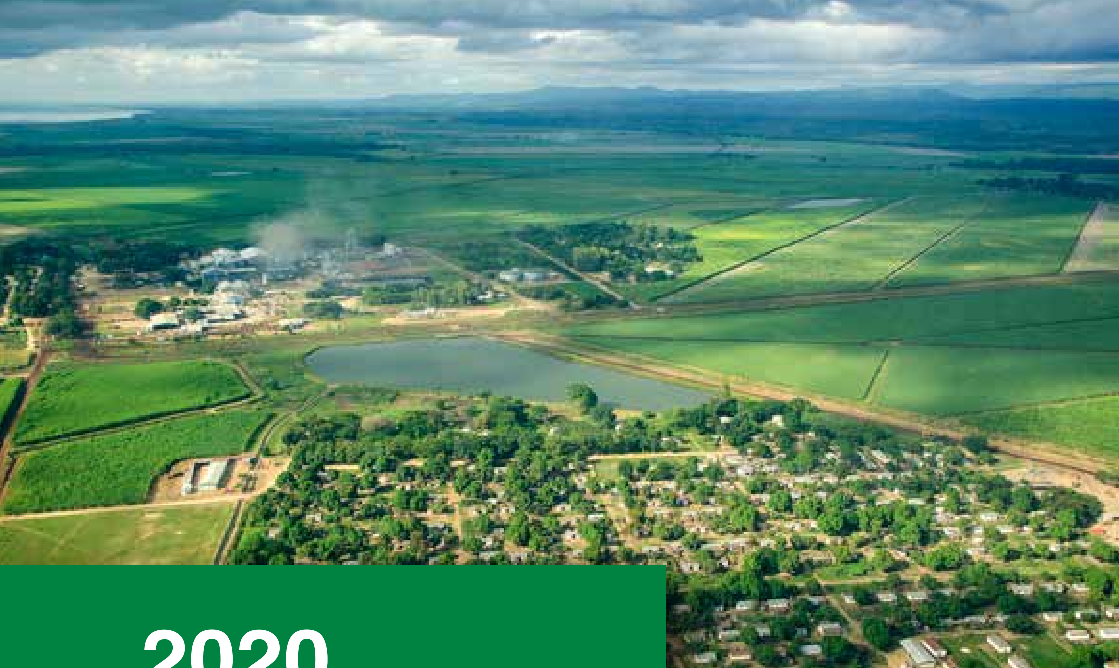


2020

ILLOVO SUGAR (MALAWI) PLC

ANNUAL REPORT FOR THE 12 MONTHS ENDED 31 AUGUST 2020

SUGAR ILLOVO MALAWI

AN **ILLOVO SUGAR AFRICA** COMPANY

2020

ILLOVO SUGAR (MALAWI) PLC

ANNUAL REPORT FOR THE 12 MONTHS ENDED 31 AUGUST 2020

CONTENTS

Creating a Thriving Malawian Community

Building Local Communities

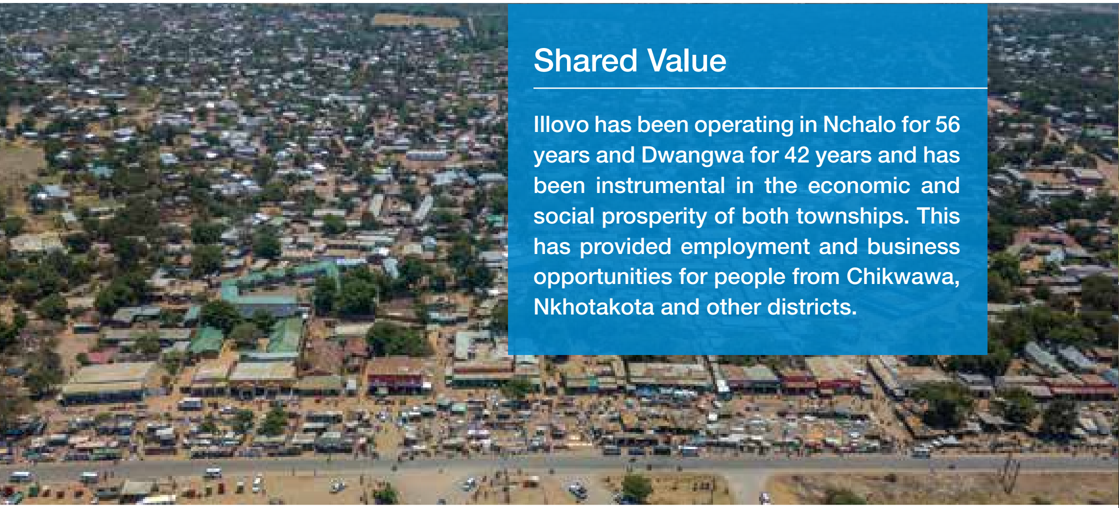
We are creating value with communities by providing housing to over 4 500 families on our estates. The company also constructs and undertakes rehabilitation projects of classrooms, ablution facilities and teacher accommodation in support of these families. Over 13 500 pupils attend estate schools which receive support from the company including provision of desks and learning materials.

Promoting Sustainable Agriculture

We utilize different irrigation systems to ensure sustainability in our agricultural practices. This allows for efficient use of water and securing of high annual crop yield of two million tons (average) of sugar cane, at both Nchalo and Dwangwa Estates.

Water to cultivate the cane, both rainfed and irrigated, is a valuable resource and our water stewardship strategy focuses on ways to reuse water, return it to source and to minimise its losses. Existing cane fields and farming activities are managed according to modern field conservation guidelines while all new agricultural and factory projects undergo environmental impact assessments prior to commencement. Our objectives are to ensure sustainable agricultural production with the least number of negative impacts on the environment, through equitable resource sharing with the Illovo community.

Creating a Thriving Malawian Community



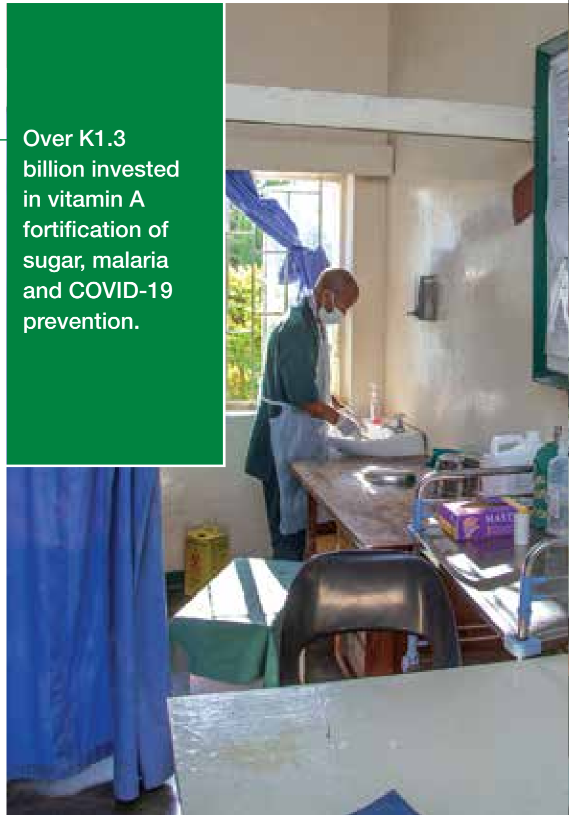
Shared Value

Illovo has been operating in Nchalo for 56 years and Dwangwa for 42 years and has been instrumental in the economic and social prosperity of both townships. This has provided employment and business opportunities for people from Chikwawa, Nkhotakota and other districts.

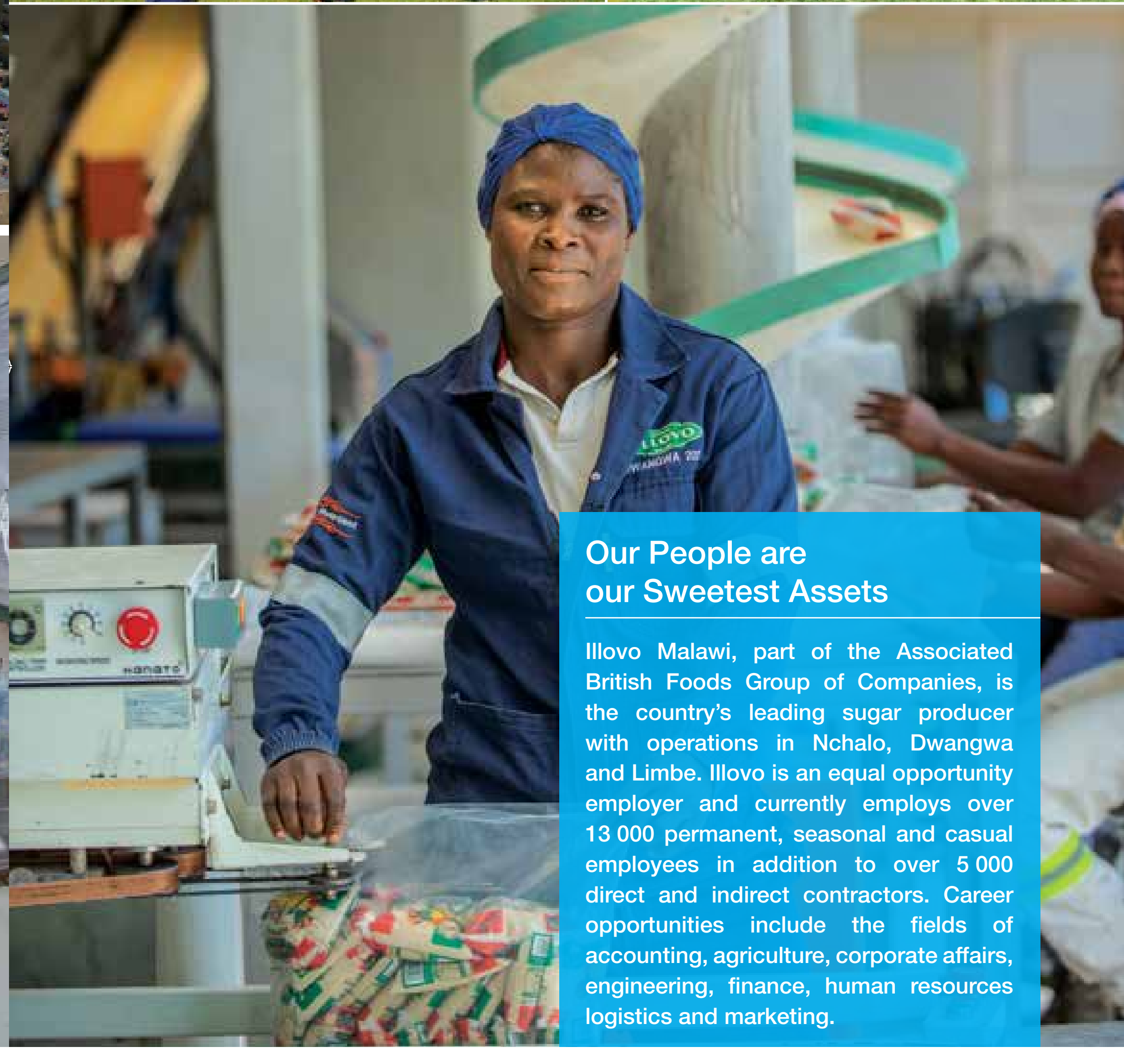
Our Contribution to Healthcare

(Building Healthy Communities)

Healthcare is provided on the estates and both estates are staffed with full time qualified doctors, supported by registered nursing staff. Maternity care is an important part of the healthcare service offered by Illovo's 8 clinics, whilst proactive programs to control malaria, bilharzia and HIV/AIDS feature amongst the other responsibilities carried out by the clinic's staff. In healthcare alone, the estate clinics treat on average of 25 000 patients each month covering both employees and members of the local communities. Anti-retroviral drugs are dispensed on behalf of the government through the clinic network. More recently, we supported our staff, their families and the surrounding communities with COVID-19 prevention initiatives.



Over K1.3 billion invested in vitamin A fortification of sugar, malaria and COVID-19 prevention.



Our People are our Sweetest Assets

Illovo Malawi, part of the Associated British Foods Group of Companies, is the country's leading sugar producer with operations in Nchalo, Dwangwa and Limbe. Illovo is an equal opportunity employer and currently employs over 13 000 permanent, seasonal and casual employees in addition to over 5 000 direct and indirect contractors. Career opportunities include the fields of accounting, agriculture, corporate affairs, engineering, finance, human resources logistics and marketing.

Illovo's Fight Against COVID-19

Illovo Sugar (Malawi) plc has already spent over K78 million in its fight against the spread of COVID-19. The company launched an internal campaign themed "it's in our hands", that called for individual responsibility towards preventing the spread of the disease.


1


2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1. Managing Director of Illovo Malawi Lekani Katandula making a donation to Director of Health and Social Service for Blantyre District Dr Gift Kawalazira.
2. Company Secretary, Corporate Affairs and Legal Head Maureen Kachingwe presenting donations to Blantyre City Council.
3. Engineers flown in by Illovo Sugar Africa private plane to assist with finalisation of QECH oxygen plant installation when flights were cancelled into the country due to the COVID-19 pandemic. Gray Bowden (left) and Ben Bucher leaving on their first flight to Cape Town to pick up the engineers.
4. Illovo Malawi supported local women and tailoring group's in Dwangwa, Limbe and Nchalo areas by awarding contracts with a total value of over K30 million to produce reusable fabric face masks for employees, their dependants and some surrounding communities. Photo of symbolic cheque presentation to DACCLA women's group of Nchalo by Nchalo GM Stuart Watson, DACCLA women's tailoring group representatives Gloria Mang'anda, Joyce Kamanga, Vaifa Khembo, Isabel Madziambala and Nchalo Community Services Manager Wilfred Ntengula.
5. Dwangwa donation of wash stations to the police services.

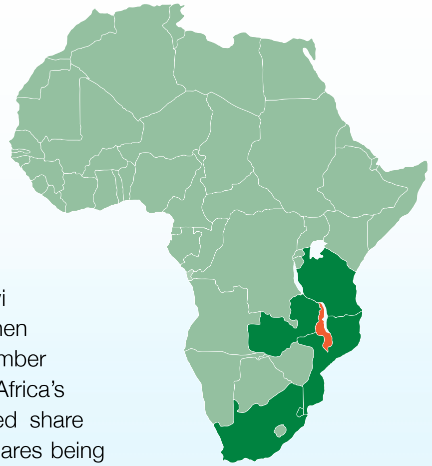
ILLOVO SUGAR (MALAWI) PLC

REPORT FOR THE YEAR ENDED 31 AUGUST 2020

KEY FEATURES

	2020	2019
Results (K million)		
Revenue	146 953	129 676
Operating profit	8 137	20 047
Net profit	2 739	10 083
Headline earnings	2 739	10 083
Share performance (tambala per share)		
Headline earnings	384	1 413
Dividends declared and paid	0.50	-
Net asset value	10 074	9 994
Year-end market price	8 050	21 000
Financial statistics		
Return on average shareholders' equity (%)	3.8	15.2
Return on net assets (%)	7.0	17.8
Interest cover (times)	2.1	3.7

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 Group Holdings Limited (Illovo/IGHL), 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. Illovo Malawi is part of the Associated British Foods group of companies.

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 almost two million tons of sugarcane on both estates which, combined with 440 000 tons of cane grown by Malawian growers, enables the production of over 260 000 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 half 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 permanent and seasonal employment for over 13 000 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 5 200 people through various smallholder farmer sugarcane schemes.

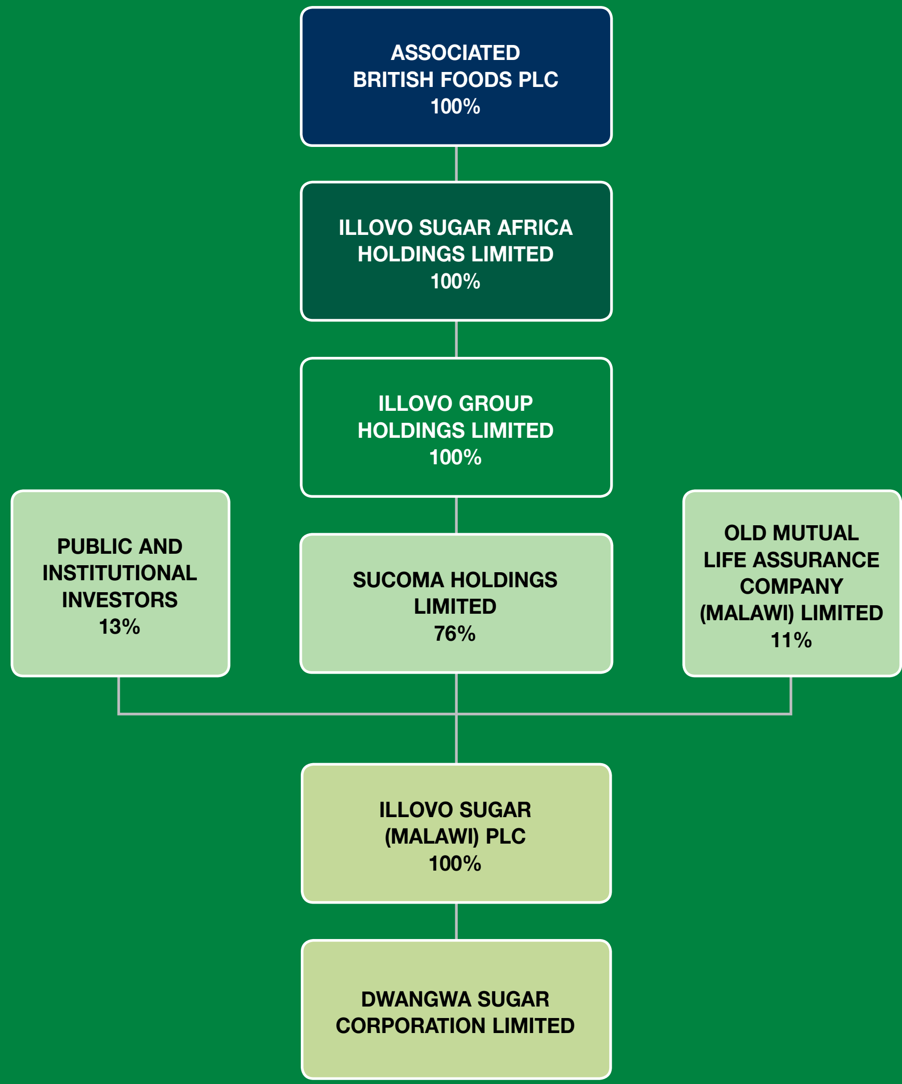
Malawi is classified as one of the world's Least Developed Countries (LDCs) on the United Nations Human Development Index. The prevailing low Gross Domestic Product (GDP) per capita results in generally high poverty levels particularly across Malawi's vast rural areas. Recognising the significant development needs of the communities in which it operates and to meet the company's stated objective to create "a thriving Malawian community" surrounding its areas of operation Illovo Malawi undertakes some corporate social responsibility (CSR) but mostly adopts the approach of creating shared value (CSV) initiatives. CSV initiatives are projects that generate sustainable economic benefits for both the targeted communities and the company. The initiatives may give rise to new suppliers/customers or strengthen existing small scale customers and suppliers. The group continues to partner with government, non-governmental organisations and other agencies to address development issues such as alleviation of poverty and contributing towards national food security and a healthy population.

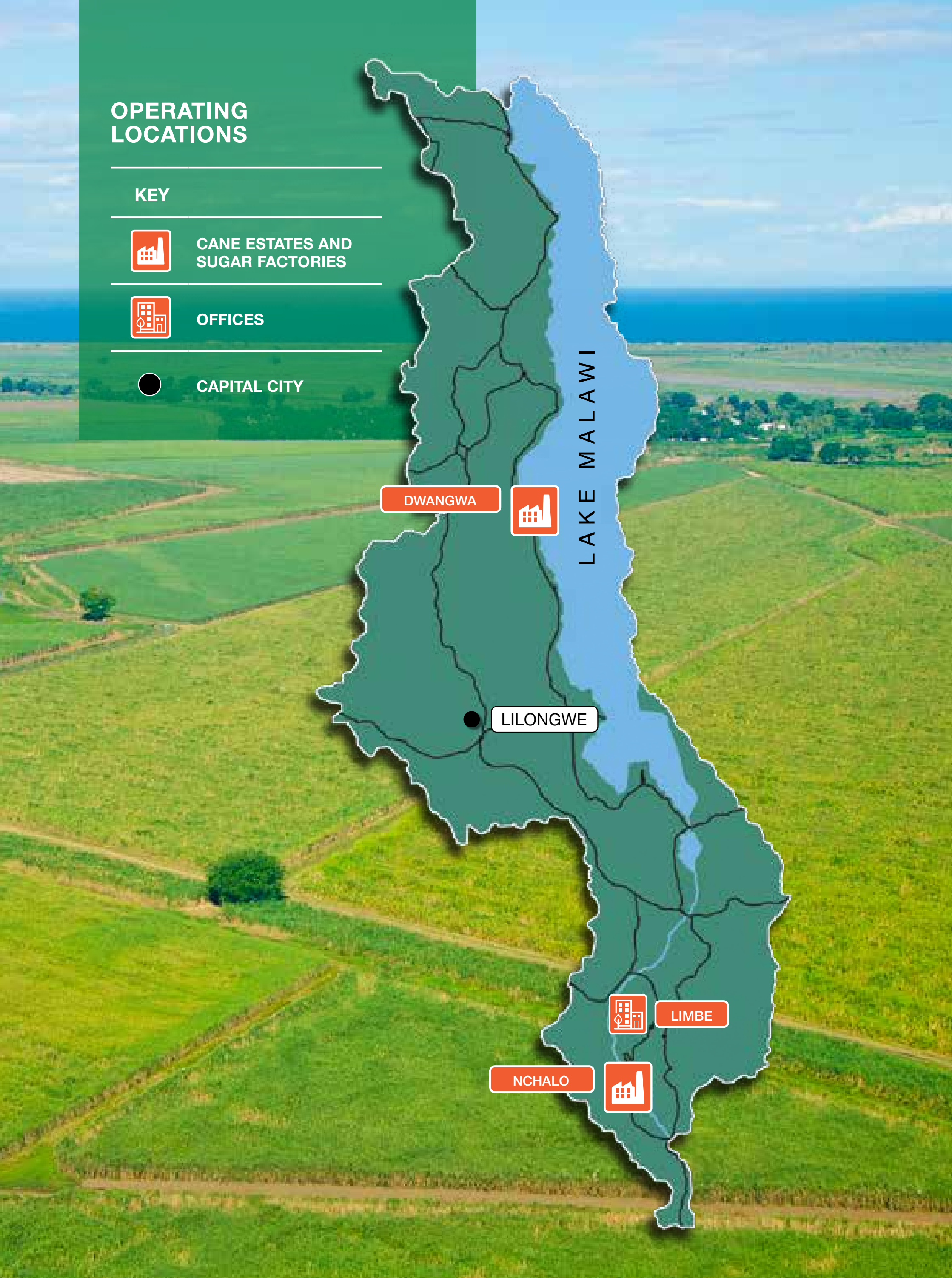
The group also fully recognises the essential role that a managed and protected environment plays in the growing of sugarcane used in the production of sugar and manages the impact of its activities, striving to maintain an environment which meets the needs of current and future generations and continuing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

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

GROUP STRUCTURE AND SHAREHOLDING





ILLOVO SUGAR (MALAWI) PLC

DIRECTORATE

CHAIRMAN – NON-EXECUTIVE

G B (Gavin) Dalgleish (54)

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.

EXECUTIVE DIRECTORS

K (Khumbo) Ntambo-Banda (32)

BSoc, BA(Psych), MA(HRM), CTP, MCIPD

Khumbo joined Illovo Sugar (Malawi) plc on 1 August 2018 as Organisation Development Specialist and was later appointed into the role of Organisational Effectiveness Manager as part of the Business Improvement team. Khumbo was appointed Human Resources Director in April 2020.

L L (Lekani) Katandula (45)

BAcc, FCCA, CA(Mw), CFA, CISA, MBA

Lekani was appointed as Managing Director on 1 April 2020 having previously served as Human Resources Director of Illovo Malawi from December 2017. He had until then served as Financial 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 and Telekom Networks Malawi plc. Lekani is also the deputy president of the Malawi Confederation of Chambers of Commerce and Industry (MCCCI) and chairman of the Public Private Partnership Commission (PPPC).

E M (Edward) Namboya (44)

BAcc, FCCA, CA(Mw)

Edward was appointed Finance Director of Illovo Malawi in December 2017 having joined the business 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 and half years and rose to the position of Senior Audit Manager responsible for audit, training and technical matters. He joined Press Corporation plc (PCL) 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

P W (Paul) Guta (48)

BSc(Hons), MSc(StratMgt), CertMkt

Paul served as the Managing Director of Nedbank Malawi Limited until April 2020. Previously Paul served in various management roles in corporate and retail banking both at Standard Bank Malawi and Nedbank Malawi Limited. From 1997 to 2003, he was in the oil industry with BP Malawi (now Puma Energy). He is the immediate past-President of the Bankers Association of Malawi (BAM) and chairman of the Institute of Bankers in Malawi (IOB) where he also served on the board of the SADCC Bankers Association (SADCC BA) until he exited his banking career. Until July 2020, he has been on the board of the Roads Fund Administration, where he was the chairman of the Operations and Administration Committee as well as a member of the Finance and Audit Committee. He is currently a board member and chairman of the Finance Committee of AMREF Health Africa Limited.

D N (Doug) Kasambala (50)

BSc, MBA (Finance), CGMA, ACMA

Doug is Illovo Sugar Africa Group Finance Director. He joined Illovo from KPMG UK in February where, as a director in their Corporate - Finance transformation practice, he led the manufacturing finance capability. Doug spent five years with KPMG, and prior to that, was a Finance transformation consultant with IBM for three years. Doug is CIMA-qualified, with a Bachelor of Science degree in Computer Science (University of Malawi) and an MBA in Finance (University of Nottingham). Prior to becoming a finance transformation consultant, Doug gained extensive industry finance experience in the FMCG sector having spent thirteen years with Unilever Plc working in roles that supported different regions including Europe, Africa and Asia in various functions including corporate audit, supply chain finance and enterprise services working as Finance Manager progressing to Finance Director. Before moving to the UK, Doug started his career in the banking industry in Malawi, working with the two largest banks, Commercial Bank (now Stanbic) and National Bank in their treasury and leasing departments.

Dr Grace Kumchulesi (42)

BSoc, MSc Econ, PhD Econ

Dr Grace Kumchulesi was appointed to the board of Illovo Malawi on 13 August 2019. Currently Grace is Director of Development Planning at the National Planning Commission. Previously Grace was Executive Director of the Economics Association of Malawi. 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. 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). 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, Botswana and Eswatini 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 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.

A (Andre) Lubbe (57)

BCom (Marketing), Bus Admin (Hons)

Andre was appointed to the board of Illovo Malawi in February 2020. He holds an honours degree from the University of Stellenbosch (SA) in business administration and first joined Illovo Sugar Africa in January 2017 as Group Commercial Director, a position he still holds. Prior to joining Illovo Sugar he spent over 25 years with SABMiller in South Africa and Africa holding various senior leadership positions. Before re-joining SABMiller Africa in 2011, he spent three years as Divisional Manager at Parmalat (SA). He also had the opportunity to work as Commercial Director for SABMiller in Nigeria for two years before returning to South Africa, where he joined the Africa office in Johannesburg as Head of Distribution and Route-to-Consumer Development with SABMiller Africa. Andre has extensive commercial and general management experience in FMCG and is passionate about brands and consumers.

P A (Phillip) Madinga (48)

BSocSci(Econ), BBM&A(Hons), MBA

Phillip was appointed as a director of Illovo Malawi in February 2017. Currently Phillip is Head of Personal and Business Banking at Standard Bank Malawi plc. Previously he was the Chief Commercial Manager - Business at NBS Bank plc. Before that 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 a Commissioner on the Malawi National Planning Commission.

A R (Ami) Mpungwe (69)

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 Remuneration and Nomination Committee.

Dr Naomi Ngwira (59)

PhD Agriculture Economics

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 then 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 organizations including Press Agriculture Limited and Nedbank (now MyBucks Banking Corporation). Currently she sits on the board of CDH and the program committee of the board of the African Economic Research Consortium based in Nairobi. She holds four degrees in Economics from Universities of Malawi, East Anglia and Michigan State.

R (Ravi) Savjani (31)

BSc (Hons) Economics, 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 served as a director until its acquisition in summer 2020. He is currently a consultant for financial services companies in the region. He is a member of the Risk Management Committee.

Directorate

Attendance at board and committee meetings during the year ended 31 August 2020

DIRECTOR	Board Meeting		Audit Committee Meeting		Risk Committee Meeting		Remuneration and Nomination Committee Meeting		Annual General Meeting	
	A	B	A	B	A	B	A	B	A	B
M A Bainbridge (1)	4	2	2	1	2	1	3	2	1	1
K Ntambo–Banda (2)	4	2	N/A	N/A	N/A	N/A	3	1	1	0
G B Dalgleish	4	4	2	2	2	1	3	3	1	1
P W Guta	4	4	2	2	N/A	N/A	N/A	N/A	1	1
D N Kasambala (3)	4	3	2	1	2	1	3	2	1	1
L L Katandula	4	4	2	1	2	0	3	3	1	1
G Kumchulesi	4	4	N/A	N/A	N/A	N/A	N/A	N/A	1	1
A Lubbe (4)	4	2	N/A	N/A	2	0	N/A	N/A	1	0
P A Madinga	4	3	2	2	N/A	N/A	3	NIL	1	1
A R Mpungwe	4	4	N/A	N/A	2	1	3	2	1	1
E M Namboya	4	4	2	2	2	2	N/A	N/A	1	1
N A Ngwira (5)	4	4	N/A	N/A	N/A	N/A	3	3	1	1
N Saayman (6)	4	2		2	2	1	N/A	N/A		1
R Savjani	4	4	N/A	2	2	1	N/A	N/A	1	1
C Taylor (7)	4	1		2	2	1	3	1		1

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 A Bainbridge resigned from the board with effect from March 2020.

2 K Ntambo-Banda was appointed to the board with effect from April 2020.

3 D N Kasambala was appointed to the board as well as a member of the Remuneration and Nomination Committee, Audit Committee and Risk Committee with effect from February 2020.

4 A Lubbe was appointed to the board as well as Chair of the Risk Committee with effect from February 2020.

5 N A Ngwira was appointed Chair of the Remuneration and Nomination Committee from February 2020.

6 N Saayman resigned from the board with effect from February 2020.

7 C Taylor resigned from the board with effect from January 2020.

DIRECTORS' REPORT

CHAIRMAN'S REPORT

Overview

The financial period under review spans the end of the 2019 crushing season and the commencement of the 2020 season.

In terms of operations for the year from September 2019 to August 2020 agricultural and factory operations progressed satisfactorily at both estates despite much drier weather than normal being experienced at the beginning of the year and Nchalo experiencing some plant mechanical problems towards the end of the previous crushing season in late November 2019. Overall, more favourable weather conditions together with an improved power supply from the Electricity Generation Company (EGENCO) with the increased lake and river levels supported our agricultural focused efforts to deliver an improved cane harvest and quality of crop. Pleasing cane yields continued from the drip irrigation conversions at Nchalo. However, yellow aphid, mielie bug and leaf roller infestations were cause for concern and again resulted in costly pest control measures. Grower cane yields at both estates also exceeded expectations and the business continued to deploy detailed strategic recovery plans to actively assist our grower community restore operational and financial stability. Despite the declaration of the COVID-19 pandemic as a National Disaster in Malawi by the then State President on 30 March 2020 and the subsequent implementation of lockdown measures in South Africa where most of our equipment and consultants needed for offcrop maintenance are sourced from, both plants managed to start up for the 2020 crushing season with Dwangwa starting up on scheduled time on 16 April 2020 while Nchalo had a two week delay and only started up on 2 May 2020 due to the delays in the delivery and installation of critical equipment like the shredder turbine arising from the effects of COVID-19 lockdown measures in South Africa and neighbouring countries. The onsite engineering teams overcame the challenges of commissioning mill equipment that is normally installed by specialist personnel from the original equipment manufacturers, with remote support. Once commissioned for start-up both mills have had a remarkable season and have exceeded expected performance with the Dwangwa mill breaking several long held records in the process. Strategic initiatives at both operations continue to deliver continuous improvement across the business with generally better factory throughputs, improved levels of production and time account performance coupled with an ongoing in-depth focus on product quality.

The focus on safety of all our employees and contractors deployed within the business and the surrounding communities remained a key area of attention. In terms of employee and contractor health, task force teams were put in place at each site to establish facilities and to develop policies and procedures, with a very regular cadence of meetings, to deal with all matters related to the global COVID-19 pandemic. Security issues at the sites remained an area of concern with frequent incidents of theft and increasing cases of assault of company employees.

Domestic sugar sales during the year were at times challenging against a background of the ongoing influx of informal sugar imports from neighbouring countries, notably Mozambique and Zambia, exacerbated by the weakening of domestic currencies in these bordering countries. Close engagement continued with both Government and the Malawi Revenue Authority (MRA) officials aimed at addressing these challenges which negatively impacted the profitability of the company as well as reducing the revenues for growers for their sugarcane sales. The illegal sugar trade also adversely impacted business cash flows and consequently on payments to the MRA. The commercial and logistics teams were very adaptive with a revised strategy to enhance sugar direct deliveries to customers. Further to that they also embarked on consumer promotional and activation initiatives with an optimised product portfolio. The company launched a promotion in mid-December 2019 which resulted in a reduction of its domestic sugar pricing in order to stimulate domestic sugar demand and help stem the influx of informal sugar imports. The end of the promotion in early March 2020 saw the group sustaining the 13.5% price rebase on domestic pre-packs. The price rebase resulted in a drop in sugar sales revenues and a loss in the fair value of growing cane but was mitigated by an increase in sugar sales volumes. These initiatives were further supported by the recently launched route to consumer strategic initiative to improve overall product offering and availability.

Export sugar revenues were also below expectation primarily as a result of logistical challenges with our main shipping lines arising from rehabilitation works taking place at the port of Nacala. In the second half of the year COVID-19 border formalities also hindered formal crossborder sugar trade. The export sales teams pursued every sales opportunity to ensure a continued flow of cash and much needed foreign currency into the business. In terms of quality of product and approach to service, the focus on the production, packing and storage of sugar proved to be positive, building on previous gains and initiatives.

With our ongoing focus on debt reduction, coupled with revenue and volume enhancement strategies as well as ongoing structural and cost rationalisation initiatives across the entire business value chain to drive business sustainability, positive results were realized. The initiatives continue to drive down the overall cost of sugarcane growing and sugar production and ensures the development of a business that meets the needs of all stakeholders. The reduction of debt levels and a decrease in domestic interest rates resulted in net finance costs decreasing. During the year under review the company also successfully implemented a new operating model and restructured its managerial positions at all the three locations. The group also continued with its efforts to implement identified opportunities and deploy strategies aimed at sustainably resetting the overall cost base of the business along the entire value chain to augment overall profitability. These efforts continue to deliver expected results. New capital items at both locations were limited to essential business needs and were well executed on time and on budget focusing on improved cost, quality and operational efficiencies.

Prospects

The continuing positive effects of the Nchalo agricultural recovery plans, the ongoing structural changes within the agronomy sections at both estates, together with a return to more normal weather patterns and continuing improvements in EGENCO electricity supply, coupled with the ongoing focus on grower sustainability and viability, should continue to impact positively on overall agricultural performance on both own and smallholder farmer operations. In terms of milling operations, both Dwangwa and Nchalo factories will continue to address plant operational and performance parameters to build on the good work presently underway in terms of milling capacity and reliability.

On the commercial front 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 ongoing focus on the route to consumer strategy including the delivery of the product imperatives along the entire sugar value chain including affordability, quality and warehousing and logistics. Sugar exports, into very challenging regional and deep water markets, compounded by the COVID-19 related logistical challenges, will continue to be an area of focus for the commercial teams who will strive to optimise value in every ton of sugar sold and will develop markets to fully exploit all revenue growth opportunities.

The country's economic environment including inflation, exchange and interest rate fluctuations together with the internal debt levels of the company, exacerbated by effects of the COVID-19 pandemic, will continue to have a marked effect on overall business profitability. Ongoing performance, efficiency and cost control strategies that have been implemented, and continue to be deployed, will drive down the overall cost of production, improve operating margins into the future to build real business sustainability and deliver positive free cash flows. This will be underpinned by the continuing rationalisation and upliftment of skills and performance levels across the entire workforce.

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

MANAGING DIRECTOR'S REPORT

The last financial year was a period of significant change and challenge as we continue to implement our key strategic priorities that we believe will deliver long term sustainable profitability for the business and achieve our purpose of creating a thriving Malawian community.

At the heart of our transformational change program has been the implementation of a new Operating Model. This restructuring of our business will create the foundation for our future sustainability and I'm pleased to report that we successfully concluded the first phase of this significant change process in April 2020.

The health and safety of our people remains at the core of our values and we continue to strive to ensure that everyone who works for Illovo goes home as safe as they were when they arrived. I am very proud at the way our people responded to the COVID-19 pandemic and I'm pleased to say that due to strict adherence to protocols there have been minimal COVID-19 related issues. Our overall number of Lost Time Injuries (LTI's) for the year was seven, two more than our target. Dwangwa successfully piloted a unique behavioural approach to safety based on the principle of individual positive choice when faced with safety decisions and we intend to extend this across the business over the next year.

Despite our domestic market being under significant pressure through a combination of political instability, a slowing economy, currency depreciation in neighbouring countries and the influx of formal and informal imports we finished the year strongly with domestic sales of 147 000 tons, ahead of our re-forecast, albeit behind the budget of 150 000 tons. The combination of our Route to Consumer initiative and the various pricing strategies deployed throughout the year ensured we minimised the impact on market share and revenue loss. Export revenues were also below expectations with COVID-19 hampering sales to Rwanda and Europe in particular.

Quality remains a major focus for us and whilst we have seen a reduction in the number of domestic market related customer complaints our export product quality has not been to the standard that we expect so this is a key area of focus for us going forward.

Agricultural operations have performed well with both MCP cane yield at Nchalo and Grower cane yields at both estates exceeding expectations. Overall sucrose contents are above budgeted values. It is pleasing to see the investment in drip irrigation at Nchalo delivering the improvements in line with our targets. We continue to work hard with our Growers through their umbrella body SUGAM and the Government to resolve the issues regarding the price of sucrose and we are confident of a satisfactory outcome.

Despite the delay to the start of the season at Nchalo both factories have achieved consistently high throughputs and consequently we exceeded our budgeted sugar production volumes by more than 4 000 tons. Dwangwa's performance in particular has been excellent and it stands out as one of the best performing factories in the wider Illovo group. Nchalo has seen a noticeable improvement in reliability resulting in a production increase of circa 10 000 tons compared to the previous year.

Our aspiration to achieve a cost of $450/t or less by 2022 continues to gain traction and we concluded the year at $533/t, $17/t lower than the 2020 target. Our business transformation programmes delivered significant cost reduction and we expect this to continue as we reset the cost base of the business.

Total operating profit for the year totalled K8.1billion against an earlier forecast of K1.9 billion and the previous year's final operating profit of K20.0 billion. Finance costs ended the year at K3.9 billion against the previous year's K5.4 billion.

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 2020.

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 a complete 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 six 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 four directors, all of whom are non-executive. 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.

Risk Management Committee

The risk management committee is chaired by a non-executive director. A comprehensive risk assessment audit is undertaken twice per annum of factors which could have a material impact on the group results. Due to the impact of the COVID-19 pandemic the committee met only once as the risk function needed to conduct a wider review of the existing Enterprise Risk Management (ERM) process to enhance the risk assessment and re-scope risk dimensions where necessary.

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.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises four 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 developed 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 its effectiveness. The systems are designed to safeguard the group's assets and shareholders' investments.

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 Creating Shared Value (CSV) and Corporate Social Responsibility (CSR) 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.

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 domestic consumption with vitamin A while several community-focussed construction and rehabilitation projects were undertaken during the year.

Illovo Malawi plays a significant role within the Malawian economy in terms of 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 ongoing business sustainability.

The group remained a strong supporter of smallholder sugarcane schemes in terms of capacity, material and various technical inputs. Over 8% 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 18% 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.

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 70 000 people live on the group's premises at Dwangwa and Nchalo.

Housing is provided to more than 4 500 employees and their family units. The houses are serviced and electricity, clean drinking water and services, including sewerage and waste disposal, are provided. Ongoing housing upgrades continued during the year.

In total, eight company-run clinics, which are staffed by medical doctors and other qualified health personnel operate on both estates. 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.

A global health crisis was experienced from December 2019 which spread in earnest during 2020 causing suffering and hardship for many people across the world including our staff . In line with the group's objective of creating thriving and healthy communities the company played a key role in putting in place interventions aimed at lessening the negative impact of COVID-19 on staff and communities. Interventions were both clinical and non-clinical such as supplying chlorinated water to communities and over 72 000 face masks to staff and their family members. The group continued to provide HIV interventions and 4 623 employees and their dependents attended voluntary HIV / AIDS counselling and testing programmes, with 4 122 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 particularly in children under five years of age reaching an estimated two million people.

There are 13 615 pupils attending estate schools which are supported by the group. The group also continued its active involvement in school feeding programmes.

Illovo changed its operating model as one of the elements towards the achievement of its 2022 Growth Ambition through the Fit4Future Project. The new operating model went live across the group in April 2020 introducing new ways of working and changes in roles structures. Employee representatives were fully consulted and participated in the process of implementing the new model. 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 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. During the year the group introduced the IllovoSafe Academy, an immersive e-learning platform with modules that are considered fundamental for a manager to influence behaviour and lead his / her team in working safely. The modules will also equip every person in a management role with the minimum knowledge required to execute their duties and to create a safe working environment in terms of occupational health and safety legislation.

In its three pillars of sustainability the group recognises the need to consume resources responsibly in the process of 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. In May 2020, the South African Bureau of Standards (SABS), conducted a virtual risk assessment of Food Safety System Certification (FSSC 22000) in lieu of a surveillance audit due to COVID-19. The virtual assessment resulted in the existing FSSC 22000 certification being upheld.

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.

	2020 K million	2019 K million
Wealth created		
Revenue	146 953	129 676
Income from investments	28	2
Paid to growers for cane purchases	(12 110)	(14 973)
Cane growing and manufacturing costs	(91 779)	(60 178)
	43 092	54 527
Wealth distributed		
To employees as salaries, wages and other benefits	26 554	25 906
To lenders of capital as interest	3 880	5 367
To shareholders as dividends	357	-
To the government as taxation	4 566	5 789
	35 357	37 062
Wealth reinvested		
Retained profits in holding and subsidiary company	2 382	10 083
Depreciation	6 836	5 292
Deferred taxation	(1 483)	2 090
	7 735	17 465
	43 092	54 527
Analysis of taxes paid to and collected on behalf of the government		
Central and local government		
Current taxation	2 372	3 802
Customs duties, import surcharges and other taxes	2 194	1 987
Total contribution to central and local government	4 566	5 789
The above amount contributed excludes the following:		
- employees taxation deducted from remuneration	4 969	4 500
- net VAT amount collected on behalf of the government	6 848	5 661
- withholding taxes	2 540	2 554
	14 357	12 715
Total contributed to government	18 923	18 504

REVIEW OF FIVE PERIODS

K million	12 month ended 31-Aug -20	12 month ended 31-Aug-19	12 month ended 31-Aug-18	5 month ended 31-Aug-17	12 month ended 31-Mar-17
Statements of profit and loss and other comprehensive income					
Revenue	146 953	129 676	141 760	49 099	124 035
Operating profit	8 137	20 047	30 197	12 696	18 702
Dividend income	28	2	31	1	63
Net finance costs	(3 880)	(5 367)	(5 901)	(1 733)	(7 846)
Profit before taxation	4 285	14 682	24 327	10 964	10 919
Net profit for the period	2 739	10 083	16 449	7 735	7 080
Headline earnings	2 739	10 083	16 449	7 735	7 080
Dividends paid	(357)	-	-	-	-
Reconciliation of headline earnings					
Net profit for the period	2 739	10 083	16 449	7 735	7 080
Adjustments	-	-	-	-	-
Headline earnings	2 739	10 083	16 449	7 735	7 080
Statements of financial position					
Shareholders' equity	71 874	71 298	60 939	43 885	36 622
Deferred tax	19 059	21 420	19 212	15 112	19 913
Malawi government vitamin A grant	212	220	227	234	-
Interest-bearing debt	18 438	30 389	22 194	23 565	24 296
Total funding	109 583	123 327	102 572	82 796	80 831
Property, plant and equipment	55 498	56 144	50 481	41 252	38 268
Right of use assets	2 558	-	-	-	-
Investments	494	463	-	-	-
Current assets - cash	318	722	249	33	146
Current assets - other	87 505	103 343	88 126	81 164	63 753
Total assets	146 373	160 672	138 856	122 449	102 167
Other current liabilities	(36 790)	(37 345)	(36 284)	(39 653)	(21 336)
Net assets	109 583	123 327	102 572	82 796	80 831

REVIEW OF FIVE PERIODS
(continued)

	Note		12 month ended 31-Aug -20	12 month ended 31-Aug-19	12 month ended 31-Aug-18	5 month ended 31-Aug-17	12 month ended 31-Mar-17
Earnings and dividends							
Basic and diluted earnings per share	1	tambala	384	1 413	2 306	1 084	992
Headline earnings per share	2	tambala	384	1 413	2 306	1 084	992
Dividends declared and paid per share		tambala	0.50	-	-	-	-
Dividend cover on headline earnings	3	times	767	-	-	-	-
Financial statistics							
Return on average shareholders' equity	4	%	3.8	15.2	31.4	19.2	17.0
Return on net assets	5	%	7.0	17.8	32.6	15.5	19.7
Debt to equity	6	%	25.2	41.6	36.0	53.6	66.1
Gearing	7	%	20.1	29.4	26.5	34.9	39.7
Interest cover	8	times	2.1	3.7	5.1	7.3	2.4
Net asset value per share	9	tambala	10 074	9 994	8 542	6 151	5 133

Notes

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.

REVIEW OF FIVE PERIODS
(continued)

	12 month ended 31-Aug -20	12 month ended 31-Aug-19	12 month ended 31-Aug-18	5 month ended 31-Aug-17	12 month ended 31-Mar-17
Operational statistics					
Cane harvested (hectares)	17 579	18 656	17 758	11 795	19 412
Nchalo	11 087	12 399	11 764	8 168	12 925
Dwangwa	6 492	6 257	5 994	3 627	6 487
Tons cane per hectare (weighted average)	100	94	92	90	89
Nchalo	93	85	82	83	82
Dwangwa	115	114	112	108	102
Cane crushed (tons)	2 205 560	2 165 085	2 006 423	1 260 834	2 084 725
Nchalo	1 027 073	1 051 506	970 061	676 996	1 058 720
Dwangwa	737 370	707 213	662 533	389 894	662 337
Growers	441 117	406 366	373 829	193 944	363 668
Sucrose percent (weighted average)	14.29	14.14	14.02	13.97	13.98
Nchalo	14.01	13.85	13.78	13.91	13.63
Dwangwa	14.71	14.52	14.42	13.90	14.42
Growers	14.25	14.26	13.97	14.34	14.21
Sugar produced (tons)	263 634	252 375	230 020	146 568	239 951
Nchalo	139 914	135 950	122 203	84 704	128 689
Dwangwa	123 720	116 425	107 817	61 864	111 262
Analysis of sugar sales by destination (tons)	272 788	215 141	227 321	79 420	244 671
Domestic market	147 242	137 716	170 792	59 575	137 606
Export market	125 546	77 425	56 529	19 845	107 065

ILLOVO SUGAR (MALAWI) PLC

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2020

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 pages 6 and 7.

2. REVIEW OF OPERATIONS

Detailed commentary is given in the directors' report on pages 18 to 22.

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 pages 86 and 87 of the financial statements. There have been no changes in the current year.

5. SHAREHOLDERS

An analysis of shareholders and their shareholdings is given on page 136.

The register of members reflects five beneficial shareholdings equal to or greater than 1% of the issued ordinary share capital. Details are given on page 136.

6. DIVIDENDS

On 25 November 2020 the directors recommended a final dividend of 200 tambala per share (2019: 50 tambala per share) to be declared at the forthcoming annual general meeting on 25 February 2021 to shareholders registered in the company's books at close of business on 12 March 2021 and payable on 31 March 2021.

The directors of the wholly owned and only subsidiary of the company, Dwangwa Sugar Corporation Limited, did not pay any dividends (2019: K nil) to the company during the year.

7. SUBSIDIARY COMPANY

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

8. 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 8 and 11 to 16 respectively.

M A Bainbridge resigned from the board with effect from March 2020. K Ntambo-Banda was appointed to the board with effect from April 2020. D N Kasambala was appointed to the board as well as a member of the Remuneration and Nomination Committee, Audit Committee and Risk Committee with effect from February 2020. A Lubbe was appointed to the board as well as Chair of the Risk Committee with effect from February 2020. N A Ngwira was appointed Chair of the Remuneration and Nomination Committee from February 2020. N Saayman resigned from the board with effect from February 2020. C Taylor resigned from the board with effect from January 2020.

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, P A Madinga, N A Ngwira and R Savjani will retire and being eligible, and after consideration and recommendation by the Remuneration and Nomination 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 Remuneration and Nomination Committee, offers himself for re-election.

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

	2020		2019	
	Direct	**Indirect**	Direct	Indirect
E M Namboya	**13 200**	**0**	13 200	0

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

9. DIRECTORS' FEES

At the last annual general meeting 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 2019. At the forthcoming annual general meeting it will be proposed to increase the fees to K 3 400 000 and K 160 000 respectively.

10. 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 Holdings (incorporated in the United Kingdom) owns 100% shareholding in Illovo Group Holdings Limited which in turn, owns 100% shareholding in SUCOMA Holdings Limited.

11. AUDITOR

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

12. SPECIAL RESOLUTIONS

During the financial year there were no special resolutions adopted.

13. POST BALANCE SHEET / YEAR END EVENTS

On 25 November 2020 the board recommended a final dividend of 200 tambala per share (2019: 50 tambala per share).

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 (EY), audited the financial statements and the auditor's report is presented on pages 42 to 47.

The annual financial statements of the group and the company which appear on pages 48 to 135 were approved by the board of directors on 25 November 2020 and are signed on its behalf by:

G B Dalgleish
Chairman
25 November 2020

L L Katandula
Managing Director

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 48 to 135 which comprise the consolidated and separate statements of financial position as at 31 August 2020 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 2020, 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 carries growing cane of K22.8 billion and K16.7 billion respectively.

This represents 15.59% of total assets and 25.99% of current assets for the consolidated statement of financial position and 16% of total assets and 26.36% 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

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.

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

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 expert, 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 the requirements of the International Financial Reporting Standards.

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OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the key features, group structure and shareholding, corporate information, directors' report, corporate governance, value added statement, review of five periods, statutory information and approval of annual financial statements included in the annual report of Illovo Sugar (Malawi) plc for the year ended 31 August 2020. 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,

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

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 skepticism 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 Chihana
Registered Practicing Accountant
25 November 2020

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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 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 Kwacha 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 the Companies Act 2013 of Malawi.

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 IFRS 16 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 2020:

	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)	22 831	-	-	22 831
Foreign exchange forward contracts (note 17)	(145)	-	(145)	-
Unlisted investment (note 7)	494	-	-	494

For trade receivables, trade payables, short term borrowings and amounts due and from related parties, the carrying amounts as at 31 August 2020 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 acquiree 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.

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 payments 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 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 (EMPLOYEE BENEFIT OBLIGATIONS)

The group operates a defined contribution plan, the SUCOMA Group Pension Scheme, which receives fixed contributions from the group. The contributions by the group are recognised as an expense in the year in which the related services are rendered by employees. The group's constructive or legal obligation is limited to these contributions.

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.

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 (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 2020.

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 Ethanol Company 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 2020.

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 27.5.

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 trade receivables 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.

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 and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification.

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.

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 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.

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 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 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 commissions to Illovo Group Marketing Services (IGMS) 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 an obligation 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 group's performance obligations are summarized below:

The performance obligation for domestic revenue is satisfied upon dispatch of sugar from the warehouses. 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 arrangements 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.

1.19 EMPLOYEE BENEFIT COSTS

The cost of providing employee benefit costs 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 BORROWING COSTS

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

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

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

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.

1.22 LEASES

The group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

The group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term and the estimated useful lives of the assets, as follows:

- Plant and machinery 3 to 7 years.
- Buildings 2 to 10 years.
- Land up to 99 years.

If ownership of the leased asset transfers to the group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

(ii) Lease liabilities

At the commencement date of the lease, the group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the group and payments of penalties for terminating the lease, if the lease term reflects the group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

(iii) Short-term leases and leases of low-value assets

The group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Comparatively, the following accounting policies were applied in the prior period:

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

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

In the capacity of a lessor

Rental income from operating leases was 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 were 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 were also spread on a straight-line basis over the term of the lease.

Assets held under finance leases were 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 was included in the statement of financial position as a finance lease obligation. Lease payments were 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 were charged to profit or loss, unless they are directly attributable to qualifying assets, in which case they were 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 board of directors.

Dividends that are declared after the reporting date but before the financial statements are authorised for issue by the 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) that are relevant to its operations and are effective for annual reporting periods beginning on 1 September 2019.

2.1.1. Changes in accounting policies

New and amended standards and interpretations

IFRS 16 Leases

IFRS 16 supersedes 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*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the group is the lessor.

The group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 September 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The group elected to use the transition to not reassess whether a contract is, or contains a lease at 1 September 2019. Instead, the group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The effect of adoption IFRS 16 as at 1 September 2019 (increase/(decrease) is as follows:

	Group K million	Company K million
Assets		
Right-of-use assets	2 392	2 032
Total assets	2 392	2 032
Liabilities		
Lease liabilities	3 965	2 910
Deferred tax liabilities	817	264
Trade and other payables*	(724)	(499)
Total liabilities	4 058	2 675
Total adjustment on equity		
Retained earnings	(1 666)	(643)

*Trade and other payables related to previous operating leases which were derecognised.

Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The group has lease contracts for various items of plant, machinery, other equipment and warehouses. Before the adoption of IFRS 16, the group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of IFRS 16, the group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the group.

Leases previously accounted for as operating leases

The group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for all leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application.

The group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application.
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

The following table shows the operating lease commitments as at 31 August 2019:

	2020 K million	2021 K million	2022 K million	2023 K million	2024 K million	2025 K million	Total K million
Group	3 612	2 522	1 637	1 637	1 587	2 193	13 188
Company	2 048	1 590	1 583	1 583	1 570	1 564	9 938

The lease liabilities as at 1 September 2019 can be reconciled to the operating lease commitments as of 31 August 2019, as follows:

	Group K million	Company K million
Operating lease commitments as at 31 August 2019	13 188	9 938
Weighted average incremental borrowing rate as at 1 September 2019	18.75%	18.75%
Discounted operating lease commitments as at 1 September 2019	8 849	6 370
Less:		
Commitments relating to short-term leases	(4 884)	(3 460)
Lease liabilities as at 1 September 2019	3 965	2 910

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.

Standard, Amendment or Interpretation	Description
Amendments to IFRS 3: Definition of a Business, amendments effective from 1 January 2020	The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated 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 output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated and separate financial statements of the group, but may impact future periods should the group enter into any business combinations.
Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform, amendments effective from 1 January 2020	The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated and separate financial statements of the group as it does not have any interest rate hedge relationships.
Amendments to IAS 1 and IAS 8: Definition of Material, amendment effective 1 January 2020	The amendments provide a new definition of material that states, "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." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated and separate financial statements of, nor is there expected to be any future impact to the group. The IASB, however, issued another amendment on 1 January 2020 to IAS 1: Classification of liabilities as Current or Non-current that's effective for annual reporting period beginning on or after 1 January 2023 and must be applied retrospectively.
Conceptual Framework for Financial Reporting issued on 29 March 2018. The IASB, however, issued other amendments in May 2020. Amendments to IFRS 3 – Reference to the Conceptual Framework	The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated and separate financial statements of the group. These amendments are effective for annual periods beginning on or after 1 January 2020 and apply prospectively.

Amendments to IFRS 16: COVID-19 Related Rent Concessions	On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the group.
Amendments to IAS 16: Property, Plant, and Equipment: Proceeds before Intended Use	In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the group.

Amendments to IAS 37: Onerous Contracts – Costs of Fulfilling a Contract	In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.
Amendment to IFRS 1: First-time Adoption of International Financial Reporting Standards – Subsidiary as first-time adopter	As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

Amendment to IFRS 9: Financial Instruments – Fees in the '10 per cent' test for de-recognition of financial liabilities	IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the group.
Amendment to IAS 41: Agriculture – Taxation in fair value measurements	As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the group.

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

FOR THE YEAR ENDED 31 AUGUST 2020

		GROUP		COMPANY	
		2020	2019	2020	2019
	Notes	K million	K million	K million	K million
Revenue from contracts with customers	2	146 953	129 676	80 187	69 532
Operating profit/(loss)	3	8 137	20 047	(5 707)	6 701
Dividend income		28	2	-	-
Finance costs	4	(3 902)	(5 395)	(2 088)	(3 760)
Interest income from effective interest rate	4	22	28	22	28
Profit before taxation		4 285	14 682	(7 773)	2 969
Income tax expense	5	(1 546)	(4 599)	2 184	(1 130)
Net profit for the year		2 739	10 083	(5 589)	1 839
Other comprehensive income					
Items that may be reclassified to profit or loss in subsequent periods:					
Cash flow hedges		(232)	(69)	(232)	(69)
Tax effect of the cash flow hedges	13	70	21	70	21
Other comprehensive income relating to cash flow hedges	17	(162)	(48)	(162)	(48)
Items that will not be reclassified to profit or loss in subsequent periods:					
Net gain/(loss) on equity instruments designated at fair value through other comprehensive income	7	31	(46)		
Tax effect on valuation of unlisted investment	7	(9)	14		
Other comprehensive income relating to valuation of unlisted investments	7	22	(32)		
Total other comprehensive income		(140)	(80)	(162)	(48)
Total comprehensive income/(loss) for the year		2 599	10 003	(5 751)	1 791
Basic and diluted earnings per share (tambala)	22	384	1 413		

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

AS AT 31 AUGUST 2020

	Notes	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
ASSETS					
Non-current assets					
Property, plant and equipment	6	55 498	56 144	38 970	39 492
Right of use assets	20	2 558	-	1 550	-
Investments	7	494	463	324	324
		58 550	56 607	40 844	39 816
Current assets					
Inventories	8	46 919	55 477	27 741	33 905
Growing cane	9	22 831	27 631	16 651	18 676
Trade and other receivables	10	15 891	19 212	14 784	18 031
Amount due from related parties	15.7.1	1 864	936	3 668	936
Derivative financial assets	17	-	87	-	87
Bank balances and cash	11	318	722	318	721
		87 823	104 065	63 162	72 356
Total assets		146 373	160 672	104 006	112 172
EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital and premium		782	782	782	782
Fair value reserve		346	324		-
Hedging reserves		(101)	61	(101)	61
Retained earnings		70 847	70 131	14 498	21 087
		71 874	71 298	15 179	21 930
Non current liabilities					
Malawi government vitamin A grant	12	212	220	181	188
Lease liabilities	20	1 858	-	853	-
Deferred tax	13	19 059	21 420	11 967	14 485
		21 129	21 640	13 001	14 673
Current liabilities					
Trade and other payables	14	26 643	32 344	22 847	24 142
Contract liabilities	14.1	795	936	795	936
Lease liabilities	20	1 875	-	1 567	-
Amount due to related parties	15.7.2	4 498	1 670	33 892	19 630
Short-term borrowings	16	15 019	15 094	15 019	15 094
Bank overdrafts	11	1 561	15 295	1 561	15 295
Derivative financial liabilities	17	145	-	145	-
Income tax liability		2 834	2 395	-	472
		53 370	67 734	75 826	75 569
Total equity and liabilities		146 373	160 672	104 006	112 172

The responsibilities of the group's directors with regard to the preparation of the financial statements are set out on page 41. The financial statements on pages 48 to 135 were approved and authorised for issue by the board of directors on 25 November 2020 and were signed on its behalf by:

G B Dalgleish (Chairman)

L Katandula (Managing Director)

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 AUGUST 2020

	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 1 September 2018	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
-cashflow 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
Balance as at 1 September 2019	14	768	324	61	70 131	71 298
Effect of adoption of IFRS 16 Leases	-	-	-	-	(1 666)	(1 666)
Balance at 1 September 2019(restated)	14	768	324	61	68 465	69 632
Total comprehensive income for the year			22	(162)	2 382	2 242
- profit for the year	-	-	-	-	2 739	2 739
- cash flow hedges	-	-	-	(162)	-	(162)
- fair value loss on revaluation of investment	-	-	22	-	-	22
Dividends declared and paid	-	-	-	-	(357)	(357)
Balance at 31 August 2020	14	768	346	(101)	70 847	71 874

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 AUGUST 2020

(CONTINUED)

	Share Capital K million	Share Premium K million	Fair Value Reserve K million	Hedging Reserves K million	Retained Earnings K million	Total K million
COMPANY						
Balance at 1 September 2018	14	768	-	109	19 248	20 139
Total comprehensive loss 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
Balance as at 1 September 2019	14	768	-	61	21 087	21 930
Effect of adoption of IFRS 16 Leases	-	-	-	-	(643)	(643)
Balance as at 1 September 2019 (restated)	14	768	-	61	20 444	21 287
Total comprehensive income for the year			-	(162)	(5 946)	(6 108)
- loss for the year			-	-	(5 589)	(5 589)
- cash flow hedges			-	(162)	-	(162)
Dividends declared and paid			-	-	(357)	(357)
Balance at 31 August 2020	14	768	-	(101)	14 498	15 179

ANALYSIS OF SHARE CAPITAL AND PREMIUM

	GROUP AND COMPANY	
	2020 K million	2019 K million
Authorised share capital		
1 000 000 000 (August 2019: 1 000 000 000) ordinary shares of 2 tambala each	20	20
Issued share capital	14	14
713 444 391 (August 2019: 713 444 391) ordinary shares of 2 tambala each	768	768
Share premium	782	782

The hedging reserve arises in respect of foreign currency forward sales contracts in place at 31 August 2020 which mature in the new financial year. The fair value reserve relates to fair valuation as at 31 August 2020 in respect of the investment in Ethanol Company Limited.

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 AUGUST 2020

	Notes	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
Cash flows from operating activities					
Cash operating profit	a	21 855	23 809	3 347	8 386
Working capital requirements	b	7 933	(11 466)	19 505	(1 129)
Cash generated from operations		29 788	12 343	22 852	7 257
Finance costs	c	(3 875)	(5 228)	(2 066)	(3 593)
Interest income	4	22	28	22	28
Income tax paid	d	(2 372)	(3 802)	(566)	(3 766)
Net cash inflows/(outflows) from operating activities		23 563	3 341	20 242	(74)
Cash flows from investing activities					
Purchase of property, plant and equipment	6	(6 190)	(10 989)	(4 832)	(7 533)
Proceeds on disposal of plant and equipment		36	59	1	20
Dividend income		28	2	-	-
Net cash outflows from investing activities		(6 126)	(10 928)	(4 831)	(7 513)
Net cash inflows before financing activities		17 437	(7 587)	15 411	(7 587)
Cash flows from financing activities					
Long-term borrowings repaid			(3 782)		(3 782)
Short-term borrowings proceeds	16	-	5 000		5 000
Dividends paid	23	(357)	-	(357)	-
Lease liabilities paid (principal portion)	20	(3 750)	-	(1 723)	-
Net cash outflows from financing activities		(4 107)	1 218	(2 080)	1 218
Net increase/(decrease) in cash and cash equivalents		13 330	(6 369)	13 331	(6 369)
Cash and cash equivalents at beginning of year		(14 573)	(8 204)	(14 574)	(8 205)
Cash and cash equivalents at end of year	11	(1 243)	(14 573)	(1 243)	(14 574)
Comprising of:					
Bank balances and cash	11	318	722	318	721
Bank overdrafts	11	(1 561)	(15 295)	(1 561)	(15 295)
		(1 243)	(14 573)	(1 243)	(14 574)

NOTES TO THE CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOW

FOR THE YEAR ENDED 31 AUGUST 2020

	Notes	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
a Cash operating profit is calculated as follows:					
Profit/(loss) before tax		4 285	14 682	(7 773)	2 969
Add back: Finance costs	4	3 902	5 395	2 088	3 760
Finance income		(22)	(28)	(22)	(28)
Dividends received		(28)	(2)	-	-
Operating profit		8 137	20 047	(5 707)	6 701
Add back : Depreciation of property, plant and equipment	6	6 836	5 292	5 223	3 913
Depreciation of right of use assets	20	2 126	-	1 691	-
(Profit)/loss on disposal of property, plant and equipment		(36)	34	122	34
Change in fair value of growing cane	9	4 800	(1 557)	2 025	(2 256)
Grant amortisation	12	(8)	(7)	(7)	(6)
Cash operating profit		21 855	23 809	3 347	8 386
b Working capital requirements comprise the following:					
Decrease/(increase) in inventories		8 558	(13 009)	6 164	(8 528)
Decrease/(increase) in trade and other receivables		3 321	(1 108)	3 247	(1 015)
Net increase in amounts due to related parties		1 900	558	11 530	7 487
(Decrease)/increase in trade and other payables		(5 705)	1 157	(1 295)	(9)
(Decrease)/increase in contract liabilities		(141)	936	(141)	936
Working capital requirements		7 933	(11 466)	19 505	(1 129)

	Notes	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
c Finance costs paid:					
Interest paid on:					
Long-term borrowings		-	(184)	-	(184)
Short-term borrowings	16	(1 503)	(1 518)	(1 503)	(1 518)
Bank short-term facilities	4	(2 263)	(3 485)	(515)	(1 873)
Other - Illovo Sugar Africa Proprietary Limited : Procurement	15.8.3	(15)	(41)	(11)	(18)
Interest on lease liabilities		(818)	-	(761)	-
Foreign exchange gains		724	-	724	-
Finance costs paid on interest-bearing debt		(3 875)	(5 228)	(2 066)	(3 593)
d Income tax paid is reconciled to the amounts disclosed in the statements of profit or loss as follows:					
Amounts payable at beginning of year		(2 395)	(3 597)	(472)	(4 907)
Per statements of profit or loss		(3 029)	(2 509)	-	669
Amounts payable at end of year		2 834	2 395	-	472
Prior year over/(under) provision		218	(91)	(94)	-
Taxation paid		(2 372)	(3 802)	(566)	(3 766)

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 judgements, 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 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.

Leases - Estimating the incremental borrowing rate

When the group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the group's functional currency). The group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

	Notes	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
2. Revenue from contracts with customers					
Revenue represents the proceeds receivable from the sale of:					
Sugar		141 241	124 386	76 923	66 459
Molasses and other products		5 712	5 290	3 264	3 073
		146 953	129 676	80 187	69 532
Analysed by market segment:					
Domestic market		98 165	99 476	53 565	39 332
EU preferential quotas		14 110	7 022	7 699	7 022
USA quota		6 386	6 059	3 485	6 059
Regional market		28 292	17 119	15 438	17 119
		146 953	129 676	80 187	69 532
3. Operating profit					
Revenue		146 953	129 676	80 187	69 532
Change in fair value of growing cane		(4 800)	1 557	(2 025)	2 256
Cost of sales		(90 593)	(74 637)	(59 637)	(45 565)
Distribution expenses		(17 470)	(13 593)	(9 674)	(8 007)
Administrative expenses		(25 953)	(22 956)	(14 558)	(11 515)
Operating profit after changes in fair value of biological assets		8 137	20 047	(5 707)	6 701
Less fair value adjustments:					
- growing cane (see note 9)		4 800	(1 557)	2 025	(2 256)
Operating profit before changes in fair value of biological assets		12 937	18 490	(3 682)	4 445

3. Operating profit (continued)

	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
Administrative expenses comprise:				
Operating costs	(12 409)	(10 737)	(7 019)	(5 038)
IT costs	(984)	(977)	(605)	(605)
Human Resources costs	(5 769)	(3 913)	(4 068)	(2 541)
Security costs	(1 121)	(987)	(520)	(466)
Healthcare costs	(866)	(911)	(440)	(430)
Risk and loss control costs	(1 670)	(1 801)	(850)	(1 030)
Civils costs	(2 220)	(2 890)	(762)	(1 140)
Other overheads	(761)	(565)	(202)	(162)
Depreciation	(153)	(175)	(92)	(103)
	(25 953)	(22 956)	(14 558)	(11 515)
Operating costs comprise:				
Salaries	(5 079)	(4 436)	(3 047)	(2 661)
Operational support service fees analysed as:				
Technical support	(764)	(805)	(459)	(483)
Business support	(1 005)	(1 063)	(603)	(638)
Procurement services	(382)	(405)	(229)	(243)
Other operational costs	(5 179)	(4 028)	(2 681)	(1 013)
	(12 409)	(10 737)	(7 019)	(5 038)

3. Operating profit (continued)

Operating profit has been determined after taking into account the following items:

	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
Depreciation of Property, Plant and Equipment (see note 6)	(6 836)	(5 292)	(5 223)	(3 913)
Depreciation of Right of Use assets (see note 20a)	(2 126)	-	(1 691)	-
Profit on disposal of plant and equipment	-	(34)	(131)	(34)
Amortisation of factory overhaul costs	(4 446)	(4 920)	(2 613)	(3 090)
Directors' fees	(19)	(16)	(19)	(16)
Auditor's remuneration:				
- statutory audit fees	(142)	(133)	(92)	(87)
- expenses	(23)	(16)	(11)	(16)
Operational support service fees (see note 15.8)	(2 152)	(2 273)	(1 291)	(1 364)
Expense relating to short-term leases and leases of low value assets (2019: period operating lease charges)	(370)	(3 339)	(328)	(1 771)
Contribution to retirement benefit funds	(969)	(830)	(509)	(577)
Foreign exchange differences	364	348	314	(473)

	GROUP		COMPANY	
	2020	2019	2020	2019
	K million	K million	K million	K million
4. Finance costs				
Interest charged on:				
Long-term borrowings	-	(172)	-	(172)
Short-term borrowings	(1 428)	(1 520)	(1 428)	(1 520)
Bank short-term facilities	(2 263)	(3 485)	(515)	(1 873)
Other - Illovo Sugar Africa Proprietary Limited :				
Procurement	(15)	(41)	(11)	(18)
Lease liabilities	(920)	-	(858)	-
Foreign exchange losses recognised in finance costs	724	(177)	724	(177)
Interest expense on bank borrowings, short-term and long-term debt	(3 902)	(5 395)	(2 088)	(3 760)
Interest income				
Interest income - interest income on short-term bank deposits	22	28	22	28

		GROUP		COMPANY	
		2020	2019	2020	2019
	Notes	K million	K million	K million	K million
5. Income tax expense					
Current tax		3 029	2 509	-	(669)
Deferred tax	13	(1 483)	2 090	(2 184)	1 799
Total income tax recognised in the year		1 546	4 599	(2 184)	1 130
		%	%		
Reconciliation of rate of taxation:					
Malawi corporation rate of taxation		30.0	30.0		
Increase in charge for year due to:					
Disallowable expenditure		6.1	1.3		
Effective rate of taxation		36.1	31.3		

For income tax purposes the Malawi Revenue Authority treats the group as one tax paying entity, therefore all tax balances and charge relating to the subsidiary have been transferred to the group in the year under review.

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 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
Opening balance at 1 September 2019	6 167	6 575	33 793	4 895	26 596	78 026
Additions	-	-	-	2 161	4 029	6 190
Transfers	70	62	2 707	(2 839)	-	-
Disposals		(24)	(309)	-	-	(333)
Closing balance at 31 August 2020	6 237	6 613	36 191	4 217	30 625	83 883
Depreciation						
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
Opening balance at 1 September 2019	723	4 231	6 331	-	10 597	21 882
Charge for the year	101	1 084	933	-	4 718	6 836
Disposals	-	(24)	(309)	-	-	(333)
Closing balance at 31 August 2020	824	5 291	6 955	-	15 315	28 385
Net book value						
Closing balance at 31 August 2019	5 444	2 344	27 462	4 895	15 999	56 144
Closing balance at 31 August 2020	5 413	1 322	29 236	4 217	15 310	55 498

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:

	2020 Hectares	2019 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 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
Opening balance at 1 September 2019	4 244	4 402	23 624	2 540	20 067	54 877
Additions	-	-	-	1 701	3 131	4 832
Transfers	-	55	2 561	(2 616)	-	-
Disposals	-	-	(442)	-	-	(442)
Closing balance at 31 August 2020	4 244	4 457	25 743	1 625	23 198	59 267
Depreciation						
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
Opening balance at 1 September 2019	488	3 398	3 661	-	7 838	15 385
Charge for the year	54	999	284	-	3 886	5 223
Disposals	-	-	(311)	-	-	(311)
Closing balance at 31 August 2020	542	4 397	3 634	-	11 724	20 297
Net book value						
Closing balance at 31 August 2019	3 756	1 004	19 963	2 540	12 229	39 492
Closing balance at 31 August 2020	3 702	60	22 109	1 625	11 474	38 970

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

	2020 Hectares	2019 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

7. Investments

	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
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 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
Issued capital			42	42
Effective percentage holding			100%	100%
Shares at cost			324	324

Other investments

Ethanol Company Limited

210 000 Ordinary shares of K 1 each, representing 7.64% of issued share capital.

	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
Fair valuation at the beginning of the year	463	509		
Fair value gain/(loss)	31	(46)		
Fair valuation at the end of the year	494	463		

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 falls into the level 3 fair value category. If profit after tax was 5% higher/lower and all other variables held constant, the group's investment in Ethanol Company Limited would move by K2 million for the year ended 31 August 2020 (August 2019: K1 million).

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

	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
Unlisted investment at fair value				
Fair value gain/(loss)	31	(46)		
Deferred tax on fair value gain of unlisted investment (see note 13)	(9)	14		
Fair value gain/(loss) of unlisted investment net of deferred tax	22	(32)		

8. Inventories

	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
Consumables	5 901	5 663	3 598	3 717
Sugar	39 269	47 987	22 991	29 182
Factory overhaul costs	1 749	1 827	1 152	1 006
	46 919	55 477	27 741	33 905

The group deducted inventory provisions of K1.923 million (August 2019: K1.090 million) to arrive at these numbers; out of which K1.799 million (August 2019: K940.2 million) related to write down of export sugar stocks to net realisable value.

The company deducted inventory provisions of K1.834 million (August 2019: K974.1 million) to arrive at these numbers; out of which K1.000 billion (August 2019: K433.7 million) related to write down of export sugar stocks to net realisable value.

Movement in inventory provisions	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
Opening balance	(1 090)	(188)	(974)	(121)
Provision	(894)	(942)	(894)	(893)
Provision utilised	61	40	34	40
Closing balance	(1 923)	(1 090)	(1 834)	(974)

	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
9. Growing cane				
The carrying value of growing cane is be reconciled as follows:				
Carrying value at beginning of year	27 631	26 074	18 676	16 420
Change in fair value	(4 800)	1 557	(2 025)	2 256
Carrying value at end of year	22 831	27 631	16 651	18 676

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 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
The following are the key assumptions in the valuation of growing cane:				
Expected area to harvest the following season (ha)	19 430	18 995	12 599	12 604
Estimated yield (tons cane/ha)	104	87	101	97
Average maturity of cane at 31 March	67%	68%	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:

	GROUP 2020 K million	GROUP 2020 K million	COMPANY 2020 K million	COMPANY 2020 K million
	+ 1%	-1%	+ 1%	-1%
Estimated sucrose content	22 838	22 763	16 656	16 606
Estimated sucrose price	22 848	22 660	16 662	16 543

	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
10. Trade and other receivables				
Trade receivables	10 483	15 335	10 483	15 335
Other receivables and prepayments	5 408	3 877	4 301	2 696
Balance at end of year	15 891	19 212	14 784	18 031

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 K2.689 million (August 2019: K6.083 million). Set out below is the movement in the allowance for expected credit losses of trade receivables:

	GROUP 2020	GROUP 2019	COMPANY 2020	COMPANY 2019
As at 1 September 2019	(393)	(103)	(393)	(103)
Provision for expected credit losses	(612)	(290)	(612)	(290)
As at 31 August 2020	(1 005)	(393)	(1 005)	(393)

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.

The information below presents the group's credit risk exposure on trade receivables using a provision matrix:

	Trade receivables days past due				
	Current	> 30 days	> 60 days	> 90 days	Total
31 August 2020	K million	K million	K million	K million	K million
Expected credit loss rate	0.67%	1.34%	2.51%	96.00%	
Estimated total gross carrying amount at default	8 220	460	842	961	10 483
Expected credit losses	55	6	21	923	1 005
31 August 2019					
Expected credit loss rate	0.67%	1.34%	2.51%	19.28%	
Estimated total gross carrying amount at default	11 662	1 429	819	1 425	15 335
Expected credit losses	78	19	21	275	393

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 11.0% and 15.0% (August 2019: 10.5% and 16.0%)

	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
Bank balances and cash are made up of the following currencies:				
European Euro	2	8	2	8
British Pound	67	59	67	-
Malawi Kwacha	186	588	186	646
South African Rand	28	9	28	9
United States Dollar	35	58	35	58
	318	722	318	721
Bank overdraft balances are made up of the following currencies:				
Malawi Kwacha	1 561	15 295	1 561	15 295
Total cash and cash equivalents	(1 243)	(14 573)	(1 243)	(14 574)
Amount used	1 561	15 295	1 561	15 295
Amount unused	33 439	18 955	33 439	18 955
Total bank overdraft facilities	35 000	34 250	35 000	34 250

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

12. Malawi government vitamin A grant

	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
At beginning of year	220	227	188	194
Amortised during the year	(8)	(7)	(7)	(6)
At end of year	212	220	181	188

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 sugar with vitamin A.

13. Deferred tax

The movement in the year is analysed below:

	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
Balance at 1 September	21 420	19 365	14 485	12 648
Effect of adoption of IFRS 16 Leases	(817)	-	(264)	-
Balance as at 1 September (restated)	20 603	19 365	14 221	12 648
Current year other comprehensive income charge - cash flow hedges	(70)	(21)	(70)	(21)
Current year other comprehensive income charge - change in fair value of unlisted investment	9	(14)	-	-
Other charges relating to prior year	-	-	-	59
Current year charge to profit or loss	(1 483)	2 090	(2 184)	1 799
Balance at end of year	19 059	21 420	11 967	14 485
Analysis of deferred tax liability:				
Excess capital allowances over depreciation	9 065	13 253	6 198	9 276
Growing cane	11 442	8 289	8 438	5 603
Other	(1 596)	(261)	(2 669)	(394)
Fair valuation of unlisted investment	148	139	-	-
Balance at end of year	19 059	21 420	11 967	14 485

	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
14. Trade and other payables				
Trade payables	6 652	10 643	5 301	7 524
Other payables and accruals	19 991	21 701	17 546	16 618
	26 643	32 344	22 847	24 142
Other payables and accruals comprise:				
Accrued expenses	15 150	14 501	13 873	11 621
Grower payable	-	3 259		1 659
VAT payable	1 863	2 144	1 756	2 068
Payroll creditors	1 557	1 228	1 137	852
Leave pay accruals	603	487	452	336
Sundry accruals	818	82	328	82
	19 991	21 701	17 546	16 618

Trade and other payables include payables denominated in foreign currencies amounting to K4.494 million (August 2019: K1.660 million).

The foreign creditors are denominated in the following currencies:

	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
British Pound	1	-	1	-
South African Rand	1 949	1 262	907	1 262
United States Dollar	2 545	398	2 165	398
	4 495	1 660	3 073	1 660

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 27.6.

	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
14.1 Contract liabilities				
Advance receipts from customers	795	936	795	936
Revenue recognised during the period that was included in the contract liability balance as at the beginning of the year	936	2 520	936	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 2020	Effective ownership interest 2019
Sucoma Holdings Limited, incorporated in Mauritius	Immediate holding company	75.98%	75.98%
Illovo Group Holdings Limited, incorporated in South Africa	Illovo group holding company	75.98%	75.98%
Illovo Sugar Africa Holdings Limited, incorporated in United Kingdom	Ultimate holding company	75.98%	75.98%

15.2 Ultimate holding company

Illovo Sugar Africa Holdings Limited holds 100% (August 2019: 100%) of the issued share capital of Illovo Group Holdings Limited and therefore has an effective ownership interest of 75.98% (August 2019: 75.98%) in the group.

15.3 Illovo Group holding company

Illovo Group Holdings Limited holds 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 15.8.1 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 15.7.2 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 15.8.3 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 15.8.1 below. Operational support service fees are charged on a cost-plus basis, allowing a margin of 8% for technical and business support services and 15% for procurement services. The cost basis is the cost of providing the service and not the cost of procured goods or services.

15.3.2 Other transactions and balances with Illovo Sugar Africa Proprietary Limited: (continued)

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 15.8.1 below.

The trading balance owing by the group as disclosed in note 15.7.2 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 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 15.8.1 below.

15.4 Immediate holding company

Transactions between the group and Sucoma Holdings Limited (SHL) relate to the payment of dividends. Dividends paid to SHL in the current period have been disclosed on note 15.8.1. There are no outstanding balances owing to or by SHL.

15.5 Transactions and balances with fellow subsidiaries

Illovo Group Marketing Services Limited

Illovo Group Marketing Services Limited (IGMSL) is 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 a 1% commission which is disclosed in note 15.8.1 below.

Third party export logistics costs incurred by the group are paid for on its behalf by IGMSL for which it is reimbursed with no mark-up charged (as disclosed in note 15.8.1 below).

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

15.5 Transactions and balances with fellow subsidiaries: (continued)

East African Supply Proprietary Limited

East African Supply Proprietary Limited is a fellow subsidiary company that 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.

The trading balances owing by the group as disclosed in note 15.7.2 and 15.8.1 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 15.7 below.

The outstanding balances between the group and fellow subsidiary companies such as Kilombero Sugar Company Limited and Zambia Sugar Plc arising from cost recoveries are disclosed in notes 15.7.1 and 15.7.2 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, amounts of sugar as disclosed in note 15.8.2 were sold to AB Azucarera Iberia S.L., Silverspoon, Kilombero Sugar Company Limited and Illovo Group Marketing Services Rwanda 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 15.7.1 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.

15.6 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 15.7.2 below. 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.

15.7 Amounts due from/(to) related parties

The group is controlled by the following entities:

	Notes	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
15.7.1 Amount due from related parties:					
AB Azucarera Iberia S.L.	2	1 617	929	1 617	929
Illovo Group Marketing Services Limited	2	-	7	-	7
Silver Spoon	2	247	-	247	-
Dwangwa Sugar Corporation Limited	2	-	-	1 804	-
		1 864	936	3 668	936
Amounts due from related parties are denominated in the following currencies:					
European Euro		1 864	929	1 864	929
Malawi Kwacha		-	-	1 804	
United States Dollar		-	7	-	7
		1 864	936	3 668	936

15.7.2 Amounts due to related parties:

	Notes	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
Dwangwa Sugar Corporation Limited	3	-	-	29 966	18 581
Holding company and fellow subsidiaries		4 498	1 670	3 926	1 049
		4 498	1 670	33 892	19 630
Holding company and fellow subsidiaries comprise:					
East African Supply Proprietary Limited	2	24	37	24	37
Illovo Group Marketing Services Limited	2	2 889	-	2 889	-
Illovo Sugar Africa Proprietary Limited - Corporate Division	1	496	551	359	424
Illovo Sugar Africa Proprietary Limited - Procurement Division	1	999	1 047	564	553
Kilombero Sugar Company Limited	2	25	-	25	-
Ubombo Sugar Limited	2	2	2	2	2
Zambia Sugar Plc	2	63	33	63	33
		4 498	1 670	3 926	1 049

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

15.7.2 Amounts due to related parties: (continued)

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

	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
European Euro	-	1	-	1
South African Rand	1 521	1 559	949	938
United States Dollar	2 977	110	2 977	110
	4 498	1 670	3 926	1 049

Notes

1 - Holding companies (refer to note 15.1 - 15.4)

2 - Fellow subsidiaries of holding companies (refer to note 15.5)

3 - Subsidiary of Illovo Sugar (Malawi) plc (refer to note 15.6)

15.8 Related party transactions

		Note	Transaction	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
15.8.1	The annual payment transactions with related parties are as follows:	Note	Transaction				
	East African Supply Proprietary Limited	2	Flight charges recoveries	59	77	59	77
	Illovo Sugar Africa Proprietary Limited	2	Export agency commission	486	300	264	300
	Illovo Sugar Africa Proprietary Limited (Rwanda rebate)	2	Export agency commission	62	61	62	61
	Illovo Group Marketing Services Limited	2	Logistics cost recoveries	2 001	2 889	2 001	2 889
	Illovo Sugar Africa Proprietary Limited - Corporate Division	1	Operational support service fees	2 152	2 273	1 291	1 364
	Illovo Sugar Africa Proprietary Limited - Corporate Division	1	Cost recoveries	2 082	1 141	1 353	833
	Illovo Sugar Africa Proprietary Limited - Procurement Division	1	Procurement of goods and services	10 099	14 495	6 393	9 162
	Sucoma Holdings Limited	1	Dividend	271	-	271	-
	Ubombo Sugar Limited	2	Cost recoveries	2	3	2	2
	Zambia Sugar Plc	2	Cost recoveries	37	34	37	34
				17 251	21 273	11 733	14 722
15.8.2	The annual sugar sales transactions with related parties are as follows:						
	AB Azucarera Iberia S.L	3		2 719	3 518	2 719	3 518
	Illovo Group Marketing Services Limited Rwanda	2		5 225	-	5 225	-
	Kilombero Sugar Company Limited	2		613	-	613	-
	Silver Spoon Company	3		364	-	364	-
				8 921	3 518	8 921	3 518
15.8.3	The annual interest payable with related parties is as follows:		Effective interest rate (%)				
	Illovo Group Holdings Limited	1	LIBOR plus 400 basis points	-	172	-	172
	Illovo Sugar Africa Proprietary Limited - Procurement Division	1	9% on overdue balances	15	41	15	18
				15	213	15	190

Notes

1 - Holding companies (refer to note 15.1 - 15.4)

2 - Fellow subsidiaries of Illovo Sugar Africa Proprietary Limited (refer to note 15.5)

3 - Fellow subsidiaries (refer to note 15.6)

		Effective interest rate (%)	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
16.	Short-term borrowings					
	Nico Asset Managers Limited	9.99%	10 000	10 081	10 000	10 081
	Old Mutual Investment Group	10.08%	5 019	5 013	5 019	5 013
			15 019	15 094	15 019	15 094

	GROUP & COMPANY			GROUP & COMPANY		
	2020 K million	2020 K million	2020 K million	2019 K million	2019 K million	2019 K million
	Nico Asset Managers Limited	Old Mutual Investment Group	Total	Nico Asset Managers Limited	Old Mutual Investment Group	Total
Opening balance	10 081	5 013	15 094	5 079	5 013	10 092
Amount advanced	-	-	-	5 000	-	5 000
Interest charged	918	510	1 428	853	667	1 520
Interest paid	(999)	(504)	(1 503)	(851)	(667)	(1 518)
Balance at end of year	10 000	5 019	15 019	10 081	5 013	15 094

Nico Asset Managers Limited Loan

The group started the year with two short-term money market facilities from Nico Asset Managers Limited of K5 billion each which were rolled over from the previous year with the applicable interest rate being an average yield for the preceding 182 days treasury bill, and an average yield for the preceding 91 days treasury bill respectively plus a premium of 100 basis points per annum for both papers. The commitment fee paid on this was 0.165% paid in advance on both papers. The group then rolled over both papers in the year with an applicable interest rate at the 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 loans attracted a commitment fee of 0.165% each 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 arrangements fees of 0.25% payable in advance. This was rolled forward in November 2019.

17. Derivative financial instruments

	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
Forward exchange contracts - designated as cash flow hedges	(145)	87	(145)	87
Comprising:				
Assets	-	87	-	87
Liabilities	(145)	-	(145)	-
At end of the year	(145)	87	(145)	87

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 0.8:1.0 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.

Hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments;
- Different indexes (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 2020 were assessed to be highly effective and a net unrealised loss of K145 million, with a deferred tax asset of K44 million relating to the hedging instruments, is included in OCI. Comparatively, the cash flow hedges of the expected future sales in 2019 were assessed to be highly effective and an unrealised gain of K87 million with a deferred tax liability of K21 million was included in OCI in respect of these contracts.

17. Derivative financial instruments (continued)

The amounts retained in OCI at 31 August 2020 are expected to mature and affect the statement of profit or loss in 2021. The disaggregation of changes of OCI by the hedging reserve in equity is shown below.

	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
Currency forward contracts	(101)	61	(101)	61
Reclassified to statement of profit or loss	(61)	(109)	(61)	(109)
Total	(162)	(48)	(162)	(48)

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 2020						
Notional amount (€000)	1 900	100	-	-	-	2 000
Average forward rate (EUR/USD)	1.1160	1.1230	-	-	-	-
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	-	-

18. Capital commitments

	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
Contracted	711	582	237	483
Approved but not contracted	4 260	1 996	2 070	1 136
	4 971	2 578	2 307	1 619

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

19. Contingent liabilities

Various claims of an industrial relations nature totalling K1,066 million (August 2019: K923.1 million) have been made against the group in the ordinary course of business, the outcome of which is uncertain.

20. Leases

The group applied IFRS 16 Leases for the first time during the year. The impact of adoption of the standard has been reflected under Changes in Accounting Policies (Note 2.1.1). The group's accounting policy for leases has been discussed under note 1.22.

The group has lease contracts for various items of plant and machinery used in its operations as well as lease contracts for land and buildings. Leases of plant and machinery generally have lease terms between 3 and 5 years, while motor vehicles and other equipment generally have lease terms between 3 and 5 years. The group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the group is restricted from assigning and subleasing the leased assets.

The group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

a Right of Use Assets

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Land and buildings	Plant, equipment and furniture	Total
	K million	K million	K million
Group			
As at 1 September 2019 (effect of adoption of IFRS 16)	806	1 586	2 392
Additions	-	2 292	2 292
Depreciation charge	(244)	(1 882)	(2 126)
As at 31 August 2020	562	1 996	2 558
Company			
As at 1 September 2019 (effect of adoption of IFRS 16)	713	1 319	2 032
Additions	-	1 209	1 209
Depreciation charge	(243)	(1 448)	(1 691)
As at 31 August 2020	470	1 080	1 550

20. Leases (continued)

b Lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the period:

Lease Liability	Group 2020 Capital	Company 2020 Capital
As at 1 September 2019 (effect of adoption of IFRS 16)	3 965	2 910
Additions	3 449	1 181
Accretion of interest	920	858
Foreign currency exchange loss	(33)	(45)
Payment of principal portion	(3 750)	(1 723)
Payment of interest	(818)	(761)
As at 31 August 2020	3 733	2 420
Split into:		
Current	1 875	1 567
Non-current	1 858	853
	3 733	2 420

The group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

21. Exchange rates and inflation

The average year-end 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.

	GROUP & COMPANY 2020 K million	GROUP & COMPANY 2019 K million
Kwacha/European Euro	892	788
Kwacha/South African Rand	45	49
Kwacha/United States Dollar	750	733
Overall Consumer Price Inflation	7.6%	9.5%

The average for 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.

	2020	2019
Kwacha/European Euro	831	845
Kwacha/South African Rand	47	52
Kwacha/United States Dollar	746	738
Overall Consumer Price Inflation - average	7.6%	9.5%

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:

	GROUP & COMPANY 2020 K million	GROUP & COMPANY 2019 K million
Earnings		
Earnings for the purposes of basic and diluted earnings per share	2 739	10 083
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)	384	1 413
Reconciliation of headline earnings:		
Net profit for the year	2 739	10 083
Headline earnings	2 739	10 083
Headline earnings per share (tambala)	384	1 413

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.

	GROUP & COMPANY 2020 K million	GROUP & COMPANY 2019 K million
Final dividend paid (for previous year)	357	-
	357	-
Number of shares in issue ('000)	713 444	713 444
Weighted average number of shares on which dividend per share is based ('000)	713 444	713 444
Dividend paid per share (tambala)	50	-

The board of directors recommended payment of K1.427 billion as a dividend for the year ended 31 August 2020 (August 2019: K 357 million).

24. Compensation of key management personnel

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

	2020	2019
Short-term benefits	3 388	3 137
Post-retirement benefits	191	198
Other long-term benefits	2 263	1 626
	5 842	4 961

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

25. Retirement benefit plans

The group operates one defined contribution plan effective January 2020. This is the SUCOMA Group Pension Scheme which is managed internally by trustees. It is a defined contribution scheme and the contributions by employees and the group are 7.5% (August 2019: 7.5%) and 12.4% (August 2019: 12.5%) of the fund member's basic pensionable salaries, respectively. Before January 2020, the company had the SUCOMA Group Pension Scheme as above and the Illovo Sugar (Malawi) plc Pension Fund, which were both managed internally by trustees and were also defined contribution schemes. The contributions by employees and the group were 5.0% (August 2019: 5.0%) and 12.5% (August 2019: 12.5%) of the fund member's pensionable basic, respectively. The trustees for the current scheme are employees of the group. The administration of the pension fund has been subcontracted to Nico Pension Services Company Limited. Nico Asset Managers Limited are the investment managers for the merged fund.

The total expense recognised in profit or loss of K956 million (August 2019: K830 million) represents contributions payable to the plan 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.

26. Segmental analysis (continued)

GROUP Year to 31 August 2020	Sugar production K million	Cane growing K million	TOTAL K million
Revenue	102 204	44 749	146 953
Operating profit	25 580	(17 443)	8 137
Dividend income	28	-	28
Finance costs	(1 561)	(2 341)	(3 902)
Interest income	9	13	22
Taxation	(618)	(928)	(1 546)
Statements of financial position			
Non-current assets	22 199	33 299	55 498
Property, plant and equipment	22 199	33 299	55 498
Current assets	60 232	27 591	87 823
Inventories	43 372	3 547	46 919
Growing cane	-	22 831	22 831
Trade and other receivables	14 678	1 213	15 891
Amount due from related parties	1 864	-	1 864
Bank balances and cash	318	-	318
Current liabilities	28 616	21 939	50 555
Trade and other payables	11 846	14 797	26 643
Amount due to related parties	4 498	-	4 498
Short-term borrowings	9 011	6 008	15 019
Bank overdrafts	1 561	-	1 561
Taxation payable	1 700	1 134	2 834
Non-current liabilities	11 617	7 836	19 453
Malawi government vitamin A grant	181	212	393
Deferred taxation	11 436	7 624	19 060
Shareholders equity	42 198	31 115	73 313
Property, plant and equipment transactions are categorised as follows:			
Purchases during the year	4 029	2 161	6 190
Depreciation	4 718	2 118	6 836

Revenue from one customer from the sugar production segment amounted to K29.5 billion (August 2019: K36.5 billion).

26. Segmental analysis (continued)

GROUP Year to 31 August 2019	Sugar production K million	Cane growing K million	TOTAL K million
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)
Statements of financial position			
Non-current assets			
Property, plant and equipment	22 894	33 250	56 144
	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
Shareholders equity	36 019	35 752	71 771
Property, plant and equipment transactions are categorised as follows:			
Purchases during the year	5 445	5 544	10 989
Depreciation	2 526	2 765	5 292

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

27.1 Categories of financial instruments

	GROUP 2020 K million	GROUP 2019 K million	COMPANY 2020 K million	COMPANY 2019 K million
Financial assets				
Financial assets carried at armotised cost	18 073	20 870	18 770	19 688
Unlisted equity instruments at FVTOCI	494	463	-	0.2
Derivative financial assets/(liabilities) at FVTPL	(145)	87	-	87
	18 422	21 420	18 770	19 775
The details of financial assets at armotised cost are as follows:				
Trade and other receivables	15 891	19 212	14 784	18 031
Bank balances and cash	318	722	318	721
Amount due from related parties	1 864	936	3 668	936
	18 073	20 870	18 770	19 688
Financial liabilities				
Financial liabilities measured at amortised cost	51 454	64 403	75 739	74 161
The details of financial liabilities at amortised costs are as follows:				
Trade and other payables	26 643	32 344	22 847	24 142
Amount due to related parties	4 498	1 670	33 892	19 630
Short-term borrowings	15 019	15 094	15 019	15 094
Lease liabilities	3 733	-	2 420	-
Bank overdrafts	1 561	15 295	1 561	15 295
	51 454	64 403	75 739	74 161

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 are 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.

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.

27.4 Foreign currency risk management (continued)

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		COMPANY	
	2020 K million	2019 K million	2020 K million	2019 K million
Assets				
British Pound	67	59	67	59
European Euro	2 484	2 031	2 484	2 031
South African Rand	28	872	28	872
United States Dollar	243	3 255	243	3 255
	2 822	6 217	2 822	6 217
Liabilities				
European Euro	145	1	145	1
South African Rand	2 179	1 262	1 138	478
United States Dollar	3 192	1 835	2 812	951
	5 516	3 098	4 095	1 430

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 management 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	
	2020 K million	2019 K million	2020 K million	2019 K million	2020 K million	2019 K million
Profit or loss	234	203	(215)	(39)	(295)	142

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 2020 would move by K1 bllion (August 2019: K966 million). The effect on profit or loss and equity is the same.

27.5.2 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. Ongoing 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.

27.5.2 Credit risk management (continued)

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 forward looking 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 K10 483 million (August 2019: K15 335 million) in relation to trade receivables. The bank guarantees and security over real property are considered integral part of trade receivables and considered in the calculation of impairment. The groups expected credit losses are disclosed in note 10.

There are no off-statement financial position credit exposures.

	GROUP		COMPANY	
	2020	2019	2020	2019
	K million	K million	K million	K million

27.6 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.

Net debt	Group 2020	Group 2019	Company 2020	Company 2019
Short-term borrowings	15 019	15 094	15 019	15 094
Lease liabilities	3 733	-	2 420	-
Bank overdrafts	1 561	15 295	1 561	15 295
Bank balances and cash	(318)	(722)	(318)	(721)
	19 995	29 667	18 682	29 668

27.6.1 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 2020				
Bank overdraft	13.5	1 561	-	1 561
Short-term borrowings	10.5	15 019	-	15 019
Lease liabilities	18.0	1 875	1 858	3 733
		18 455	1 858	20 313
31 August 2019				
Bank overdraft	13.5	15 295	-	15 295
Short-term borrowings	13.5	15 094	-	15 094
		30 389	-	30 389

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

27.6.1 Liquidity risk tables (continued)

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 2020					
Trade and other receivables	15 891	-	-	-	15 891
Bank balances and cash	318	-	-	-	318
	16 209	-	-	-	16 209
31 August 2019					
Trade and other receivables	19 212	-	-	-	19 212
Bank balances and cash	722	-	-	-	722
	19 934	-	-	-	19 934

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 described in note 11. The group expects to meet its obligations arising from operating cash flows and proceeds of maturing financial assets.

27.7 Equity price risk

The group's non-listed equity investment in Ethanol Company Limited 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 K494 million. Sensitivity analyses of this investments has been provided in note 7.

28 Events after the reporting period

On 25th November 2020 the board recommended a final dividend of 200 tambala per share (2019: 50 tambala per share).

ANALYSIS OF SHAREHOLDERS

31 August 2020

Category			Shareholders Number	Shareholders %	Ordinary Shares Number held	Ordinary Shares % of shares issued
Individuals						
1	–	5 000	1 563	76.77	2 042 567	0.29
5 001	–	10 000	221	10.86	1 811 253	0.25
10 001	–	50 000	176	8.64	3 353 204	0.47
50 001	–	100 000	13	0.64	1 033 195	0.14
100 001	–	200 000	18	0.88	2 519 640	0.35
200 001	–	500 000	16	0.79	5 089 145	0.72
500 001	–	and over	29	1.42	697 595 387	97.78
			2 036	100.00	713 444 391	100.00
Banks and nominees			30	1.47	13 772 014	1.93
Holding company and non-residents			57	2.80	542 431 106	76.03
Individuals			1 859	89.65	23 775 410	3.33
Insurance, trust, pension and provident			79	3.88	128 749 566	18.05
Other corporate bodies			11	2.20	4 716 295	0.66
			2 036	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	77 754 115	10.90
Ramesh Haridas Savjani	14 821 735	2.08
First Merchant Bank Limited	12 915 541	1.81
Magetsi Pension Fund	8 838 257	1.24

SHAREHOLDERS' DIARY

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

Notice is hereby given that the 56th annual general meeting of members of the company will be held virtually on Wednesday 24th February 2021 at 14h00 to transact the following business:

Ordinary business

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

1. **Minutes**

   To note the minutes of the 55th annual general meeting held on 27th February 2020.

2. **Financial statements**

   To receive and adopt the annual financial statements for the year ended 31st August 2020.

   To consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:

   "RESOLVED that the audited financial statements of the Company for the year ended 31st August 2020 along with the Auditor's report thereon, be and are hereby received, considered and adopted."

3. **Dividend**

   To declare a final dividend of K 1.427 billion representing 200 tambala per share in respect of the financial year ended 31st August 2020 as recommended by the directors. The total dividend for the year is K 1.427 billion representing 200 tambala per share.

   "RESOLVED that a dividend of K 1.427 billion representing 200 tambala per share be paid in respect of financial year ended 31st August 2020.

4. **Confirmation and re–election of directors**

   4.1 To confirm the appointment of D N Kasambala to fill a casual vacancy pursuant to Article 73(b).

   Doug joined Illovo from KPMG UK in February 2020 where, as a director in their Corporate - Finance transformation practice, he led the manufacturing finance capability. Doug spent five years with KPMG, and prior to that, was a Finance transformation consultant with IBM for three years. Doug is CIMA-qualified, with a Bachelor of Science degree in Computer Science (University of Malawi) and an MBA in Finance (University of Nottingham).

   Prior to becoming a finance transformation consultant, Doug gained extensive industry finance experience in the FMCG sector having spent thirteen years with Unilever Plc working in roles that supported different regions including Europe, Africa and Asia in various functions including corporate audit, supply chain finance and enterprise services working as Finance Manager progressing to Finance Director.

   Before moving to the UK, Doug started his career in the banking industry in Malawi, working with the two largest banks, Commercial Bank (now Standard Bank) and National Bank in their treasury and leasing departments.

   To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions:

   "RESOLVED that the appointment of D N Kasambala as a director of the Company be and is hereby approved."

   4.2 To confirm the appointment of A Lubbe to fill a casual vacancy pursuant to Article 73(b).

   Andre was appointed to the board of Illovo Malawi in February 2020. He holds an honours degree from the University of Stellenbosch (SA) in business administration and first joined Illovo Sugar Africa in January 2017 as Group Commercial Director, a position he still holds. Prior to joining Illovo Sugar he spent over 25 years with SABMiller in South Africa and Africa holding various senior leadership positions. Before re-joining SABMiller Africa in 2011, he spent three years as Divisional Manager at Parmalat (SA). He also had the opportunity to work as Commercial Director for SABMiller in Nigeria for two years before returning to South Africa, where he joined the Africa office in Johannesburg as Head of Distribution and Route-to-Consumer Development with SABMiller Africa. Andre has extensive commercial and general management experience in FMCG and is passionate about brands and consumers.

"RESOLVED that the appointment of A Lubbe as director of the Company be and is hereby approved."

4.3 To confirm the appointment of K Ntambo–Banda to fill a casual vacancy pursuant to Article 73(b).

Khumbo joined Illovo Malawi on 1st August 2018 as Organisation Development Specialist and was later appointed into the role of Organisational Effectiveness Manager as part of the Business Improvement team. Khumbo was appointed Human Resources Director on 1st April 2020.

"RESOLVED that the appointment of K Ntambo-Banda as director of the Company be and is hereby approved."

4.4 To re-elect directors P A Madinga, N A Ngwira and R Savjani who retire by rotation but being eligible offer themselves for re-election.

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions:

4.4.1 "RESOLVED that the appointment of P A Madinga as director of the Company be and is hereby approved."

4.4.2 "RESOLVED that the appointment of N A Ngwira as director of the Company be and is hereby approved."

4.4.3 "RESOLVED that the appointment of R Savjani as director of the Company be and is hereby approved."

5.1 To fix fees and sitting allowances for the independent non-executive directors for the year ending 31st August 2021.

To consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:

"RESOLVED that the fees and sitting allowances for the non-executive directors for the year ending 31st August 2021 be approved as follows:

5.1.1 Annual fees

K 3 400 000 per annum.

5.1.2 Sitting allowances

K160 000 for each committee and / or board meeting attended.

5.2 To authorise the non-executive directors to determine the remuneration of the executive directors for the year ending 31st August 2021.

To consider, and if thought fit, to pass the following resolution as an Ordinary Resolution:

"RESOLVED that the non-executive directors determine the remuneration of the executive directors for the year ending 31st August 2021".

6. To approve the re-appointment of Ernst & Young (EY) as auditors for the year ending 31st August 2021.

To consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:

"RESOLVED that EY be re-appointed auditors of the Company for the year ending 31st August 2021 and to hold office until the conclusion of the next Annual Meeting."

7. 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 Tuesday, 23rd February 2021.

By order of the board

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

NOTES

ILLOVO SUGAR (MALAWI) PLC

FORM OF PROXY FOR THE 56TH ANNUAL GENERAL MEETING

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

of
____
(Address)

being the shareholder/member of the above named company and entitled to

Number of votes ______
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 virtually on Wednesday 24th February 2021 at 14h00 and at any adjournment thereof as follows:

FORM OF PROXY FOR THE 56TH ANNUAL GENERAL MEETING (continued)

Agenda Item		Mark with X where applicable		
		In favour	Against	Abstain
1	Approval of minutes			
2	Adoption of 2020 annual financial statements			
3	Dividend			
4	Election of directors			
	4.1 D N Kasambala			
	4.2 A Lubbe			
	4.3 K Ntambo-Banda			
	4.4 Re-election of directors			
	4.4.1 P A Madinga			
	4.4.2 N A Ngwira			
	4.4.3 R Savjani			
5	Determination of directors' remuneration			
	5.1.1 Fixing directors' fees			
	5.1.2 Fixing directors' sitting allowance			
	5.2 Remuneration of executive directors			
6	Re-appointment of Ernst & Young as auditors			

Signed at ____________ on this ____________ day of ____________ 2021

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 his/her 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 he/she thinks fit.
3. A minor must be assisted by his/her 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 on Tuesday 23rd February 2021.
6. The delivery of the duly completed proxy form shall not preclude any member or his/her 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