013.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate Financial Statements* section of the report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of financial statements in Malawi. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. The matter noted below was addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter. For the key audit matter noted below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report, including in relation to the key audit matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements.

The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

Key Audit Matter

Group and Company: Growing cane valuation

The Consolidated and Separate Statement of Financial Position carry growing cane of K27.6 billion and K18.7 billion respectively.

This represents 17% of total assets and 27% of current assets for the consolidated statement of financial position and 17% of total assets and 26% of current assets for the separate statement of financial position.

As described in note 1.11 of the financial statements, the value of growing cane is based on the estimated sucrose content from the expected yield valued at the estimated sucrose price less estimated relevant costs.

The valuation process is complex and requires management to exercise significant judgment regarding certain assumptions and inputs in the valuation. These assumptions are disclosed in note 9 to the financial statements.

The key assumptions and inputs in determining the growing cane valuation were:

- expected cane yield
- average maturity of cane
- estimated sucrose content
- estimated sucrose price

A member firm of Ernst & Young Global Limited.

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

Given the level of judgement involved in estimating the growing cane valuation and the significance of the growing cane balance to the financial statements as a whole, we considered the valuation of growing cane to be a key audit matter.

How the matter was addressed in the audit

Our procedures for the valuation of growing cane, amongst others, included:

- We held discussions with management to obtain an understanding of the methods used to determine the valuation of growing cane and compared this to prior year's methods applied.
- We evaluated the objectivity, competence and capabilities of management experts by reference to their qualifications and professional experience in the relevant industry, and the scope of work as agreed with management.
- We evaluated the assumptions used by management experts, which included cane crushed, sucrose content and recoverable sugar;
    - For cane crushed, we compared the sugar production tonnage to the cane yield best practice agricultural data available.
    - For sucrose content and recoverable sugar, we compared prior period estimates to actual results
- We further evaluated the assumptions applied by management concerning the estimates of growing cane yield and average maturity of cane by comparing the estimates to historical data.
- We evaluated the sucrose price by performing the following procedures, amongst others:
    - Compared the historic estimates of sales quantities to actuals. We further agreed the sugar and molasses revenue and related costs for the previous season to actual sales and costs.
    - Performed sensitivity analysis of the sucrose price by assessing the impact of changes in sucrose price on the growing cane valuation.
- We assessed whether the disclosures of growing cane included in the financial statements comply with the requirements of the International Financial Reporting Standards.

Other Information

The directors are responsible for the other information. The other information comprises the key features, Group structure and shareholding, corporate information, director's report, corporate governance, value added statement, review of five periods, statutory information and approval of annual financial statements; and other information included in the first 20 pages of the annual report of Illovo Sugar (Malawi) plc for the year ended 31 August 2019. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act 2013; and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities within the Group and its business activities to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication

Ernst & Young

Chartered Accountants (Malawi)
Chiwemi C Chihana
Registered Practicing Accountant
29 November 2019

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies of the Group conform to International Financial Reporting Standards (IFRS) and have been consistently applied. The financial statements have been prepared in accordance with IFRS. The principal accounting policies adopted are set out below.

1.1 Basis of preparation

These consolidated and separate financial statements have been prepared on the historical cost basis except where specifically stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated and separate financial statements are disclosed in note 1 to the financial statements.

These consolidated and separate financial statements are presented in Malawi Kwacha (K) and rounded to the nearest one million.

1.2 Accounting framework

The consolidated and separate financial statements (collectively referred to as "the financial statements") have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and in compliance with the Companies Act of Malawi, 2013.

The basis of preparation is consistent with the prior year, except for the adoption of the new and revised standards which have been disclosed in note 2 of the Accounting Policies.

1.3 Underlying concepts

The financial statements are prepared on the going-concern basis. Assets and liabilities, as well as income and expenses, are not offset unless specifically permitted by an accounting standard. Financial assets and financial liabilities are offset, and the net amount reported, only when a legally enforceable right to set off the amounts exists and the intention is to either settle on a net basis or to realise the asset and settle the liability simultaneously.

The financial statements have been prepared on the historical cost basis except for biological assets and certain financial instruments that are measured at fair value at the end of each reporting period, as explained in 1.4 below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

1.4 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of International Accounting Standard (IAS) 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or Value in use in IAS 36 Impairment of Assets.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 inputs: Unobservable inputs for the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The following table illustrates the fair value measurement hierarchy for assets and liabilities as at 31 August 2019:

	Total K million	Quoted prices in active markets (Level 1) K million	Significant observable inputs (Level 2) K million	Significant unobservable inputs (Level 3) K million
Assets /(liabilities) measured at Fair Value				
Growing cane (note 9)	27 631	-	-	27 631
Foreign exchange forward contracts (note 17)	87	-	87	-
Unlisted investment (note 7)	463	-	-	463

For trade receivables, trade payables, short term borrowings and amounts due and from related parties, the carrying amounts as at 31 August 2019 approximates their fair values.

1.5 Foreign currencies

The individual financial statements of the Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Malawi Kwacha (K), which is the Group's functional currency and the presentation currency.

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

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

Consolidated financial statements

1.6 Basis of consolidation

The separate financial statements reflect the interest in entities controlled by the company at cost less any provision for impairment.

The consolidated financial statements incorporate the assets, liabilities, income, expenses and cash flows of the company and all entities controlled by the company as if they are a single economic entity.

Control is achieved when the company has power over the entity; is exposed or has rights to variable returns from its involvement with the entity; and has the ability to use its power to affect its returns. The company reassesses whether or not it controls an entity if the facts and circumstances indicate that there are changes to one or more of these elements.

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary.

Non-controlling interests in the net assets of consolidated subsidiaries are shown separately from the Group's equity therein.

On acquisition, the non-controlling interests are measured as their proportionate share of the fair value of the entity's identifiable assets and liabilities. Subsequent to acquisition, the non-controlling interests are allocated a proportionate share of the subsidiary's profit or loss and each component of other comprehensive income even if this will result in the non-controlling interest having a deficit balance, unless there is doubt as to the recoverability of the deficit balance.

A change in the Group's ownership interest in a subsidiary that does not result in the Group losing control is accounted for as an equity transaction. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the change in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between:

(i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and

(ii) the previous carrying amount of the assets (including any goodwill) and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets and liabilities of the subsidiary (i.e. reclassified to profit or loss). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement, and when applicable the cost on initial recognition of an investment in an associate or joint venture.

When necessary, adjustments are made to the financial statements of a subsidiary to bring the accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

1.7 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value.

Fair value is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, the liabilities incurred by the Group to the former owners of the acquire and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except for:

- Deferred taxation assets or liabilities that are measured in accordance with IAS 12 Income Taxes;
- Assets or liabilities related to employee benefit arrangements that are recognised and measured in accordance with IAS 19 Employee Benefits;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree, or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree, are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill represents the future economic benefits arising from assets that are not capable of being individually identified and separately recognised in a business combination and is determined as the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity at the date of acquisition. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is recognised as an asset, is stated at cost less impairment losses and is not amortised. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently, when there is an indication that the unit may be impaired. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Statements of financial position

1.8 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Owner-occupied properties in the course of construction are carried at cost, less any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying value. Cost includes professional fees and, for qualifying assets, borrowings costs capitalised in accordance with the Group's accounting policy.

Cane roots meet the definition of a bearer plant and are accounted for as property, plant and equipment using the cost model.

Depreciation is charged so as to write-off the cost of assets to their residual value over their useful estimated lives, using the straight-line method. Depreciation commences when the assets are ready for their intended use and is calculated at rates appropriate in terms of management's current assessment of useful lives and residual values. Freehold land is not depreciated.

The Group's depreciation rates are as follows:

Buildings	60 years
Cane roots	7 years
Plant, machinery and equipment	3 – 60 years
Vehicles	5 – 15 years

The methods of depreciation, useful lives and residual values are reviewed annually.

Management considers market conditions and projected disposal values when assessing residual values and maintenance programmes and technological innovations when assessing useful lives.

Leasehold properties and 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.

Any gain or loss arising on the de-recognition of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

1.9 Inventory

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method, except in the case of downstream products where the "first in first out" basis is used.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Redundant and slow-moving inventories are identified and written down to their net realisable values.

Factory overhaul costs

The factory overhaul costs/off-season costs are costs incurred to prepare the production facilities and equipment for the upcoming milling season. The off-season costs are therefore indispensable for normal production activities in the subsequent seasons. The company policy is to present factory overhaul costs under inventory as the factory overhaul costs are assets in the form of materials or supplies to be consumed in the production process.

Factory overhaul costs incurred are written off in the following production season as sugar production progresses.

1.10 Investment property

An investment property is land, a building or part of a building, held by the owner to earn rentals or for capital appreciation or for both.

The cost model is applied in accounting for investment property (i.e. the investment property is recorded at cost less any accumulated depreciation and impairment losses).

1.11 Biological assets

Biological assets are measured at fair value less costs to sell.

Growing cane

The fair value of growing cane is determined as the estimated sucrose content in the sugar cane at 31 March, valued at the estimated sucrose price for the following season, less any farm management costs from year end to 31 March.

The estimated sucrose price is adjusted for the estimated costs of harvesting the sugar cane and transporting it from the field to the mill.

The sucrose content is estimated in tons and is adjusted by a factor to reflect the growth of the cane at 31 March (i.e. the cane growth percentage). The cane growth percentage reflects the long-term average climate and agricultural conditions at each operation and will not fluctuate for year-on-year changes in milling season length or weather events (e.g. floods or drought). Rather, such changes are embodied in the fair value through a revision to the estimated sucrose content to which the cane growth percentage is applied.

The valuation as at August is derived from the March valuation by deducting the costs, necessarily incurred to farm sugar cane until the commencement of the following season and the expected profit margin on the cane growing activity.

1.12 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, for which it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, where the effect of the time value of money is material.

1.13 Post-retirement obligations

The Group provides retirement benefits for its employees through two defined contribution plans, the SUCOMA Group Pension Scheme and the Illovo Sugar Malawi Pension Fund. Contributions by group companies to defined contribution retirement plans are recognised as an expense in the year in which the related services are rendered by employees.

1.14 Deferred income

Deferred income is recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the deferred income is intended to compensate.

1.15 Deferred taxation

Deferred taxation is recognised on all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

A deferred taxation asset represents the amount of income taxes recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses and the carry forward of unused tax credits. Deferred taxation assets are only recognised to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred taxation assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

A deferred taxation liability represents the amount of income taxes payable in future periods in respect of taxable temporary differences. Deferred taxation liabilities are recognised for all taxable temporary differences, unless specifically exempt.

Deferred taxation assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

1.16 Financial instruments

Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

A financial asset is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 Revenue from Contracts with Customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments).
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments).
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost are trade receivables.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group did not have any financial assets at fair value through OCI as at 31 August 2019.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investment in Ethco under this category.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. The Group did not have any debt instruments classified as financial assets at fair value through OCI as at 31 August 2019.

Comparatively, the following classifications and measurements applied to financial assets for the year ended 31 August 2018:

- Trade and other receivables were classified as “loans and receivables” and were measured at amortised cost, using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts were recognised in profit or loss when there was objective evidence that the asset was impaired.
- Cash and cash equivalents comprised cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and were subject to an insignificant risk of changes in value. Cash and cash equivalents were classified as “loans and receivables” and measured at amortised cost.
- Other investments were classified as “available-for-sale” and were measured at fair value with any gains or losses being recognised through other comprehensive income. Where the investment was disposed of, or was determined to be impaired, the cumulative gain or loss in equity was reclassified to profit or loss. Fair value, for this purpose, was market value if the investment was listed on a publicly quoted exchange, or a value arrived at by using appropriate valuation models if unlisted.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group’s consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

Aside from this note, other disclosures relating to impairment of financial assets (trade receivables) are included in note 27.6.

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs.

Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

The classification and measurement of financial liabilities has not changed as a result of the adoption of IFRS 9 Financial Instruments.

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9 Financial Instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

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

Derivative financial instruments

The Group enters into derivative financial instruments, largely foreign exchange forward contracts, to manage its exposure to foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.

- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Before 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

Cash flow hedges

The Group designates forward contracts in cash flow hedges of forecast sales in Euro as hedging instruments. The fair value changes in the forward contracts are recognised in OCI and accumulated in a separate component of equity under hedging reserve. The amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Equity

Equity instruments issued by the company are recorded at the value of the proceeds received, net of direct issue costs. Debt and equity instruments are classified as either financial liabilities or as equity based on the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

1.17 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset, by equal annual instalments.

1.18 Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods before transferring them to the customer.

Sale of sugar

Revenue from the sale of sugar is recognised at the point in time when control of the sugar is transferred to the customer, generally upon collection of sugar by the customer from the Group's warehouse. The normal credit terms vary between 14 to 90 days upon collection from the warehouse.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., provision of warehouse services, arrangement of freight and insurance). In determining the transaction price for the sale of sugar, the Group considers the effects of variable consideration, the existence of significant financing components, and consideration payable to the customer (if any).

(i) Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Some contracts provide customers with retrospective volume rebates once the quantity of sugar purchased during the period exceeds a threshold specified in the contract. The volume rebates give rise to variable consideration.

To estimate the variable consideration for the expected volume rebates, the Group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The Group then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates.

(ii) Cost to obtain a contract

The Group pays sales commission to Illovo Group Marketing Services Limited (IGMSL) for each contract that they obtain for export sales of sugar. The Group has elected to apply the optional practical expedient for costs to obtain a contract which allows the Group to immediately expense sales commissions because the amortisation period of the asset that the Group otherwise would have used is one year or less.

(iii) Principal vs agent considerations

The Group has certain contracts with customers to sell sugar at Cost, Insurance, Freight (CIF) incoterms. The Group has assessed that there are three performance obligations in the contracts; sale of sugar, arrangement of freight, and arrangement of insurance. The Group has concluded that it acts in the capacity of principal when selling the sugar and as an agent in arranging insurance and arranging freight on behalf of the customer. However, even though there are three performance obligations, for two of the performance obligations (i.e. arranging insurance and arranging freight), no commission/profit is earned on these obligations as the amount included in the pricing is merely passed on to the customer through CIF pricing.

Costs of insurance and freight are therefore reimbursed expenses and are deducted from revenue as they reduce the amount of consideration the Group expects to receive.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer.

If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due). Trade receivables are non-interest bearing and are generally on terms of 14 to 90 days.

Contract liabilities

A contract liability is the obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods to the customer, a contract liability is recognised when the payment is made. Contract liabilities are recognised as revenue when the Group performs under the contract.

Performance obligations

The performance obligation for domestic revenue is satisfied upon dispatch of sugar from the warehouse. Performance obligations for export revenue are satisfied when legal title or risk and rewards of ownership have been transferred to the customer through reference to the incoterms.

The Group also has bill and hold arrangement and performance obligations are satisfied when the following conditions are met:

- The customer requests for the goods to be warehoused and stored at a warehouse at the port of shipment while the customer arranges for a logistics service provider to transport the sugar.
- The sugar is stored separately in the warehouse, in a separate demarcated area so the sugar can be identified as the customer's inventory at any point in time.
- The sugar is packaged and ready for physical transfer to the customer.
- When the sugar is at the warehouse, the Group does not have the ability to use the product or direct the goods in any way.

Comparatively, the following accounting policy applied to revenue for the year ended 31 August 2018.

Revenue was measured at the fair value of the consideration received or receivable. Cash and settlement discounts, rebates, sales taxes and other indirect taxes were excluded from revenue. Where the Group acted as an agent and was remunerated on a commission basis, only the commission was included in revenue. Where the Group acted as principal, the total value of business handled was included in revenue.

Revenue from sale of goods was recognised when the Group had transferred the significant risks and rewards of ownership of the goods, the Group retained neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue could be reliably measured, it was probable that the economic benefits associated with the transaction would flow to the Group and the costs of the transaction could be measured reliably. The recognition date usually coincided with when the title of the goods had passed to the customer and the goods had been delivered.

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

Where extended terms are granted, interest received was accounted for over the term until payment is received.

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

1.19 Employee benefit costs

The cost of providing employee benefits is accounted for in the period in which the benefits are earned by employees.

The cost of short-term employee benefits is recognised in the period in which the service is rendered and is not discounted. The expected cost of short-term accumulating compensated absences is recognised as an expense as the employees render service that increases their entitlement or, in the case of non-accumulating absences, when the absences occur.

The expected cost of profit-sharing and bonus payments is recognised as an expense when there is a legal and constructive obligation to make such payments as a result of past performance and a reliable estimate of the obligation can be made.

1.20 Borrowings costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

1.21 Taxation

The charge for current taxation is based on the results for the year as adjusted for income that is exempt from taxation, expenses that are not deductible for taxation purposes and items that are taxable in other financial years. The charge for current tax is calculated using the tax rates that have been enacted or substantively enacted by the reporting date.

Transactions and events

1.22 Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

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.

In the capacity of a lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying value of the leased asset and recognised on a straight-line basis over the term of the lease.

In the capacity of a lessee

Rentals payable under operating leases are charged to profit or loss on the straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the term of the lease.

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 statement of financial position 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.

1.23 Impairment of assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

1.24 Earnings per share

The calculation of basic and diluted earnings per share is based on the net profit attributable to the shareholders and the weighted average number of ordinary shares in issue during the year. Where new equity shares are issued for no consideration, the profit is apportioned over the shares in issue after the issue and the corresponding figures for the earlier periods are adjusted accordingly.

1.25 Dividend per share

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the company's board of directors.

Dividends that are declared after the reporting date but before the financial statements are authorised for issue by the company's board of directors, are not recognised as a liability at the end of the reporting date. This is because no obligation exists at that reporting date. Such dividends are however, disclosed in a note to the financial statements. The calculation of dividend per share is based on the dividends declared to shareholders during the period divided by the number of ordinary shares of shareholders on the date of payment.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

2.1 Standards and interpretations affecting amounts reported and/or disclosed in the financial statements

In the current period, the Group has adopted those new and revised standards and interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and are effective for annual reporting periods beginning on 1 September 2018.

2.1.1. Changes in Accounting Policies

New and amended standards and interpretations

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time during the annual period ended 31 August 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

The Group adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 September 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts as at 1 September 2018.

The cumulative effect of initially applying IFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under IAS 18 Revenue and related Interpretations.

The nature of the adjustments as at 1 September 2018 on adoption of IFRS 15 and the reasons for the significant changes in the statement of financial position as at 31 August 2019 and the statement of profit or loss for the year ended 31 August 2019 are described below.

(a) Advances received from customers

Before the adoption of IFRS 15, the Group presented advances received from customers in trade and other payables in the statement of financial position. Under IFRS 15, advances received from customers are contract liabilities. The Group concluded that there is no significant financing component for those as the advances are for less than a year.

Upon adoption of IFRS 15, the Group recognised contract liabilities of K2 520 million for advances received from customers as at 1 September 2018. The Group also derecognised the advances received from customers included in trade and other payables of K2 520 million.

As at 31 August 2019, IFRS 15 increased contract liabilities by K936 million.

(b) Principal vs Agent consideration

The Group has certain contracts with customers to sell sugar at CIF incoterms. Before the adoption of IFRS 15, revenue from sales with CIF incoterms was only allocated to the supply of sugar and costs incurred for insurance and freight were recognised in operating expenses.

Under IFRS 15, the Group has assessed that there are three performance obligations in the contracts; sale of sugar, arrangement of freight and arrangement of insurance. The Group has concluded that it acts in the capacity of principal when selling the sugar and as an agent in arranging insurance and freight on behalf of the customer. However, even though there are three performance obligations, for two of the performance obligations (i.e. arranging insurance and arranging freight), no commission/profit is earned on these obligations as the amount included in the pricing is merely passed on to the customer through CIF pricing.

Upon adoption of IFRS 15, the Group has assessed that the costs of insurance and freight are reimbursements and they have been deducted from revenue because they reduce the amount of consideration the Group expects to receive. This change did not affect the statement of financial position. However, this change will result in decreases of the same magnitude in revenue and operating expenses with no impact on operating profit.

There were no adjustments to retained earnings as at 1 September 2018 on adoption of IFRS 15.

As at 31 August 2019, IFRS 15 decreased revenue from contracts with customers and operating expenses by K1 733 million.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied IFRS 9 prospectively, with an initial application date of 1 September 2018. The Group has not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 have been recognised directly in fair value reserve of financial assets at FVOCI.

The effect of adopting IFRS 9 as at 1 January 2018 was, as follows

	1 September 2018 K million
Assets	
Investment in EthCo	509
Liabilities	
Deferred tax liability	(153)
Equity	
Fair value reserve	(356)

(a) Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application, 1 September 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The following are the changes in the classification of the Group's financial assets:

- Trade receivables classified as loans and receivables as at 31 August 2018 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortized cost beginning 1 September 2018.
- Unlisted equity investment in Ethanol Company Limited classified as Available for Sale financial asset as at 31 August 2018 is classified and measured as equity instruments designated at fair value through OCI beginning 1 September 2018. The Group elected to classify irrevocably its non-listed equity investment under this category at the date of initial application as it intends to hold these investments for the foreseeable future. There were no impairment losses recognised in profit or loss for these investments in prior periods. Additional details for the impact of this change have been disclosed on note 7.

The Group has not designated any financial liabilities at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

In summary, upon the adoption of IFRS 9, the Group had the following required or elected reclassifications as at 1 September 2018.

		IFRS 9 measurement category		
IAS 39 measurement category		Amortised Cost	Fair value through other comprehensive income	Fair value through profit and loss
	K million	K million	K million	K million
Loan and receivables				
Bank balances and cash	249	249		
Trade receivables	12 210	12 210		
Amount due from related parties	1 324	1 324		
Available for sale				
Unlisted equity instrument	0.2		509	
Fair value through profit or loss				
Derivatives	156			156

(b) Impairment

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

The adjustment that would have been required to retained earnings on measurement of the ECLs as at the date of adoption of IFRS 9 was not material.

(c) Hedge accounting

At the date of initial application, all the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. The Group continues to designate the change in fair value of the entire forward contracts in its cash flow hedge relationships as a hedging instrument. The change in the fair value of the forward contract is recognised in OCI and accumulated as a separate component of equity under Hedging Reserve.

The gains and losses arising from the Group's cash flow hedging relationships continue to be eligible to be subsequently reclassified to profit or loss.

2.2 Standards and interpretations in issue, not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2019	IFRS 16 Leases IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. In contracts to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by IFRS 16.
Annual reporting periods beginning on or after 1 January 2019	IFRIC 23 Uncertainty over Income Tax Treatments The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.

Annual reporting periods beginning on or after 1 January 2019	IFRIC 23 Uncertainty over Income Tax Treatments The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.
Annual reporting periods beginning on or after 1 January 2019	Prepayment Features with Negative Compensation (Amendments to IFRS 9) Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
Annual reporting periods beginning on or after 1 January 2019	Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.
Annual reporting periods beginning on or after 1 January 2019	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) are: • If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement. • In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.
Annual reporting periods beginning on or after 1 January 2020	Amendments to References to the Conceptual Framework in IFRS Standards The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32.
Annual reporting periods beginning on or after 1 January 2020	Definition of a Business (Amendments to IFRS 3) The amendments in Definition of a Business (Amendments to IFRS 3) are changes to Appendix A defined terms, the application guidance, and the illustrative examples of IFRS 3 only. They: • clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; • narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; • add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; • remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and • add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Annual reporting periods beginning on or after 1 January 2020	Definition of Material (Amendments to IAS 1 and IAS 8) The amendments in Definition of Material (Amendments to IAS 1 and IAS 8) clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'
Annual reporting periods beginning on or after 1 January 2020	Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) The amendments in Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.
Annual reporting periods beginning on or after 1 January 2021	IFRS 17 Insurance Contracts IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.
Annual reporting periods beginning on or after 1 January 2019	IFRS 11 Joint Arrangements A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.
Annual reporting periods beginning on or after 1 January 2019	IAS 12 Income Taxes The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.
Annual reporting periods beginning on or after 1 January 2019	IAS 23 Borrowing Costs The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.
Annual reporting periods beginning on or after 1 January 2020	Conceptual Framework The revised Conceptual Framework for Financial Reporting (the Conceptual Framework) is not a standard and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist the board in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

The directors anticipate that other than IFRS16 Leases, these Standards and Interpretations in future periods will have no significant impact on the financial statements of the Group.

IFRS16 Leases will impact the measurement of Property, Plant and Equipment, Accrued Liabilities, Deferred Tax, Depreciation, Foreign Exchange Gains and Losses and Interest Costs.

The Group will apply the modified retrospective approach on adoption of IFRS 16. Under this approach, the Group will not restate comparative figures. Instead, the Group will recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.

The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value.

The directors have performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be as follows:

Impact on the statement of financial position (increase/(decrease)) as at 31 August 2019

	Group K million	Company K million
Assets		
Property, Plant and Equipment (right of use asset)	2 392	2 032
Deferred tax asset	1 293	429
Liabilities		
Lease liability	5 149	2 910
Net impact on equity	(1 952)	(644)

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

FOR THE YEAR ENDED 31 AUGUST 2019

		GROUP		COMPANY	
		2019	2018	2019	2018
	Notes	K million	K million	K million	K million
Revenue from contracts with customers	2	129 676	141 760	69 532	75 625
Operating profit	3	20 047	30 197	6 701	10 711
Dividend income		2	31	-	-
Finance costs	4	(5 395)	(5 937)	(3 760)	(3 683)
Interest income from effective interest rate	4	28	36	28	36
Profit before taxation		14 682	24 327	2 969	7 064
Income tax expenses	5	(4 599)	(7 878)	(1 130)	(2 624)
Net profit for the year		10 083	16 449	1 839	4 440
Other comprehensive income					
Items that may be reclassified to profit and loss in subsequent periods:					
Cash flow hedges		(69)	864	(69)	864
Tax effect of the cash flow hedges	13	21	(259)	21	(259)
Other comprehensive income relating to cash flow hedges	17	(48)	605	(48)	605
Items that will not be reclassified to profit or loss in subsequent periods:					
Net loss on equity instruments designated at fair value through other comprehensive income	7	(46)	-	-	-
Tax effect of valuation of unlisted investment	7	14	-	-	-
Other comprehensive income relating to valuation of unlisted investments	7	(32)	-	-	-
Total other comprehensive income		(80)	605	(48)	605
Total comprehensive income for the year		10 003	17 054	1 791	5 045
Basic and diluted earnings per share (tambala)	22	1 413	2 306		

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

AS AT 31 AUGUST 2019

		GROUP		COMPANY	
		2019	2018	2019	2018
	Notes	K million	K million	K million	K million
ASSETS					
Non-current assets					
Property, plant and equipment	6	56 144	50 481	39 492	35 899
Investments	7	463	-	324	324
		56 607	50 481	39 816	36 223
Current assets					
Inventories	8	55 477	42 468	33 905	25 377
Growing cane	9	27 631	26 074	18 676	16 420
Trade and other receivables	10	19 212	18 104	18 031	17 016
Amount due from related parties	15.8.1	936	1 324	936	1 324
Derivative financial assets	17	87	156	87	156
Bank balances and cash	11	722	249	721	248
		104 065	88 375	72 356	60 541
Total assets		160 672	138 856	112 172	96 764
EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital and premium		782	782	782	782
Fair value reserve		324	-		-
Hedging reserves		61	109	61	109
Retained earnings		70 131	60 048	21 087	19 248
		71 298	60 939	21 930	20 139
Non-current liabilities					
Long-term borrowings from related parties	15.9	-	3 649	-	3 649
Malawi government vitamin A grant	12	220	227	188	194
Deferred tax	13	21 420	19 212	14 485	12 648
		21 640	23 088	14 673	16 491
Current liabilities					
Trade and other payables	14	32 344	31 187	24 142	24 151
Contract liabilities	14.1	936	-	936	-
Amount due to related parties	15.8.2	1 670	1 500	19 630	12 531
Short-term borrowings	16	15 094	10 092	15 094	10 092
Bank overdrafts	11	15 295	8 453	15 295	8 453
Taxation payable		2 395	3 597	472	4 907
		67 734	54 829	75 569	60 134
Total equity and liabilities		160 672	138 856	112 172	96 764

The responsibilities of the Group's directors with regard to the preparation of the financial statements are set out on page 20. The financial statements on pages 24 to 70 were approved and authorised for issue by the board of directors on 27 November 2019 and were signed on its behalf by:

G B Dalgleish (Chairman)

M A Bainbridge (Managing Director)

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 AUGUST 2019

	Share Capital K million	Share Premium K million	Fair Value Reserve K million	Hedging Reserves K million	Retained Earnings K million	Total K million
GROUP						
Balance at 31 August 2017	14	768	-	(496)	43 599	43 885
Total comprehensive income for the year				605	16 449	17 054
- profit for the year				-	16 449	16 449
- cash flow hedges				605	-	605
Balance at 31 August 2018	14	768	-	109	60 048	60 939
Balance at 1 September 2018	14	768	-	109	60 048	60 939
Effect of adoption of *IFRS 9 Financial Instruments*			356			356
Balance at 1 September 2018 (restated)	14	768	356	109	60 048	61 295
Total comprehensive income for the year			(32)	(48)	10 083	10 003
- profit for the year			-	-	10 083	10 083
- cash flow hedges			-	(48)	-	(48)
- fair value loss on revaluation of investment			(32)	-	-	(32)
Balance at 31 August 2019	14	768	324	61	70 131	71 298
COMPANY						
Balance at 31 August 2017	14	768	-	(496)	14 808	15 094
Total comprehensive loss for the year				605	4 440	5 045
- profit for the year				-	4 440	4 440
- cash flow hedges				605	-	605
Balance at 31 August 2018	14	768	-	109	- 19 248	20 139
Total comprehensive income for the year			-	(48)	1 839	1 791
- profit for the year			-	-	1 839	1 839
- cash flow hedges			-	(48)	-	(48)
Balance at 31 August 2019	14	768	-	61	21 087	21 930

ANALYSIS OF SHARE CAPITAL AND PREMIUM

	GROUP AND COMPANY 2019 K million	2018 K million
Authorised share capital		
1 000 000 000 (2018: 1 000 000 000) ordinary shares of 2 tambala each	20	20
Issued share capital		
713 444 391 (2018: 713 444 391) ordinary shares of 2 tambala each	14	14
Share premium	768	768
	782	782

The hedging reserve arises in respect of foreign currency forward sales contracts in place at 31 August 2019 and 31 August 2018 which mature in the new financial year.

The fair value reserve relates to fair valuation as at 31 August 2019 in respect of the investment in Ethanol Company Limited, on adoption of IFRS9. This was previously carried at cost (see note 7).

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 AUGUST 2019

	Notes	GROUP 2019 K million	GROUP 2018 K million	COMPANY 2019 K million	COMPANY 2018 K million
Cash flows from operating activities					
Cash operating profit	a	23 809	33 180	8 386	12 800
Working capital requirements	b	(11 466)	(4 790)	(1 129)	765
Cash generated from operations		12 343	28 390	7 257	13 565
Finance costs	c	(5 228)	(5 070)	(3 593)	(2 816)
Interest income	4	28	36	28	36
Income tax paid	d	(3 802)	(8 122)	(3 766)	636
Net cash inflows from operating activities		3 341	15 234	(74)	11 421
Cash flows from investing activities					
Purchase of property, plant and equipment	6	(10 989)	(14 413)	(7 533)	(10 571)
Proceeds on disposal of plant and equipment		59	783	20	785
Proceeds on disposal of growing cane at Kaombe Sugarcane Farm	9	-	450	-	450
Dividend income		2	31	-	-
Net cash outflows from investing activities		(10 928)	(13 149)	(7 513)	(9 336)
Net cash inflows before financing activities		(7 587)	2 085	(7 587)	2 085
Cash flows from financing activities					
Long-term borrowings repaid	15.9	(3 782)	(19 721)	(3 782)	(19 721)
Short-term borrowings proceeds	16	5 000	10 000	5 000	10 000
Net cash outflows from financing activities		1 218	(9 721)	1 218	(9 721)
Net decrease in cash and cash equivalents		(6 369)	(7 636)	(6 369)	(7 636)
Cash and cash equivalents at beginning of period		(8 204)	(568)	(8 205)	(569)
Cash and cash equivalents at end of year	11	(14 573)	(8 204)	(14 574)	(8 205)
Comprising of:					
Bank balances and cash	11	722	249	721	248
Bank overdrafts	11	(15 295)	(8 453)	(15 295)	(8 453)
		(14 573)	(8 204)	(14 574)	(8 205)

NOTES TO THE CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 AUGUST 2019

	Notes	GROUP 2019 K million	GROUP 2018 K million	COMPANY 2019 K million	COMPANY 2018 K million
a Cash operating profit is calculated as follows:					
Operating profit		20 047	30 197	6 701	10 711
Add back: Depreciation of property, plant and equipment	6	5 292	4 057	3 913	2 906
Loss/(profit) on disposal of property, plant and equipment	3	34	(25)	34	(25)
Change in fair value of growing cane	9	(1 557)	(1 042)	(2 256)	(785)
Grant amortisation	12	(7)	(7)	(6)	(5)
Cash operating profit		23 809	33 180	8 386	12 802
b Working capital requirements comprise the following:					
Increase in inventories		(13 009)	(2 777)	(8 528)	(2 220)
Increase in trade and other receivables		(1 108)	(3 447)	(1 015)	(3 478)
Net increase/(decreases) in amounts due to related parties		558	(2 281)	7 487	1 807
Increase/(decrease) in trade and other payables		1 157	3 715	(9)	4 656
Increase in contract liabilities		936	-	936	-
Working capital requirements		(11 466)	(4 790)	(1 129)	765
c Finance costs paid:					
Interest charged on:					
Long-term borrowings	15.9	(184)	(1 743)	(184)	(1 743)
Short-term borrowings	16	(1 518)	(1 146)	(1 518)	(1 146)
Bank short-term facilities	4	(3 485)	(2 168)	(1 873)	84
Other - Illovo Sugar Africa Proprietary Limited:Procurement	15.10.3	(41)	(13)	(18)	(11)
Finance costs paid on interest bearing debt		(5 228)	(5 070)	(3 593)	(2 816)
d Income tax paid is reconciled to the amounts disclosed in the statements of comprehensive income as follows:					
Amounts payable at beginning of year		(3 597)	(7 682)	(4 907)	(7 781)
Per statements of comprehensive income (excluding deferred taxation)		(2 509)	(4 037)	669	3 510
Amounts payable at end of year		2 395	3 597	472	4 907
Prior year underprovision		(91)	-	-	-
Taxation (paid)/refunded		(3 802)	(8 122)	(3 766)	636

1. Critical accounting judgements and key sources of estimation uncertainty

Critical accounting judgements made by management

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

Impairment of assets

In making its judgement, management assesses at each reporting date whether there is an indication that items of property, plant and equipment and other assets may be impaired. If any such indication exists, the recoverable amount of the asset is assessed in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of fair value less costs to sell and value in use.

Key sources of estimation uncertainty

In the process of applying the Group's accounting policies, management has made the following key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date:

Property, plant and equipment residual values and useful lives

These assets are written down to their estimated residual values over their anticipated useful lives using the straight-line basis. Management reviews the residual values annually considering market conditions and projected disposal values. In assessing useful lives, maintenance programmes and technological innovations are considered. The carrying value of property, plant and equipment is disclosed in note 6 to the financial statements.

Growing cane valuation

Growing cane is valued at the estimated sucrose content, valued at the estimated sucrose price for the following season, less the estimated costs for harvesting and transport. The value of growing cane is further adjusted for the cane maturity as at the balance sheet date, the costs necessarily incurred to farm the sugar cane until maturity and the expected profit margin on the cane growing activity. The estimated sucrose content requires management to assess the expected cane and sucrose yields for the following season considering weather conditions and harvesting programmes. In reviewing the estimated sucrose price, management is required to assess into which markets the sugar processed from the forthcoming crop will be sold and establish domestic and export prices as well as the related foreign currency exchange rates. The cane maturity as at the balance sheet date is based on an internationally validated model of sugar cane growth using historical climatic inputs from the sugar estates. In addition, management prepares detailed costs forecasts to determine the costs to farm the sugar cane to maturity as well as the expected profit margin. The carrying value of growing cane is disclosed in note 9 to the financial statements.

Expected credit losses

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. product type, customer type and rating and coverage by letters of guarantee or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Note 27 includes additional information on judgements involved in determining the expected credit losses.

	GROUP		COMPANY	
	2019 K million	2018 K million	2019 K million	2018 K million
2. Revenue from contracts with customers				
Revenue represents the proceeds receivable from the sale of:				
Sugar	124 386	137 213	66 459	72 898
Molasses and other products	5 290	4 547	3 073	2 727
	129 676	141 760	69 532	75 625
Analysed by market segment:				
Domestic market	99 476	116 314	39 332	62 106
European Union preferential quotas	7 022	12 471	7 022	6 626
USA quota	6 059	5 195	6 059	2 760
Regional market	17 119	7 780	17 119	4 133
	129 676	141 760	69 532	75 625

	GROUP		COMPANY	
	2019 K million	2018 K million	2019 K million	2018 K million
3. Operating profit				
Revenue	129 676	141 760	69 532	75 625
Cost of sales	(73 080)	(79 686)	(43 309)	(48 657)
Distribution expenses	(13 593)	(8 060)	(8 007)	(4 294)
Administration expenses	(22 956)	(23 817)	(11 515)	(11 963)
Operating profit after changes in fair value of biological assets	20 047	30 197	6 701	10 711
Less fair value adjustments:				
Growing cane (see note 9)	(1 557)	(1 042)	(2 256)	(785)
Operating profit before changes in fair value of biological assets	18 490	29 155	4 445	9 926
Administration expenses comprise:				
Operating costs	(10 737)	(11 026)	(5 038)	(5 248)
IT costs	(977)	(1 764)	(605)	(988)
Human Resources costs	(3 913)	(3 750)	(2 541)	(2 412)
Security costs	(987)	(920)	(466)	(434)
Healthcare costs	(911)	(947)	(430)	(433)
Risk and loss control costs	(1 801)	(1 756)	(1 030)	(951)
Civils costs	(2 890)	(2 957)	(1 140)	(1 090)
Other overheads	(565)	(534)	(162)	(320)
Depreciation	(175)	(163)	(103)	(87)
	(22 956)	(23 817)	(11 515)	(11 963)
Operating costs comprise:				
Salaries	(4 436)	(4 530)	(2 661)	(2 718)
Other operational costs	(4 028)	(4 015)	(1 013)	(1 042)
Operational support service fees analysed as:				
-Technical support	(805)	(879)	(483)	(527)
-Business support	(1 063)	(1 161)	(638)	(697)
-Procurement services	(405)	(441)	(243)	(264)
	(10 737)	(11 026)	(5 038)	(5 248)

	Note	GROUP 2019 K million	GROUP 2018 K million	COMPANY 2019 K million	COMPANY 2018 K million
3. Operating profit (continued)					
Operating profit has been determined after taking into account the following items:					
Depreciation (see note 6)		(5 292)	(4 057)	(3 913)	(2 906)
Profit on disposal of plant and equipment		(34)	25	(34)	25
Amortisation of factory overhaul costs		(4 920)	(3 822)	(3 090)	(2 091)
Directors' fees		(16)	(12)	(16)	(12)
Auditor's remuneration:					
Statutory audit fees		(133)	(121)	(87)	(77)
Expenses		(16)	(8)	(16)	(8)
Operational support service fees (see note 15.10.1)		(2 273)	(2 481)	(1 364)	(1 488)
Operating lease charges		(3 339)	(734)	(1 771)	(555)
Contribution to retirement benefit funds		(830)	(712)	(577)	(477)
Foreign exchange gains/(losses) - trading balances		348	389	(473)	362

	Note	GROUP 2019 K million	GROUP 2018 K million	COMPANY 2019 K million	COMPANY 2018 K million
4. Finance costs					
Interest charged on:					
Long-term borrowings (*)		(172)	(1 410)	(172)	(1 410)
Short-term borrowings		(1 520)	(1 238)	(1 520)	(1 238)
Bank short-term facilities		(3 485)	(2 168)	(1 873)	84
Other - Illovo Sugar Africa Proprietary Limited:Procurement		(41)	(13)	(18)	(11)
Foreign exchange losses recognised in finance costs		(177)	(1 108)	(177)	(1 108)
Interest expense on bank borrowings, short-term and long-term debt		(5 395)	(5 937)	(3 760)	(3 683)
Interest income					
Interest income - interest income on short-term bank deposits		28	36	28	36

(*) Interest on long-term borrowings from related parties is disclosed in note 15.9

	Note	GROUP 2019 K million	GROUP 2018 K million	COMPANY 2019 K million	COMPANY 2018 K million
5. Income tax expense					
Current tax		2 509	4 037	(669)	(3 510)
Deferred tax		2 090	3 841	1 799	6 134
Total income tax recognised in the year		4 599	7 878	1 130	2 624
		%	%		
Reconciliation of rate of taxation:					
Malawi corporation rate of taxation		30.0	30.0		
Increase in charge for year due to:					
Disallowable expenditure		1.3	2.4		
Effective rate of taxation		31.3	32.4		

6. Property, plant and equipment

GROUP

	Land and buildings K million	Vehicles and aircraft K million	Plant, equipment and furniture K million	Capital work in progress K million	Cane roots K million	Total K million
Cost						
Opening balance at 1 September 2017	5 541	6 327	22 233	2 807	17 292	54 200
Additions	-	-	-	9 696	4 717	14 413
Transfers	902	507	8 316	(9 725)	-	-
Disposals	(464)	(120)	(455)	-	(373)	(1 412)
Closing balance at 31 August 2018	5 979	6 714	30 094	2 778	21 636	67 201
Opening balance at 1 September 2018	5 979	6 714	30 094	2 778	21 636	67 201
Additions	-	-	-	6 029	4 960	10 989
Transfers	200	7	3 705	(3 912)	-	-
Disposals	(12)	(146)	(6)	-	-	(164)
Closing balance at 31 August 2019	6 167	6 575	33 793	4 895	26 596	78 026
Depreciation						
Opening balance at 1 September 2017	617	2 377	4 958	-	4 996	12 948
Charge for the period	83	954	672	-	2 348	4 057
Disposals	(58)	(80)	(147)	-	-	(285)
Closing balance at 31 August 2018	642	3 251	5 483	-	7 344	16 720
Opening balance at 1 September 2018	642	3 251	5 483	-	7 344	16 720
Charge for the year	87	1 100	852	-	3 253	5 292
Disposals	(6)	(120)	(4)	-	-	(130)
Closing balance at 31 August 2019	723	4 231	6 331	-	10 597	21 882
Net book value						
Closing balance at 31 August 2018	5 337	3 463	24 611	2 778	14 292	50 481
Closing balance at 31 August 2019	5 444	2 344	27 462	4 895	15 999	56 144

Expenditure on assets under construction is initially shown as capital work in progress and is transferred to the relevant class of asset when commissioned.

The Group's sugar and cane growing activities are situated on land under 99 year lease from the government of Malawi as follows:

	2019 Hectares	2018 Hectares
Commencement:		
1 January 1965	4 763	4 763
1 March 1966	4	4
1 October 1974	12 391	12 391
1 March 1977	13 300	13 300
1 July 1992	3 767	3 767

6. Property, plant and equipment (continued)

COMPANY

	Land and buildings K million	Vehicles and aircraft K million	Plant, equipment and furniture K million	Capital work in progress K million	Cane roots K million	Total K million
Cost						
Opening balance at 1 September 2017	3 921	4 232	15 742	1 828	12 599	38 322
Additions	-	-	-	6 575	3 996	10 571
Transfers	587	423	4 629	(5 639)	-	-
Disposals	(464)	(118)	(448)	-	(373)	(1 403)
Closing balance at 31 August 2018	4 044	4 537	19 923	2 764	16 222	47 490
Opening balance at 1 September 2018	4 044	4 537	19 923	2 764	16 222	47 490
Additions	-	-	-	3 688	3 845	7 533
Transfers	200	7	3 705	(3 912)	-	-
Disposals	-	(142)	(4)	-	-	(146)
Closing balance at 31 August 2019	4 244	4 402	23 624	2 540	20 067	54 877
Depreciation						
Opening balance at 1 September 2017	438	1 739	3 322	-	3 462	8 961
Charge for the period	54	852	- 238	-	1 762	2 906
Disposals	(58)	(78)	(140)	-	-	(276)
Closing balance at 31 August 2018	434	2 513	3 420	-	5 224	11 591
Opening balance at 1 September 2018	434	2 513	3 420	-	5 224	11 591
Charge for the year	54	1 001	244	-	2 614	3 913
Disposals	-	(116)	(3)		-	(119)
Closing balance at 31 August 2019	488	3 398	3 661	-	7 838	15 385
Net book value						
Closing balance at 31 August 2018	3 610	2 024	16 503	2 764	10 998	35 899
Closing balance at 31 August 2019	3 756	1 004	19 963	2 540	12 229	39 492

Expenditure on assets under construction is intially shown as capital work in progress and is transferred to the relevant class of asset when commissioned.

The company's sugar and cane growing activities are situated on land under 99 year lease from the government of Malawi as follows:

	2019 Hectares	2018 Hectares
Commencement:		
1 January 1965	4 763	4 763
1 March 1966	4	4
1 October 1974	12 391	12 391
1 July 1992	3 767	3 767

	GROUP		COMPANY	
	2019 K million	2018 K million	2019 K million	2018 K million

7. Investments

Investment in subsidiary company

The only subsidiary of the company is Dwangwa Sugar Corporation Limited, a company registered in Malawi.

Interest in the subsidiary is as follows:

	GROUP 2019	GROUP 2018	COMPANY 2019	COMPANY 2018
Issued capital			42	42
Effective percentage holding			100%	100%
Shares at cost			324	324

Other investments

	GROUP 2019	GROUP 2018	COMPANY 2019	COMPANY 2018
Ethanol Company Limited				
210 000 Ordinary shares of K 1 each, representing 7.64% of issued share capital				
Fair valuation at 1 September 2018	509	-		
Fair value loss	(46)	-		
Unlisted investment at fair value (2018: at cost)	463	0,2		

During the year under review the Group adopted IFRS 9 Financial Instruments, this has resulted in the 7.64% investment in Ethanol Company Limited being carried at fair value. This was previously carried at cost.

The fair value of the other investments is determined using inputs that are unobservable, the net asset value was the best information available in the circumstances and therefore fall into the level 3 fair value category. If profit before tax was 5% higher/lower and all other variables held constant, the Group's investment in Ethanol Company Limited would move by K1 million for the year ended 31 August 2019 (August 2018: K1 million).

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

Unlisted investment at fair value	GROUP 2019	GROUP 2018	COMPANY 2019	COMPANY 2018
Fair value loss	(46)	-	-	-
Deferred tax on fair value gain of unlisted investment (see note 13)	14	-	-	-
Fair value gain of unlisted investment net of deferred tax	(32)	-	-	-

8. Inventories

	GROUP 2019	GROUP 2018	COMPANY 2019	COMPANY 2018
Consumables	5 663	5 266	3 717	3 427
Sugar	47 987	35 050	29 182	20 652
Factory overhaul costs	1 827	2 152	1 006	1 298
	55 477	42 468	33 905	25 377

The Group deducted inventory provisions of K1 090 million (August 2018: K188.3 million) to arrive at these numbers out of this K940.2 million (August 2018: K80.9 million) related to write down of export sugar stocks to net realisable value.

The company deducted inventory provisions of K974,1 million (August 2018: K121 million) to arrive at these numbers out of this K433.7 million (August 2018: K80.9 million) related to write down of export sugar stocks to net realisable value.

Movement in inventory provisions	GROUP 2019	GROUP 2018	COMPANY 2019	COMPANY 2018
Opening balance	(188)	(23)	(121)	(21)
Provision	(942)	(186)	(893)	(121)
Provision utilised	40	21	40	21
Closing balance	(1 090)	(188)	(974)	(121)

	GROUP		COMPANY	
	2019 K million	2018 K million	2019 K million	2018 K million
9. Growing cane				
The carrying value of growing cane can be reconciled as follows:				
Carrying value at beginning of year	26 074	25 482	16 420	16 085
Change in fair value	1 557	1 042	2 256	785
Disposal of Kaombe Sugarcane Farm	-	(450)	-	(450)
Carrying value at end of year	27 631	26 074	18 676	16 420

The fair value of the growing cane is determined using inputs that are unobservable, using the best information available in the circumstances and therefore fall into the level 3 fair value category.

	GROUP		COMPANY	
The following are the key assumptions in the valuation of growing cane:	2019	2018	2019	2018
Expected area to harvest the following season (ha)	18 995	19 126	12 604	12 418
Estimated yield (tons cane/ha)	87	93	97	84
Average maturity of cane at 31 March	68%	67%	71%	71%

A 1% change in the sucrose content and sucrose price could increase or decrease the fair value of the growing cane to the following values:	2019 K million	2019 K million	2019 K million	2019 K million
	+ 1%	-1%	+ 1%	-1%
Estimated sucrose content	27 785	27 504	18 743	18 605
Estimated sucrose price	27 878	27 437	18 810	18 538

	GROUP		COMPANY	
	2019 K million	2018 K million	2019 K million	2018 K million
10. Trade and other receivables				
Trade receivables	15 335	12 210	15 335	12 210
Other receivables and prepayments	3 877	5 894	2 696	4 806
Balance at end of year	19 212	18 104	18 031	17 016

The directors consider that the carrying amount of trade and other receivables approximates their fair value. Trade and other receivables include trade receivables denominated in foreign currencies amounting to K6.083 million (August 2018: K2.613 million). Set out below is the movement in the allowance for expected credit losses of trade receivables:

As at 1 September 2018 (provision for doubtful debts 31 August 2018)	(103)	-	(103)	-
Provision for expected credit losses	(290)	(103)	(290)	(103)
Write-off	-	-	-	-
As at 31 August 2019	(393)	(103)	(393)	(103)
The foreign debtors are denominated in the following currencies:				
European Euro	2 023	1 423	2 023	1 423
South African Rand	863	360	863	360
United States Dollar	3 197	830	3 197	830
	6 083	2 613	6 083	2 613
The age analysis of trade receivables is as follows:				
Not past due	11 662	10 037	11 662	10 037
Past due by 30 days	1 429	1 687	1 429	1 687
Past due by 60 days	819	105	819	105
Past due by 90 days	1 425	381	1 425	381
	15 335	12 210	15 335	12 210

Trade receivables are either secured over real property or bank performance guarantees or unsecured depending on the specific customer credit risk assessment by the Group's credit committee. They have fixed repayment terms ranging from 14 to 90 days and do not bear interest. The balances will be settled by cash payments.

	GROUP		COMPANY	
	2019 K million	2018 K million	2019 K million	2018 K million

11. Cash and cash equivalents

The Group and the company have overdraft and guarantee facilities with various Malawian banking institutions. Local facilities attract interest rates of between 10.5% and 16.0% (August 2018: 14.9% and 22.0%)

	Group 2019	Group 2018	Company 2019	Company 2018
Bank balances and cash are made up of the following currencies:				
European Euro	8	10	8	10
Great British Pound	59	2	-	-
Malawi Kwacha	588	190	646	191
South African Rand	9	15	9	15
United States Dollar	58	32	58	32
	722	249	721	248
Bank overdraft balances are made up of the following currencies:				
Malawi Kwacha	15 295	8 453	15 295	8 453
Total cash and cash equivalents	(14 573)	(8 204)	(14 574)	(8 205)
Amount used	15 295	8 453	15 295	8 453
Amount unused	18 955	16 547	18 955	16 547
Total bank overdraft facility	34 250	25 000	34 250	25 000

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

12. Malawi government vitamin A grant

	Group 2019	Group 2018	Company 2019	Company 2018
At beginning of year	227	234	194	199
Amortised during the year	(7)	(7)	(6)	(5)
At end of year	220	227	188	194

This balance relates to government grants received from IrishAID and United Nations Children's Fund through the Malawi government in 2013. The money was used by the Group to buy equipment for fortifying domestic direct consumption sugar with vitamin A.

13. Deferred tax

	Group 2019	Group 2018	Company 2019	Company 2018
The movement in the year is analysed below:				
Balance at 1 September 2018	19 212	15 112	12 648	6 255
Effect of adoption of IFRS 9 Financial instruments	153	-	-	-
Balance at 1 September 2018 (restated)	19 365	-	12 648	-
Current year other comprehensive income charge - cash flow hedges	(21)	259	(21)	259
Current year other comprehensive income charge - change in fair value of unlisted investment	(14)	-	-	-
Other charges relating to prior year	-	-	59	-
Current year charge to profit or loss	2 090	3 841	1 799	6 134
Balance at end of year	21 420	19 212	14 485	12 648
Analysis of deferred tax liability:				
Excess capital allowances over depreciation	13 253	11 390	9 276	7 722
Growing cane	8 289	7 822	5 603	4 926
Other	(261)	-	(394)	-
Fair valuation of unlisted investment	139	-	-	-
Balance at end of year	21 420	19 212	14 485	12 648

	GROUP 2019 K million	GROUP 2018 K million	COMPANY 2019 K million	COMPANY 2018 K million
14. Trade and other payables				
Trade payables	10 643	8 040	7 524	5 189
Other payables and accruals	21 701	23 147	16 618	18 962
	32 344	31 187	24 142	24 151
Other payables and accruals comprise:				
Accrued expenses	14 501	11 534	11 621	9 920
Grower payable	3 259	4 397	1 659	2 454
VAT payable	2 144	2 738	2 068	2 666
Payroll creditors	1 228	1 477	852	1 065
Leave pay accruals	487	435	336	294
Advance receipts from customers	-	2 520	-	2 520
Sundry accruals	82	46	82	43
	21 701	23 147	16 618	18 962

Trade and other payables include payables denominated in foreign currencies amounting to K1 660 million (August 2018: K728 million).

The foreign creditors are denominated in the following currencies:	GROUP 2019	GROUP 2018	COMPANY 2019	COMPANY 2018
South African Rand	1 262	420	1 262	420
United States Dollar	398	308	398	308
	1 660	728	1 660	728

The average credit period for purchases of goods and services included under payables is 30 days. No interest is charged on overdue amounts.

Other payables are non-interest bearing and have an average term of two months. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

For explanations on the Group's liquidity risk management processes, refer to note 27.7.

14.1 Contract liabilities

	GROUP 2019	GROUP 2018	COMPANY 2019	COMPANY 2018
Advance receipts from customers	936	-	936	-
Revenue recognised during the period that was included in the contract liability balance as at 1 September 2018	2 520	-	2 520	-

15. Related parties

Illovo Sugar (Malawi) plc (the Group), in the ordinary course of business, enters into various transactions with related parties.

15.1 Holding companies

The Group is controlled by the following entities:

Names	Type	Effective ownership interest 2019	Effective ownership interest 2018
Sucoma Holdings Limited, incorporated in Mauritius	Immediate holding company	75.98%	75.98%
Illovo Group Holdings Limited, incorporated in Mauritius	Intermediate holding company	75.98%	75.98%
Illovo Sugar Africa Proprietary Limited, incorporated in South Africa	Illovo group holding company	75.98%	75.98%
Associated British Foods plc, incorporated in United Kingdom	Ultimate holding company	75.98%	75.98%

15.2 Ultimate holding company

Associated British Foods plc holds 100% (August 2018: 100%) of the issued share capital of Illovo Sugar Africa Proprietary Limited (formerly Illovo Sugar Proprietary Limited) and therefore has an effective ownership interest of 75.98% (August 2018: 75.98%) in the Group.

15.3 Illovo Group holding company

Illovo Sugar Africa Proprietary Limited holds 100% of the issued share capital of Illovo Group Holdings Limited which in turn owns 100% of the issued share capital of Sucoma Holdings Limited and therefore has an effective ownership interest of 75.98% in Illovo Sugar (Malawi) plc.

15.3.1 Transactions and balances with Illovo Sugar Africa Proprietary Limited related to procurement services

The Group utilises a centralised procurement office located in Johannesburg, South Africa, to share in the benefit of the bulk purchasing power that arises from Illovo Sugar Africa Proprietary Limited combining the procurement requirements of six operations to negotiate preferential supply arrangements. On receipt of an order from the Group, the centralised procurement office sources and purchases the required goods and services from third party suppliers. The cost of the procurement services, together with any transport costs, is recovered from the Group and is disclosed in note 15.10.1 below. No mark-up is charged on the recovery of the procurement expenditure and any pricing benefit negotiated with the third party supplier by the centralised procurement office is passed on to the Group.

The trading balance owing in respect of procurement expenditure on goods and services (as disclosed in note 15.8.2 below) is unsecured, is repayable within 30 days of statement and only bears interest if the repayment terms have been exceeded, after which a market-related interest (9% per annum) is charged (as disclosed in note 15.10.3 below). Interest is not raised on goods that have not been received, or damaged in transit, and for which there are legitimate queries pending. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balances will be settled by cash payments.

15.3.2 Other transactions and balances with Illovo Sugar Africa Proprietary Limited

Operational support service fees are charged to the Group in order to recover the costs of providing technical support, business support and operating a centralised procurement office. Technical support includes services rendered to monitor and improve agricultural and manufacturing performance as well as technical engineering services. Business support covers the provision of a range of services including legal, taxation, treasury, governance, human resources and information technology. The services provided by the centralised procurement office are detailed above. Operational support service fees charged to the Group during the current and prior year are disclosed in note 15.10.1 below. Operational support service fees are charged on a cost-plus basis. 8% margin is charged on the Group's prorata share of costs of obtaining technical and business support services from Illovo Sugar Africa Proprietary Limited. 15% margin is charged on the the Group's prorata share of costs of obtaining procurement services via Illovo Sugar Africa Proprietary Limited's procurement function.

Various third party costs incurred by the Group are paid for on its behalf by Illovo Sugar Africa Proprietary Limited for which it is reimbursed with no mark-up charged. The recovered costs are disclosed in note 15.10.1 below.

The trading balance owing by the Group as disclosed in note 15.8.2 below represents amounts outstanding for transactions detailed above. The trading balance is unsecured, has no fixed repayment terms and does not bear interest. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balances will be settled by cash payments.

With effect from 1 September 2017 Illovo Sugar Africa Proprietary Limited became the Group's appointed agent to coordinate and manage the marketing, sale and distribution of all the Group's export sugar for which it received 1% commission which is disclosed in note 15.10.1below.

15.4 Intermediate holding company

Transactions and balances with Illovo Group Holdings Limited

In September 2015, liquidity constraints resulted in the refinance of the Group's long-overdue trading balances owing to Illovo Group Marketing Services Limited for export commissions and distribution cost recoveries with a long-term loan. Failure to refinance these balances would have adversely disrupted operations and approval of the refinancing was obtained from the Malawi Stock Exchange and Reserve Bank of Malawi in advance. The long-term loan from Illovo Group Holdings Limited of USD 5 million (August 2018: K3.648 billion) was unsecured and attracted interest at a market-related interest rate, being the six-month US LIBOR rate plus 400 basis points per annum. The loan was fully repaid in May 2019. The related interest charges are disclosed in note 15.9 and note 15.10.3.

15.5 Immediate holding company

Transactions between the Group and Sucoma Holdings Limited (SHL) relate to the payment of dividends. No dividends have been paid to shareholders, including SHL, in the prior year. There are no outstanding balances owing to or by Sucoma Holdings Limited.

15.6 Transactions and balances with fellow subsidiaries

Illovo Group Marketing Services Limited (IGMSL)

Third party export logistics costs incurred by the Group are paid for/on its behalf by Illovo Group Marketing Services Limited for which it is reimbursed with no mark-up charged (as disclosed in note 15.10.1).

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

East African Supply Proprietary Limited (EAS)

East African Supply Proprietary Limited, a fellow subsidiary company, recovers the cost of air services provided to the Group necessary to facilitate the provision of operational support and director services by Illovo Sugar Africa Proprietary Limited (refer to note 15.10.1).

The trading balances owing by the Group as disclosed in note 15.8.1 and 15.8.2 below represent amounts outstanding for air services. The trading balances are unsecured, have no fixed repayment terms and do not bear interest. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised.

Other cost recoveries

Operating costs incurred by the Group are paid for on its behalf by fellow subsidiary companies such as Kilombero Sugar Company Limited, Ubombo Sugar Limited and Zambia Sugar Plc for which these fellow subsidiaries are reimbursed with no mark-up charged. In addition, the Group recovers any operating costs paid on behalf of fellow subsidiaries. The recovered costs are disclosed in note 15.10.1.

The outstanding balances between the Group and fellow subsidiary companies arising from cost recoveries are disclosed in notes 15.8.1 and 15.8.2 below. The balances are unsecured, have no fixed repayment terms and do not bear interest. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balances will be settled by cash payments.

Sales transactions

During the current and prior year, sugar as disclosed in note 15.10.2 was sold to AB Azucarera Iberia S.L, Czarnikow Group Limited and Illovo Sugar (South Africa) Proprietary Limited on the same commercial terms and conditions that would be available to third party customers.

The outstanding trading balances between the Group and fellow subsidiary companies arising from sugar sales are disclosed in note 15.8.1 below. The trading balances are unsecured, but have repayment terms in line with those applicable to third party customers. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balances will be settled by cash payments.

15.7 Subsidiary companies

The company owns 100% of the issued share capital of Dwangwa Sugar Corporation Limited, a company registered in Malawi.

The outstanding trading balances between the company and Dwangwa Sugar Corporation Limited are disclosed in note 15.8.2. The trading balances are unsecured, have no fixed repayment terms and do not bear interest. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balances will be settled by cash payments.

	Note	GROUP 2019 K million	GROUP 2018 K million	COMPANY 2019 K million	COMPANY 2018 K million
15.8 Amounts due from/ (to) related parties					
15.8.1 Amount due from related parties:					
AB Azucarera Iberia S.L	2	929	923	929	923
Illovo Group Marketing Services Limited	2	7	349	7	349
Illovo Sugar (South Africa) Proprietary Limited	2	-	52	-	52
		936	1 324	936	1 324
Amounts due from related parties are denominated in the following currencies:					
European Euro		929	923	929	923
South African Rand		-	52	-	52
United States Dollar		7	349	7	349
		936	1 324	936	1 324
15.8.2 Amounts due to related parties:					
Dwangwa Sugar Corporation Limited	3	-	-	18 581	11 592
Holding company and fellow subsidiaries		1 670	1 500	1 049	939
		1 670	1 500	19 630	12 531
Holding company and fellow subsidiaries comprise:					
East African Supply Proprietary Limited	2	37	7	37	7
Illovo Group Marketing Services Limited	2	-	352	-	352
Illovo Sugar Africa Proprietary Limited - Corporate Division	1	551	229	424	164
Illovo Sugar Africa Proprietary Limited - Procurement Division	1	1 047	904	553	408
Illovo Sugar (South Africa) Proprietary Limited	2	-	8	-	8
Ubombo Sugar Limited	2	2		2	
Zambia Sugar Plc	2	33	-	33	-
		1 670	1 500	1 049	939

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

Amounts due to holding company and fellow subsidiaries are denominated in the following currencies:

	GROUP 2019 K million	GROUP 2018 K million	COMPANY 2019 K million	COMPANY 2018 K million
European Euro	1	172	1	172
South African Rand	1 559	1 147	938	586
United States Dollar	110	181	110	181
	1 670	1 500	1 049	939

Note
1 - Holding companies (refer to note 15.1 - 15.3)
2 - Fellow subsidiaries of holding companies (refer to note 15.4 - 15.6)
3 - Subsidiary of Illovo Sugar (Malawi) plc (refer to note 15.7)

	GROUP		COMPANY	
	2019 K million	2018 K million	2019 K million	2018 K million

15.9 Long-term borrowings from holding companies

	Year of repayment	Effective interest rate (%)	GROUP 2019 K million	GROUP 2018 K million	COMPANY 2019 K million	COMPANY 2018 K million
Illovo Group Holdings Limited	2019	US LIBOR plus 4	-	3 649	-	3 649
Total borrowings			-	3 649	-	3 649
Less:						
Current portion			-	-	-	-
Long-term portion			-	3 649	-	3 649

	GROUP			GROUP		
	2019 K million	2019 K million	2019 K million	2018 K million	2018 K million	2018 K million
	Illovo Group Holdings Limited	Illovo Sugar Africa Proprietary Limited	Total	Illovo Group Holdings Limited	Illovo Sugar Africa Proprietary Limited	Total
Balance at the start of year	3 649	-	3 649	3 657	19 307	22 964
Amount paid	(3 782)	-	(3 782)	-	(19 721)	(19 721)
Interest charged	172	-	172	215	1 195	1 410
Interest paid	(184)	-	(184)	(174)	(1 569)	(1 743)
Foreign exchange losses recognised in finance costs	145	-	145	(49)	788	739
Balance at end of year	-	-	-	3 649	-	3 649

Long-term loans from related parties are denominated in the following currencies:

	-	-	-	-	-	-
South African Rand	-	-	-	3 649	-	3 649
United States Dollar	-	-	-	3 649	-	3 649

	COMPANY			COMPANY		
	2019 K million	2019 K million	2019 K million	2018 K million	2018 K million	2018 K million
	Illovo Group Holdings Limited	Illovo Sugar Africa Proprietary Limited	Total	Illovo Group Holdings Limited	Illovo Sugar Africa Proprietary Limited	Total
Balance at the start of period	3 649	-	3 649	3 657	19 307	22 964
Amount paid	(3 782)	-	(3 782)	-	(19 721)	(19 721)
Interest charged	172	-	172	215	1 195	1 410
Interest paid	(184)	-	(184)	(174)	(1 569)	(1 743)
Foreign exchange losses recognised in finance costs	145	-	145	(49)	788	739
Balance at end of period	-	-	-	3 649	-	3 649

Long-term loans from holding companies are denominated in the following currencies:

United States Dollar	-	-	-	3 649	-	3 649
	-	-	-	3 649	-	3 649

The foreign currency denominated loans have been repaid using future foreign currency export proceeds earned from European, United States of America and regional markets to minimise any realised exchange losses.

15 .10 Related party transactions

				GROUP 2019 K million	GROUP 2018 K million	COMPANY 2019 K million	COMPANY 2018 K million
15 .10.1	The annual payment transactions with related parties are as follows:	Note	Transaction				
	East African Supply Proprietary Limited	2	Flight charges recoveries	77	105	77	105
	Illovo Sugar Africa Proprietary Limited	2	Export agency commission	300	254	300	135
	Illovo Sugar Africa Proprietary Limited (Rwanda rebate)			61	-	61	-
	Illovo Group Marketing Services Limited	2	Logistics cost recoveries	2 889	1 912	2 889	1 912
	Illovo Sugar Africa Proprietary Limited - Corporate Division	1	Operational support service fees	2 273	2 481	1 364	1 488
	Illovo Sugar Africa Proprietary Limited - Corporate Division	1	Cost recoveries	1 141	1 255	833	916
	Illovo Sugar Africa Proprietary Limited - Procurement Division	1	Procurement of goods and services	14 495	17 139	9 162	10 768
	Kilombero Sugar Company Limited	2	Cost recoveries	-	27	-	27
	Ubombo Sugar Limited	2	Cost recoveries	3	-	2	-
	Zambia Sugar Plc	2	Cost recoveries	34	31	34	31
				21 273	23 204	14 722	15 382
15 .10.2	The annual sugar sales transactions with related parties are as follows:						
	AB Azucarera Iberia S.L	3		3 518	2 788	3 518	2 788
	Czarnikow Group Limited	4		-	3 295	-	3 295
	Illovo Sugar (South Africa) Proprietary Limited	2		-	2 394	-	2 394
				3 518	8 477	3 518	8 477
15 .10.3	The annual interest payable with related parties is as follows:		Effective interest rate (%)				
	Illovo Group Holdings Limited	1	LIBOR plus 400 basis points	172	215	172	215
	Illovo Sugar Africa Proprietary Limited - Corporate Division	1	Prime rate plus 200 basis points	-	1 195	-	1 195
	Illovo Sugar Africa Proprietary Limited - Procurement Division	1	9% on overdue balances	41	13	18	11
				213	1 423	190	1 421

Note
1 - Holding companies (refer to note 15.1 - 15.3)
2 - Fellow subsidiaries of Illovo Sugar Africa Proprietary Limited (refer to note 15.4 - 15.6)
3 - Fellow subsidiaries of Associated British Foods plc (refer to note 15.6)
4 - Associate of Associated British Foods plc (refer to note 15.6)
5 - The compensation of key management personnel is disclosed in note 24.

	GROUP 2019 K million	GROUP 2018 K million	COMPANY 2019 K million	COMPANY 2018 K million

	Effective interest rate (%)				
16. Short-term borrowings					
Nico Asset Managers Limited	13.62%	10 081	5 079	10 081	5 079
Old Mutual Investment Group	13.34%	5 013	5 013	5 013	5 013
		15 094	10 092	15 094	10 092

	GROUP AND COMPANY			GROUP AND COMPANY		
	2019 K million	2019 K million	2019 K million	2018 K million	2018 K million	2018 K million
	Nico Asset Managers Limited	Old Mutual Investment Group	Total	Nico Asset Managers Limited	Old Mutual Investment Group	Total
Opening balance	5 079	5 013	10 092	-	-	-
Amount advanced	5 000	-	5 000	5 000	5 000	10 000
Interest charged	853	667	1 520	650	588	1 238
Interest paid	(851)	(667)	(1 518)	(571)	(575)	(1 146)
Balance at end of year	10 081	5 013	15 094	5 079	5 013	10 092

Nico Asset Managers Limited loan

The Group started the year with a short-term money market facility from Nico Asset Managers Limited of K5 billion which was rolled over with the applicable interest rate being an average yield for the preceding 182 days treasury bill, as per treasury bill auction results plus a premium of 100 basis points per annum. The commitment fee paid on this was 0.165% paid in advance. The Group then accessed another K5 billion in the year with an applicable interest rate at the average yield for the preceding 91 days treasury bill as per treasury bill auction results, plus a premium of 100 basis points per annum. The loan attracted a commitment fee of K9 million payable in advance. Interest was payable quarterly in arrears.

Old Mutual Investment Group loan

The Group started the year with a short-term money market facility from Old Mutual Investment Group of K5 billion. The applicable interest rate to Old Mutual Investment Group loan was an average yield for the preceding 182 days treasury bill as per treasury bill auction results plus a premium of 125 basis points per annum. Interest was payable on a quarterly basis in arrears, plus arrangement fees of 0.25% payable in advance. This was rolled forward in November 2018.

	GROUP 2019 K million	GROUP 2018 K million	COMPANY 2019 K million	COMPANY 2018 K million
17. Derivative financial instruments				
Forward exchange contracts - designated as cash flow hedges	87	156	87	156
Comprising:				
Assets	87	156	87	156
At end of the year	87	156	87	156

The derivative assets/(liabilities) relate to foreign exchange contracts (FECs) designated as hedging instruments in cash flow hedges of forecast sales in Euros. These forecast transactions are highly probable. The foreign exchange forward contracts are measured at fair value through OCI.

The fair value of FECs as calculated by the banks is measured using a forward pricing model. The significant inputs into the Level 2 fair value of FECs are yield curves, market interest rates and market foreign exchange rates. The estimated fair values of recognised financial instruments approximate their carrying amounts. Additional disclosures concerning the derivative financial instruments used to manage currency risk have been provided in note 27.4.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign forward contracts match the terms of the expected highly probable forecast sales transactions (i.e. notional amount and expected payment date). The Group has established a hedge ratio of 0.8:1 for the hedging relationships. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

	GROUP 2019 K million	GROUP 2018 K million	COMPANY 2019 K million	COMPANY 2018 K million

Derivative financial instruments (continued)

Hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments.
- Different indices (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments.
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items.
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments.

The cash flow hedges of the expected future sales in 2019 were assessed to be highly effective and a net unrealised gain of K87 million, with a deferred tax liability of K21 million relating to the hedging instruments, is included in OCI. Comparatively, the cash flow hedges of the expected future sales in 2018 were assessed to be highly effective and an unrealised gain of K156 million with a deferred tax liability of K47 million was included in OCI in respect of these contracts.

The amounts retained in OCI at 31 August 2019 are expected to mature and affect the statement of profit or loss in 2020. The disaggregation of changes of OCI by the hedging reserve in equity is shown below:

	Group 2019	Group 2018	Company 2019	Company 2018
Currency forward contracts	61	109	61	109
Reclassified to statement of profit or loss	(109)	496	(109)	496
Total	(48)	605	(48)	605

The Group is holding the following foreign exchange contracts (highly probable forecast sales) with the following maturity dates:

	Maturity					
	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Total
As at 31 August 2019						
Notional amount (€000)	1 100	1 800	700	200	-	3 800
Average forward rate (EUR/USD)	1.1509	1.1594	1.1562	1.1617	-	-
As at 31 August 2018						
Notional amount (€000)	5 000	2 200	700	100	-	8 000
Average forward rate (EUR/USD)	1.2254	1.2074	1.1988	1.2052	-	-

18. Capital commitments

	Group 2019	Group 2018	Company 2019	Company 2018
Contracted	582	889	483	622
Approved but not contracted	1 996	3 738	1 136	3 194
	2 578	4 627	1 619	3 816

Capital expenditure commitments are to be financed from internal resources and existing facilities.

19. Contingent liabilities

Various claims of an industrial relations nature totalling K923.1 million (August 2018: K1.115 billion) have been made against the Group in the ordinary course of business, the outcome of which is uncertain.

20. Operating lease commitments

	2020	2021	2022	2023	2024	2025 onwards	GROUP 2019 Total	2018 Total
	K million	K million	K million	K million	K million	K million	K million	K million
GROUP								
Land and buildings	543	91	91	91	91	708	1 615	1 091
Motor vehicles	2 869	2 252	1 388	1 388	1 388	1 388	10 673	2 785
Computer equipment	200	178	158	158	108	97	899	839
	3 612	2 521	1 637	1 637	1 587	2 193	13 187	4 715

	2020	2021	2022	2023	2024	2025 onwards	COMPANY 2019 Total	2018 Total
		K million	K million	K million	K million	K million	K million	K million
COMPANY								
Land and buildings	531	79	79	79	79	79	926	390
Motor vehicles	1 388	1 388	1 388	1 388	1 388	1 388	8 328	2 385
Computer equipment	129	123	116	116	103	97	684	556
	2 048	1 590	1 583	1 583	1 570	1 564	9 938	3 331

21. Exchange rates and inflation

	GROUP AND COMPANY 2019 K million	2018 K million

The average of the buying and selling rates at year-end of the foreign currencies most affecting the performance of the Group is stated below, together with the increase in the consumer price index for the year, which represents an official measure of inflation.

	2019	2018
Kwacha/European Euro	788.0	846.0
Kwacha/South African Rand	49.0	49.5
Kwacha/United States Dollar	733.7	734.8
Overall Consumer Price Inflation	9.5%	9.0%

The average over the year of the buying and selling rates of the foreign currencies most affecting the performance of the Group is stated below, together with the increase in the consumer price index for the year, which represents an official measure of inflation.

	2019	2018
Kwacha/European Euro	845.5	873.3
Kwacha/South African Rand	52.6	56.9
Kwacha/United States Dollar	738.5	724.1
Overall Consumer Price Inflation - average	9.5%	9.3%

22. Basic and diluted earnings per share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Group is based on the following data:

	2019	2018
Earnings		
Earnings for the purposes of basic and diluted earnings per share	10 083	16 449
Number of shares ('000s)		
Weighted average number of ordinary shares for the purpose of basic/diluted earnings per share	713 444	713 444
Basic and diluted earnings per share (tambala)	1 413	2 306
Reconciliation of headline earnings:		
Net profit for the year	10 083	16 449
Headline earnings	10 083	16 449
Headline earnings per share (tambala)	1 413	2 306
(Headline earnings are defined as profit after tax)		

23. Dividend per share

Dividend per share is calculated by dividing the total dividends declared in the year by the weighted average number of ordinary shares in issue during the year.

First interim dividend paid (for current period)	-	-
Second interim dividend paid (for previous period)	-	-
Final dividend paid (for previous period)	-	-
	-	-
Number of shares in issue ('000s)	713 444	713 444
Weighted average number of shares on which dividend per share is based ('000s)	713 444	713 444
Dividend paid per share (tambala)	-	-

The board of directors recommend a dividend of 50 tambala per share for the year ended 31 August 2019 (August 2018: nil).

24. Compensation of key management personnel

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

	GROUP AND COMPANY	
	2019 K million	2018 K million
Short-term benefits	3 137	3 012
Post-retirement benefits	198	178
Other long-term benefits	1 626	1 072
	4 961	4 262

The remuneration of directors and key executives is determined by the Nomination/Remuneration committee having regard to the performance of individuals and market trends.

25. Retirement benefit plans

The Group operates two defined contribution plans. The SUCOMA Group Pension Scheme, which is managed internally by trustees, is a defined contribution scheme and the contributions by employees and the Group are 7.5% (August 2018: 7.5%) and 12.5% (August 2018: 12.5%) of the fund member's basic pensionable salaries, respectively. The Illovo Sugar (Malawi) plc Pension Fund, which is managed internally by trustees, is also a defined contribution scheme and the contributions by employees and the Group are 5.0% (August 2018: 5.0%) and 12.5% (August 2018: 12.5%) of the fund member's basic pensionable salaries, respectively. The trustees are employees of the Group. The administration of both pension funds has been subcontracted to Nico Life Insurance Company Limited. Nico Asset Managers Limited is the investment manager for the two funds.

The total expense recognised in profit or loss of K830 million (August 2018: K577 million) represents contributions payable to these plans by the Group.

26. Segmental analysis

Segment reporting is presented in respect of the Group's operating segments.

Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segmental capital expenditure represents the costs incurred during the year to acquire segment assets that are expected to be used for more than one year.

Management has determined the operating segments and reports on the operating segments as follows:

Cane growing: Growing of sugar cane for use in the sugar production process.
Sugar production: Manufacture and sale of sugar from sugar cane.

Segmental analysis (continued)

	Sugar production K million	Cane growing K million	TOTAL K million
GROUP			
Year to 31 August 2019			
Revenue	66 434	63 242	129 676
Operating profit	18 596	1 451	20 047
Dividend income	2	-	2
Finance costs	(4 368)	(1 027)	(5 395)
Interest income	-	28	28
Taxation	(2 800)	(1 799)	(4 599)
Net profit	11 430	(1 347)	10 083
Statements of financial position			
Non-current assets	22 894	33 250	56 144
Property, plant and equipment	22 894	33 250	56 144
Current assets	73 099	30 966	104 065
Inventories	53 683	1 794	55 477
Growing cane	-	27 631	27 631
Trade and other receivables	17 673	1 539	19 212
Amount due from related parties	936	-	936
Derivative financial assets	87	-	87
Bank balances and cash	720	2	722
Current liabilities	47 001	19 797	66 798
Trade and other payables	18 803	13 541	32 344
Amount due to related parties	1 670	-	1 670
Short-term borrowings	9 056	6 038	15 094
Bank overdrafts	15 295	-	15 295
Taxation payable	2 177	218	2 395
Non-current liabilities	12 973	8 667	21 640
Long-term borrowings from related parties	-	-	-
Malawi government vitamin A grant	32	188	220
Deferred taxation	12 941	8 479	21 420
Shareholders equity	36 019	35 752	71 771
Property, plant and equipment transactions are categorised as follows:			
Purchases during the period	5 445	5 544	10 989
Depreciation	2 526	2 765	5 292

Revenue from one customer from the sugar production segment amounted to K36,5 billion (August 2018: K41.2 billion).
The geographical breakdown of revenue has been disclosed in note 2.

	Sugar production K million	Cane growing K million	TOTAL K million
GROUP			
Year to 31 August 2018			
Revenue	82 588	59 172	141 760
Operating profit	29 413	784	30 197
Dividend income	25	6	31
Finance costs	(4 584)	(1 353)	(5 937)
Interest income	43	(7)	36
Taxation	(6 000)	(1 878)	(7 878)
Net profit	12 270	4 179	16 449
Statements of financial position			
Non-current assets	25 382	25 099	50 481
Property, plant and equipment	25 382	25 099	50 481
Current assets	58 185	30 190	88 375
Inventories	40 028	2 440	42 468
Growing cane	-	26 074	26 074
Trade and other receivables	16 428	1 676	18 104
Amount due from related parties	1 324	-	1 324
Derivative financial assets	156	-	156
Bank balances and cash	249	-	249
Current liabilities	35 908	18 921	54 829
Trade and other payables	18 687	12 500	31 187
Amount due to related parties	1 309	191	1 500
Short-term borrowings	5 092	5 000	10 092
Bank overdrafts	8 453	-	8 453
Derivative financial liabilities	-	-	-
Taxation payable	2 367	1 230	3 597
Non-current liabilities	13 564	9 524	23 088
Shareholders equity	34 095	26 844	60 939
Property, plant and equipment transactions are categorised as follows:			
Purchases during the period	4 796	9 617	14 413
Depreciation	1 337	2 720	4 057

The geographical segment of the Group's business has not been prepared because all the Group's operations are held within Malawi. There were no significant non-cash transactions during the current or prior years.

27. Financial instruments

Introduction and overview

The Group has exposure to the following risks arising from its transactions in financial instruments:

- Capital
- Treasury
- Foreign currency
- Interest rate
- Credit
- Liquidity

This note, in addition to notes 10, 11, 14, 15 and 16 presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for identification, measurement, monitoring and controlling risk and the Group's management of capital.

27.1 Categories of financial instruments

	GROUP 2019 K million	GROUP 2018 K million	COMPANY 2019 K million	COMPANY 2018 K million
Financial assets				
Financial assets carried at armotised cost (2018: Loans and receivables)	20 870	19 677	19 688	18 588
Unlisted equity instruments at FVTOCI (2018: Available for sale)	463		0,2	
Derivative financial assets at FVTPL	87	156	87	156
	21 420	19 833	19 775	18 744
The details of financial assets at armotised cost are as follows:				
Trade and other receivables	19 212	18 104	18 031	17 016
Bank balances and cash	722	249	721	248
Amount due from related parties	936	1 324	936	1 324
	20 870	19 677	19 688	18 588
Financial liabilities				
Financial liabilities measured at amortised cost	64 403	54 881	74 161	58 876
The details of financial liabilities at amortised costs are as follows:				
Long-term borrowings	-	3 649	-	3 649
Trade and other payables	32 344	31 187	24 142	24 151
Related parties	1 670	1 500	19 630	12 531
Short-term borrowings	15 094	10 092	15 094	10 092
Bank overdrafts	15 295	8 453	15 295	8 453
	64 403	54 881	74 161	58 876

27.2 Capital risk management

The Group manages its capital to ensure that it remains a going concern whilst maximising the returns to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt (which includes bank overdraft facilities net of cash balances) and equity.

27.3 Treasury risk management

A treasury risk management committee, consisting of senior executives in the Group, meets periodically to analyse currency and interest rate exposures and formulate treasury management strategies in the light of prevailing market conditions and current economic forecasts. This committee operates within Group policies approved by the board.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a regular basis. The Group does not enter into nor trade in financial instruments, including derivative financial instruments, for speculative purposes.

	GROUP		COMPANY	
	2019 K million	2018 K million	2019 K million	2018 K million

27.4 Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts, where possible. Foreign currency exposures are carefully monitored and management utilises foreign currency export proceeds to settle foreign currency denominated obligations.

The carrying amounts of the Group's unhedged and uncovered foreign currency denominated assets and monetary liabilities at the reporting date are as follows:

	Group 2019	Group 2018	Company 2019	Company 2018
Assets				
Great Britain Pound	59		59	
European Euro	2 031	2 346	2 031	2 346
South African Rand	872	52	872	52
United States Dollar	3 255	1 179	3 255	1 179
	6 217	3 577	6 217	3 577
Liabilities				
European Euro	1	172	1	172
South African Rand	1 262	1 567	478	1 006
United States Dollar	1 835	4 138	951	4 138
	3 098	5 877	1 430	5 316

27.4.1 Foreign currency sensitivity analysis

The Group is largely exposed to the European Euro, South African Rand and United States Dollar. The following table details the Group's sensitivity to a 10% increase and decrease in the Malawi Kwacha (K) against the relevant foreign currencies. A 10% movement is the usual sensitivity rate used when reporting foreign currency risk internally to key personnel and represents managements assessment of the change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items. A positive/(negative) number below denotes a increase/(decrease) in profit before tax where the Kwacha weakens/strengthens against the relevant currency. The impact on the Group's pre-tax equity due to changes in the fair value of forward exchange contracts designated as cash flow hedges is not material.

	European Euro impact		South African Rand impact		United States Dollar impact	
	2019 K million	2018 K million	2019 K million	2018 K million	2019 K million	2018 K million
Profit or loss	203	217	(39)	(152)	142	(296)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year-end exposure does not reflect the average exposure during the season. Purchases from foreign suppliers are seasonal with higher purchases towards the last quarter of the year in order to meet demand.

27.5 Interest rate risk management

Taking cognisance of the seasonality of the Group's cash flow and long-term interest rate forecasts, the risk management committee positions the Group's interest rate exposures according to expected movements in local and international interest rates.

27.5.1 Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates on the financial assets and liabilities at the reporting date and a 5% interest rate change taking place at the beginning of the year.

If interest rates had been 500 basis points higher/lower and all other variables held constant, the Group's profit before tax for the year ended 31 August 2019 would move by K966 million (August 2018: K924 million). The effect on profit or loss and equity is the same.

27.6 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group uses other publicly available financial information and its own as a means of mitigating the risk of financial loss from defaults. The Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the performance of its counterparties are continuously monitored.

Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. On-going credit evaluation is performed on the financial condition of accounts receivable and where appropriate, credit guarantee insurance cover is purchased. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by credit insurance obtained from financial institutions.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any one time during the year. The credit risk on liquid funds is limited because the counterparties are reputable banks.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. geographical region, product type, customer type and rating, and coverage by bank guarantees or security over real property). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e. gross domestic product and foreign exchange rates) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forwardlooking estimates are analysed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The highest credit exposure outside the bank balances without collateral was K15 335 million (August 2018: K12 210 million) in relation to trade receivables. The bank guarantees and security over real property are considered an integral part of trade receivables and considered in the calculation of impairment. The Groups expected credit losses are disclosed on note 10.

There are no off-statement financial position credit exposures.

27.7 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with management, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, continuously monitoring forecast and actual cash flows and matching of the maturity profiles of financial assets and liabilities. Included in note 11 is a listing of additional undrawn facilities that the Group has access to if the need arises.

	GROUP		COMPANY	
	2019 K million	2018 K million	2019 K million	2018 K million
Net debt				
Long-term borrowings from related parties	-	3 649	-	3 649
Short-term borrowings	15 094	10 092	15 094	10 092
Bank overdrafts	15 295	8 453	15 295	8 453
Bank balances and cash	(722)	(249)	(721)	(248)
	29 667	21 945	29 668	21 946

The following table details the Group's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

27.7.1 Liquidity risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the actual cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table below shows both interest and principal cash flows.

	Weighted average effective rate	1 year	1 - 5 years	Total
	%	K million	K million	K million
31 August 2019				
Bank overdraft	13.5	15 295	-	15 295
Short-term borrowings	13.5	15 094	-	15 094
		30 389	-	30 389
31 August 2018				
Bank overdraft	18.5	8 453	-	8 453
Short-term borrowings	15.6	10 092	-	10 092
Long-term borrowings	10.6	-	3 649	3 649
		18 545	3 649	22 194

The Group's non-financial assets are interest-free and their maturity period is indefinite.

The following table details the Group's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	1-3 months	3 months to 1 year	1 - 5 years	5+ years	Total
	K million	K million	K million	K million	K million
31 August 2019					
Trade and other receivables	19 212	-	-	-	19 212
Bank balances and cash	722	-	-	-	722
	19 934	-	-	-	19 934
31 August 2018					
Trade and other receivables	18 104	-	-	-	18 104
Bank balances and cash	249	-	-	-	249
	18 353	-	-	-	18 353

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting year.

The Group has access to other unutilised financing facilities as indicated in note 11. The Group expects to meet its obligations arising from operating cash flows and proceeds of maturing financial assets.

27.7.2 Equity price risk

The Group's non-listed equity investment in Ethanol Company Limited (Ethco) is susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk by placing limits on individual and total equity instruments. The Group's board of directors reviews and approves all equity investment decisions.

At the reporting date, the exposure to non-listed equity investments at fair value was K463 million. Sensitivity analyses of this investment has been provided in note 7.

28. Events after the reporting period

Subsequent to the year end the directors recommended a dividend of 50 tambala per share for the year ended 31 August 2019.

ANALYSIS OF SHAREHOLDERS

31 August 2019

			Shareholders		Ordinary Shares	
Category			Number	%	Number held	% of shares issued
Individuals						
1	–	5 000	1 600	74.59	2 107 371	0.30
5 001	–	10 000	238	11.10	1 960 715	0.27
10 001	–	50 000	193	9.00	3 821 095	0.54
50 001	–	100 000	22	1.02	1 707 697	0.24
100 001	–	200 000	25	1.17	3 638 626	0.51
200 001	–	500 000	27	1.26	8 663 395	1.21
500 001	–	and over	40	1.86	691 545 492	96.93
			2 145	100.00	713 444 391	100.00
Banks and nominees			58	2.70	14 193 420	1.98
Holding company and non-residents			60	2.80	545 462 762	76.47
Individuals			1 895	88.34	30 621 215	4.29
Insurance, trust, pension and provident			85	3.96	102 256 340	14.33
Other corporate bodies			47	2.20	20 910 654	2.93
			2 145	100.00	713 444 391	100.00

Shareholders holding 1% or more of the total equity

SUCOMA Holdings Limited	542 084 186	75.98
Old Mutual Life Assurance Company (Malawi) Limited	69 518 400	9.74
Ramesh Haridas Savjani	14 821 735	2.08
First Merchant Bank Limited	12 915 541	1.81
Magetsi Pension Fund	7 323 105	1.03
NICO Life Insurance Company	7 244 721	1.02

SHAREHOLDERS' DIARY

Financial / Statutory	
Financial year-end	August
Annual general meeting	February
Reports and profit statements	
Profit announcement for the year	October
Annual report and financial statements	February
Interim report	February

NOTICE OF MEETING

Notice is hereby given that the 55th annual general meeting of members of the company will be held at Ryalls Hotel, Blantyre on Thursday, 27 February 2020 at 14h00 to transact the following business:

1. **Minutes**

   To approve the minutes of the 54th annual general meeting held on 27 February 2019.

2. **Financial statements**

   To receive and adopt the annual financial statements for the year ended 31 August 2019.

3. **Directors' appointments and re-election**

   3.1 Confirmation of directors

   To confirm the appointment of G Kumchulesi and N A Ngwira as independent non-executive directors to fill casual vacancies.

   Brief profile - G Kumchulesi (Dr)

   BSoc, MSc Econ, PhD Econ

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

   Brief profile - N A Ngwira (Dr)

   BSoc, MSc Econ, PhD Econ

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

   To confirm the appointment of C Taylor as a non-executive director.

   Brief profile - C Taylor

   Postgrad Dip (Acc), BCom (Acc), SAICA CA(SA)

   Craig Taylor was appointed to the board of Illovo Malawi on 13 August 2019. He is currently the Interim Group Financial Director for Illovo, following the departure of Mohammed Abdool-Samad. He brings with him a wealth of experience at the financial directorship and management level both in South Africa and the United States of America (USA). He served at that level in various companies in the information technology industry in the USA, including Microsoft, Depth Wire Corp and T-Mobile. He has also worked as a consultant for senior executives, especially in finance. He has over 26 years in internal and external audit, financial accounting and reporting, finance management, strategic management and related areas. He started out his career as auditor at Deloitte South Africa, having graduated from the University of Kwa Zulu Natal also in South Africa.

To confirm A R Mpungwe

To confirm A R Mpungwe, who has served on the board in excess of six years as an independent non-executive director and on recommendation of the Nomination/Remuneration Committee, offers himself for re-election.

3.2 Re–election of directors

In terms of the company's articles of association, a third of the non-executive directors retire by rotation at the forthcoming annual general meeting. Accordingly, Messrs P W Guta and A R Mpungwe will retire and being eligible, and after consideration and recommendation by the Nomination/Remuneration Committee, they offer themselves for re-election.

4. Ordinary business

To consider and, if deemed fit, to pass with or without modification the following ordinary resolutions:

4.1 That unless otherwise determined by the company in general meeting, each director shall be entitled to remuneration for their service as such at the rate of K 3 150 000 per annum which remains unchanged from the previous year. Directors' remuneration is payable by the company quarterly in arrears.

4.2 That unless otherwise determined by the company in general meeting, each non-executive director should receive a sitting allowance of K 150 000 for each committee and/or board meeting attended.

4.3 That Ernst & Young be re-appointed as auditors for the August 2020 financial year and that the directors be authorised to fix their remuneration.

4.4 That a dividend of 50 tambala per share for the year ended 31 August 2019 recommended by the directors be declared to all shareholders of the company at the close of business on 13 March 2020 and be payable on 31 March 2020.

5. Special Business

To consider and, if deemed fit, to pass with or without modification the following special resolution:

5.1 Adoption of new Articles of Association in compliance with the Companies Act 2013.

The current Memorandum of Association and Articles of Association (MEMARTS) were adopted under the Companies Act 1984, which has since been repealed by the new Companies Act 2013 (The 2013 Act). In order to comply with the 2013 Act, the board of directors adopted a new set of MEMARTS. The Board recommends to the shareholders the adoption of the new MEMARTS.

6. Other business

To transact such other business as may be transacted at an annual general meeting of members.

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, speak and vote in his/her stead. The proxy need not be a member of the company. Proxy forms should be forwarded to reach the company's registered office or the office of the transfer secretaries at Standard Bank of Malawi, Kaomba Centre, Corner Victoria Avenue & Sir Glyn Jones Road, Blantyre, not later than 16h00 on Monday, 24 February 2020.

By order of the board

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

NOTES

FORM OF PROXY FOR THE 55TH ANNUAL GENERAL MEETING

I/We ____
(Name/s in block letters)

of ____
(Address)

Number of votes

being the shareholder/member of the above named company and entitled to [ ]
(1 share = 1 vote)

do hereby appoint

1. ______________________ of ______________________ or failing him/her;

2. ______________________ of ______________________ or failing him/her;

3. the chairman of the meeting as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the annual general meeting of the company to be held at Ryalls Hotel, Blantyre, Malawi on Thursday, 27 February 2020 at 14h00 and at any adjournment thereof as follows:

	Agenda Item	Mark with X where applicable		
		In favour	Against	Abstain
1	Adoption of 2019 annual financial statements.			
2	Directors' appointments and re-election – Confirmation.			
	Confirmation of director – G Kumchulesi.			
	Confirmation of director – NA Ngwira.			
	Confirmation of director – C Taylor.			
	Confirmation of director – AR Mpungwe.			
3	Directors' appointments and re-election – Re-election.			
	Re-election of director – PW Guta.			
	Re-election of director – AR Mpungwe.			
4	Determination of directors' remuneration.			
5	Fixing directors' sitting allowance.			
6	Re-appointment of Ernst & Young as auditors.			
7	Approval of dividend.			
8	**Special resolution:** To amend the memorandum and articles of association of the company to comply with the Companies Act 2013.			

Signed at ______________ on this __________ day of ______________ 2020

Signature ____

Assisted by me (where applicable) (see note 3) ______________________

Full name/s of signatory/ies if signing in a representative capacity (see note 4) ______________

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote in their stead. A proxy need not be a member of the company.
2. If this proxy form is returned without any indication as to how the proxy should vote, the proxy will be entitled to vote or abstain from voting as they think fit.
3. A minor must be assisted by their guardian.
4. The authority of a person signing a proxy in a representative capacity must be attached to the proxy unless the company has already recorded that authority.
5. In order to be effective, proxy forms must reach the registered office of the company (Illovo Sugar (Malawi) plc, Illovo House, Churchill Road, Private Bag 580, Limbe, Malawi) or the transfer secretaries (Standard Bank Limited Transfer Secretaries, Transactional Products and Services, Kaomba Centre, corner Sir Glyn Jones Road & Victoria Avenue, P O Box 1111, Blantyre, Malawi) by no later than 16h00 on Monday, 24 February 2020.
6. The delivery of the duly completed proxy form shall not preclude any member or their duly authorised representative from attending the meeting, speaking and voting instead of such duly appointed proxy.
7. If two or more proxies attend the meeting, then that person attending the meeting whose name appears first on the proxy form, or whose name is not deleted, shall be regarded as the appointed proxy.

SUGAR ILLOVO MALAWI

AN **ILLOVO SUGAR AFRICA** COMPANY