Zambia Sugar Plc

SUGAR ILLOVO GROUP

COMMENTARY FOR THE YEAR ENDED 31 MARCH 2012

Review

Operations at the expanded Nakambala factory met design capacity during the past year with exceptional crush rates achieved. The higher and consistent crush resulted in an accelerated season and younger cane being crushed. This, together with unusual weather conditions resulted in lower sucrose content than normal and lower average cane yields. This combination of low sucrose and reduced cane yields undermined sugar production and resulted in sugar production which was slightly lower than the previous year.

The better than expected factory performance benefited field operations, resulting in all available cane from the estate and from the growers being crushed. The estate delivered 1.90 million tons of cane, compared to 1.95 million tons delivered in the previous year. Outgrowers delivered a record 1.15 million tons of cane from an increased harvest area of 9 411 hectares compared to 1.13 million tons of cane from 8 684 hectares in 2011, resulting in total delivery to the expanded factory of 3.1 million tons, slightly lower by 22 700 ton compared to the previous year.

Factory performance was much improved compared to last season and a return to acceptable mechanical efficiency and sugar recoveries was achieved. Final sugar output was 3% lower than in 2010/11, totalling 374 000 tons.

Record market growth has been achieved in the domestic market for the previous two years. Local market sales benefitted from strong economic fundamentals, and a favourable exchange rate which combined with a deficit in the region curtailed incursions into the domestic market. This resulted in further consolidation of domestic sales volumes to 145 000 tons for the year. The continuing high demand of sugar in the region benefitted the company's export sales into the traditional neighbouring markets. Record shipments of bulk raw sugar exports to the European Union were moved efficiently, and realisations were higher than in the previous year, helped by a favourable exchange rate.

Despite lower sugar production, higher sales revenue, combined with effective cost control and the benefit of improved factory productivity resulted in improved operating margins and profit from operations increased by more than 40 percent compared to the previous period. Operating profits increased to ZMK307 billion compared to ZMK174 billion in the previous year.

Finance costs on expansion related borrowings continue to have a significant impact on earnings and in the period under review, interest rates on Kwacha denominated loans increased compared to the previous year. Net finance costs increased by 22 percent and totalled ZMK155 billion compared to ZMK127 billion in the previous year. The company benefited from a reduced agricultural tax rate introduced during the year resulting in the effective tax rate falling to 14% for the year. The significant increase in operating profit, offset by higher net finance costs, but enhanced by the benefit of a lower effective tax rate enabled the company to improve its headline earnings for the year to ZMK128 billion from ZMK31 billion in the previous year.

Directorate

The following changes to the directorate of the company are noted:

Mr F M Banda, a non executive independent director, was appointed as Chairman of the Zambia Sugar board with effect from 10th April 2012. Subsequent to his appointment, Mr Banda stepped down as Chairman of the Audit Committee and continues to serve on the Nomination Committee. He was replaced on the Audit Committee by Mr M H Abdool-Samad, the Illovo Group Financial Director on 4th May 2012 who also serves on the Risk Committee.

Having stepped down as Chairman of the Zambia Sugar board, Mr G J Clark, the Illovo Group Managing Director, continues as a member of the board and Chairman of the Nomination Committee and a member of the Audit, Risk and Remuneration Committees.

Mr A R Mpungwe, a non executive independent director, was appointed as a member of the Remuneration Committee on 19th August 2011 and of the Audit and Risk Committees on 10th April 2012.

Mrs M D Mwanakatwe, a non executive independent director, was appointed as Chairperson of the Remuneration Committee on 3rd November 2011 and also serves on the Nomination Committee.

Mr B M Stuart, having retired from Illovo Sugar Limited, subsequently resigned from the Zambia Sugar board on 31st March 2012. His replacement, Mr G B Dalgleish, the Illovo Group Operations Director, was appointed to the board on 4th May 2012. Mr Dalgleish is the Chairman of the Risk Committee of the board.

Prospects

Good climatic conditions, increased age of cane in all growing areas and an increased area planted to cane from the Magobbo Smallholders Scheme will further increase sugar cane deliveries to the mill during the coming year. Operations commenced for the 2012/13 season in the second week of April, and the factory has quickly reached its rated capacity and is poised to repeat the solid performance experienced in the previous year, thereby increasing sugar production which is expected to exceed 400 000 tons. Improved economic conditions will enhance domestic market sales. The continuing sugar deficit in the region will benefit the company and higher expected realisations from EU exports should further improve export revenue. Operating costs will come under pressure as major commodity prices increase globally and inflation increases local costs of production. An expected reduction in interest rates could lower finance charges going forward. Exchange rate movements and weather will however continue to influence profits.

Dividends

An interim dividend of ZMK3.50 per share (2011: ZMK1.85) was paid to shareholders on 29th December 2011. Notice is hereby given that a second interim dividend of ZMK5.40 per share (2011: ZMK0.70) has been declared in respect of the year ended 31st March 2012. This dividend is payable on 22nd June 2012 to shareholders registered at the close of business on 21st May 2012.

At the forthcoming Annual General Meeting to be held on 14th August 2012, the Directors will propose a final dividend for the year ended 31st March 2012 of ZMK1.00 per share (2011: ZMK1.00). This will result in a total dividend for the year of ZMK9.90 per share (2011: ZMK3.55).

Whilst the level of dividend distribution has been reduced in the previous three financial years to ease the funding requirements arising from the recent expansion project, the total dividend for the current year reflects the improved performance of the company.

By order of the Board

LM Sievu
Company Secretary

Nakambala Estate
4th May 2012

Zambia Sugar

FINAL RESULTS

In accordance with the requirements of the Securities and Exchange Act No. 38, Zambia Sugar Plc announces its results for the year ended 31 March 2012

ABRIDGED GROUP STATEMENTS OF COMPREHENSIVE INCOME

	Audited 2012 ZK'million	Audited 2011 ZK'million
Revenue	**1 480 091**	1 232 448
Operating profit	**306 649**	173 990
Net finance costs	**(155 491)**	(127 159)
Profit before taxation	**151 158**	46 831
Taxation	**(21 266)**	(16 995)
Profit for the year	**129 892**	29 836
Other comprehensive income	**(1 858)**	912
Total comprehensive income for the year	**128 034**	30 748
Profit attributable to:		
Zambia Sugar's shareholders	**125 348**	27 914
Non-controlling interest	**4 544**	1 922
	129 892	29 836
Total comprehensive income attributable to:		
Zambia Sugar's shareholders	**123 490**	28 826
Non-controlling interest	**4 544**	1 922
	128 034	30 748
Determination of headline earnings		
Profit attributable to Zambia Sugar's shareholders	**125 348**	27 914
Adjusted for:		
Net loss on sale of property, plant and equipment	**12**	243
Headline earnings for the year	**125 360**	28 157
Number of shares in issue ('000)	**6 331 428**	6 331 428
Weighted average number of shares in issue ('000)	**6 331 428**	6 331 428
Basic and diluted earnings per share (ZK)	**19.80**	4.41
Headline earnings per share (ZK)	**19.80**	4.45
Dividend per share (ZK)	**9.90**	3.55
- First interim paid	**3.50**	1.85
- Second interim declared	**5.40**	0.70
- Final proposed	**1.00**	1.00

ABRIDGED SEGMENTAL ANALYSIS

	Audited 2012 ZK'million	Audited 2011 ZK'million
Revenue		
Sugar production	**1 083 247**	866 312
Cane growing	**396 844**	366 136
	1 480 091	1 232 448
Operating profit/(loss)		
Sugar production	**259 196**	179 646
Cane growing	**47 453**	(5 656)
	306 649	173 990

ABRIDGED GROUP STATEMENTS OF FINANCIAL POSITION

	Audited 2012 ZK'million	Audited 2011 ZK'million
Assets		
Property, plant and equipment	**1 235 658**	1 264 658
Intangible asset	**67 902**	67 902
Cane roots	**197 087**	200 380
Growing cane	**231 955**	231 858
Sugar and molasses stocks	**32 612**	49 208
Trade and other receivables	**125 796**	140 051
Other current assets	**115 779**	90 226
Cash and bank balances	**208 096**	53 400
Total assets	**2 214 885**	2 097 683
Equity and liabilities		
Capital and reserves	**796 397**	705 831
Non-controlling interest	**31 599**	28 558
Deferred tax liability	**47 299**	31 468
Borrowings	**1 136 603**	1 150 507
Current liabilities	**202 987**	181 319
Total equity and liabilities	**2 214 885**	2 097 683

ABRIDGED GROUP STATEMENT OF CASH FLOWS

	Audited 2012 ZK'million	Audited 2011 ZK'million
Cash generated from operations	**386 731**	240 677
Finance costs, taxation and dividends paid	**(193 284)**	(150 745)
Net investment in future operations	**(23 401)**	(17 273)
Other movements	**27**	2 963
Net cash inflow before financing activities	**170 073**	75 622
Net cash outflow from financing activities	**(15 377)**	(81 369)
Net increase/(decrease) in cash and cash equivalents	**154 696**	(5 747)