



ILLOVO SUGAR MALAWI Plc

FINANCIAL RESULTS FOR THE YEAR ENDED 31 MARCH 2016/17

Illovo Malawi improves profitability and looks ahead to a better cane crop in 2017/18

- Operating profit up 44% year-on-year from K12.9 billion in 2015/16 to K18.7 billion in 2017
- Profit after tax up 292% to K7 billion
- Net finance costs down 23%
- Continued high debt levels preclude dividend payment for the full year
- Domestic sales volumes up by 6%
- Sugar production down by 11%, impacted by:
 - Unfavourable weather conditions leading to lower water levels and reduced irrigation
 - Power interruptions affecting supply of water to fields
 - Pest infestations due to drought stressed cane

Tuesday, 1 August 2017 – Illovo Malawi, the largest sugar producer in the country, today presented their financial results for the year ended 31 March 2017.

“With a significant effort from everyone in the company we produced pleasing results against the background of challenging economic conditions during the past year, with foreign exchange and interest rate movements exerting a marked effect on the business. The focus on performance improvement initiatives continued to drive cost reduction and efficiencies throughout the company and includes a continuing structural review of the cost base of the business,” commented Mark Bainbridge, Managing Director of Illovo Malawi.

Agricultural operations at both Dwangwa and Nchalo were severely affected, at the commencement of the 2016/17 season, by very dry conditions, with an early cessation of the summer rains particularly impacting the Nchalo sales estate. Electricity supply was inconsistent, as a result of declining lake and river water levels, which hampered irrigation leading to stressed cane crops. Towards the end of the year the cane crop was further compromised by erratic weather conditions with periods of extensive drought and at times heavy rainfall causing some localised flooding.

“Despite the challenging economic and agricultural conditions, we improved profitability and reduced net debt by 37% from K38.2 billion to K24.2 billion. This was achieved through management’s continuing attention on cost reduction and continuous improvement methods which saw various quality audits at both estates being successfully concluded during the period and further operational strategies developed and implemented to ensure ongoing quality improvements”

Total revenue grew from K99.9 billion to K124.0 billion. The export mix was optimised by the commercial teams switching product from lower value EU bulk raw sugar exports to higher value regional markets which delivered improved revenues and margin, increasing domestic sales volumes by 6%. This resulted in an increase to operational profits of 44% year-on-year from K12.9 billion to K18.7 billion.

Headline earnings improved from last year's restated K1.87 billion to headline earnings this year of K 7.1 billion, an improvement of 292%.

Due to cash flow constraints as a result of the company's high debt levels, no interim dividends were paid for the year ended 31 March 2017 (2016: Nil).

"We anticipate normal weather patterns and an improvement in both lake and river levels. This will positively impact Escom's power generation during the current season. In the longer term, a combination of agricultural yield improvements at Nchalo, the phased installation of more efficient irrigation systems and ongoing structural changes within the agronomy sections, together with additional cane planted by outgrowers, we expect to see improved cane yields and higher sucrose content" added Bainbridge

Illovo Malawi has embarked on continuous efficiency and performance improvements at both milling operations at Dwangwa and Nchalo and the benefits building on this year's successful off-crop programmes which addressed plant inefficiencies will be realised going forward.

Due to the good rains during December 2016 through to March 2017, the current normal climate season forecast and the stated efficiencies, sugar production for the new year is expected to be marginally higher than last year. Exports into Regional, USA and EU specials markets will continue to be an area of focus. Following from the last financial year the company targets to reduce sugar exports to the European Union market with future focus on local and regional African markets that are expected to provide price and longer term sustainability as a growing market.

"Inflation rates, together with exchange and interest rate movements, are likely to affect profitability in the coming year but continuing performance improvement and cost control initiatives and a focus on resetting the cost base of the business are expected to result in improved operating margins and the generation of positive free cash flows" concluded Bainbridge

Ends

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NOTES TO EDITORS

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. The name was officially changed from SUCOMA to Illovo Sugar (Malawi) Limited on 11 November 2004. In terms of the new Companies Act 2013, the name was again changed on 23 May 2017 to give effect to the requirements that the name of a public company should end with the abbreviation "plc".

The group is listed on the Malawi Stock Exchange (MSE) and Illovo Sugar Proprietary Limited (Illovo), through Sucoma Holdings Limited, holds 76% of the issued share capital with the balance of the shares being held by the public and other institutional investors. The ultimate holding company is Associated British Foods plc (ABF), in the United Kingdom, which as at 28 June 2016 acquired 100% (previously 51%) of Illovo's issued share capital following approval by minority shareholders in Illovo of an offer by ABF to acquire all of the ordinary shares of Illovo that it did not already own.

Illovo is a leading, global, cost-competitive African sugar producer and a manufacturer of high-value downstream products and is the continent's biggest sugar producer with extensive agricultural and manufacturing operations in six African countries. Illovo Malawi is the largest sugar producer in the country with 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 Chikhwawa.

In a normal season, almost two million tons of sugar cane are grown on both estates which, combined with 360 000 tons of cane grown by Malawian farmers, enables the production of 250 000 tons of sugar. Cane growing operations are significantly enhanced at both estates by access to good soils and secure water sources for irrigation, resulting in generally favourable annual cane yields and sucrose content in cane. Cane cultivated at Dwangwa is irrigated from the Dwangwa and Rupashe Rivers, supplemented by water from Lake Malawi, whilst the Nchalo operation sources its water from the Shire River.

Both factories produce raw and refined sugar with the Nchalo factory also manufacturing value-added speciality sugars. More than 50% of the sugar produced during the year was sold into the local direct consumption market through the company's chain of distribution centres situated throughout Malawi and also into the local industrial and artisanal markets. Around 30% of sugar was sold into markets in the European Union (EU) and the United States of America (USA) while the remaining 20% was sold into neighbouring African regional markets. Both milling operations produce molasses, a by-product of the sugar manufacturing process, which is currently sold as a fermentation raw material to both the Ethanol Company Limited and Presscane Limited fuel alcohol distilleries in Malawi.

Malawi is classified as one of the world's Least Developed Countries on the United Nations Human Development Index. The prevailing low Gross Domestic Product (GDP) per capita results in generally extremely high poverty levels particularly across Malawi's vast rural areas. The group recognises the significant development needs of the communities in which it operates and to meet its strategic intent to be welcomed in the communities in which it operates, Illovo Malawi administers a wide-ranging corporate social responsibility programme and has more recently embarked on shared value initiatives focussing mainly on education and health, together with a broader objective to complement Malawi's national strategy to alleviate poverty and to contribute towards national food security. The group continues to partner with government, non-governmental organisations and other agencies to help address these development issues.

The group also acknowledges its essential role in providing platforms to manage the business activities in all of its operations and continually strives to maintain an environment which meets the needs of current and future generations. Illovo Malawi will continue to develop its business in a socially responsible manner with the ongoing aim of reducing the environmental impact of its operations.