



(Incorporated in Malawi on 31 May 1965 under registration number 839)

EXTRACTS FROM THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2022

FINANCIAL PERFORMANCE	GROUP		COMPANY	
	31-Aug-22	31-Aug-21	31-Aug-22	31-Aug-21
Condensed consolidated and separate statements of comprehensive income	K'm	K'm	K'm	K'm
Revenue	186,642	163,259	102,480	98,217
Gross Profit	65,316	57,831	30,545	35,070
Other Administration Expenses	(25,811)	(25,889)	(14,050)	(15,115)
Operating profit	39,505	31,941	16,496	19,954
Dividend income	60	71	-	-
Net finance cost	(1,087)	(2,674)	(292)	(1,354)
Profit before taxation	38,478	29,338	16,204	18,600
Taxation	(11,848)	(8,869)	(5,079)	(7,774)
Net profit for the year	26,630	20,469	11,125	10,826
Other comprehensive income/(losses)	89	109	(23)	124
Total comprehensive income	26,719	20,578	11,102	10,949
Adjusted for:				
Other comprehensive losses	(89)	(109)	23	(124)
Headline earnings	26,630	20,469	11,125	10,826
Number of shares in issue ('000)	713,444	713,444		
Weighted average number of shares on which net profit per share is based ('000)	713,444	713,444		
Net profit per share (tambala)	3,733	2,869		
Headline earnings per share (tambala)	3,733	2,869		
Dividend per share (tambala)	1,956	600		
Quality of earnings statement				
Operating profit	39,505	31,941		
Adjust for:				
Change in fair value of growing cane	(8,298)	(6,034)		
Operating profit excluding fair value changes	31,207	25,907		
Business segmental analysis				
Revenue				
Sugar production	109,089	92,321		
Cane growing	77,553	70,938		
	186,642	163,259		
Operating profit				
Sugar production	29,434	24,782		
Cane growing	9,963	7,159		
	39,397	31,941		
Condensed consolidated and separate statements of financial position				
ASSETS				
Property, plant and equipment (including Right of use - assets)	76,980	67,648	51,346	45,641
Investment	740	604	324	324
Non-current assets	77,720	68,252	51,670	45,965
Current assets	119,670	96,273	56,867	79,930
Total Assets	197,390	164,525	108,537	125,895
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity	100,935	88,171	18,995	21,848
Taxation	26,792	21,273	18,484	15,008
Non-current liabilities	7,094	8,146	3,301	3,595
Current liabilities	62,569	46,935	67,757	85,444
Total shareholders' equity and liabilities	197,390	164,525	108,537	125,895
Depreciation	9,586	9,120		
Capital expenditure	16,618	8,873		

Condensed consolidated and separate statements of cash flows

	GROUP	COMPANY
	31-Aug-22	31-Aug-21
Cash generated from operations before working capital changes	40,707	34,671
Working capital requirements	14,006	3,588
Finance costs and taxation	(9,261)	(5,544)
Net cash flows from operating activities	45,452	32,715
Net cash flows used in investing activities	(16,479)	(8,453)
Net cash flows before financing activities	28,973	24,262
Cash flows used in financing activities	(14,235)	(22,597)
Increase in cash and cash equivalents	14,738	1,665

Condensed consolidated and separate statements of changes in equity

	GROUP	COMPANY
	31-Aug-22	31-Aug-21
Share capital and premium		
Balance at beginning and end of the year	782	782
Retained earnings		
Balance at beginning of the year	87,035	70,847
<i>Net profit for the year</i>	26,630	20,469
Dividends declared	(13,955)	(4,281)
Balance at end of the year	99,710	87,035
Non-distributable reserve		
Balance as at beginning of the year	354	245
Cash flow hedges	(23)	124
Fair value gain on revaluation of investment	112	(15)
Balance at end of year	443	354
Shareholders' equity	100,935	88,171

Overview

The fiscal year ended 31st August 2022 presented various challenges and opportunities which the group embraced as further discussed below, which impacted the results as depicted in the financial report.

The group achieved 14 per cent growth in turnover to K186.6 billion, 24 per cent growth in operating profit to K39.5 billion and 31 per cent growth in profit before tax to K38.4 billion over the prior year. The group experienced significant growth in domestic market and sold 213 550 tonnes from 172 578 tonnes in the prior period. The group contributed to the Malawi fiscus by paying and collecting tax on behalf of government amounting to K28.2 billion (2021: K16.8 billion). The group also managed to fully repay its debt and achieve a net cash position in the year despite the challenges it faced.

The country experienced cyclones Ana and Gombe, that came along with heavy rains and subsequent flooding in the first quarter of the calendar year 2022. This delayed commencement of cane crushing for the 2022 season by a few weeks as the wet fields could not be accessed for cane harvesting and haulage. The persistent rainfall negatively impacted cane quality and sucrose content in the sugarcane, and this manifested through lower sucrose recoveries and high ash content which caused plant mechanical problems resulting in high incidences of downtime.

The two factories planned to start production mid-April 2022 but could not successfully achieve this due to the muddy cane, especially at Nchalo, and general plant downtime. Both factories eventually commenced production initially at low throughput rates particularly in the first week of May 2022. Factory throughput was affected by plant mechanical problems resulting from the poor quality of the cane. Continuous mitigating initiatives were deployed to improve output from the factory as a result of which production improved slowly but progressively over time. Significant rainfall continued in the period from May to July 2022, which affected delivery of both group-produced and grower produced cane and therefore significantly undermined achievement of production targets. The rain breaks provided opportunity for factory maintenance to ensure better plant performance when the cane fields dried out. The group continues to invest in major capital projects in all operational areas to ensure improved efficiency and growth in business. Grower support remains another key focus area for the group.

Domestic sales continued to register growth despite the reduced inventory levels in the period from late March to mid-May 2022 resulting from the delayed crushing of cane as explained above. The Iponyeleniso Kwakuya, Every-Day Chef and other sales activation initiatives contributed to further growth in domestic sales volumes,

further supporting the Route to Consumer initiative aimed at delivering sugar to the last mile customer. To support and meet the country's demand for sugar, the group decided to deprioritise sugar exports until the domestic market was fully supplied. The Malawi Kwacha depreciated in the period and was then devalued by twenty-five percent on 27 May 2022, against the US Dollar and other major trading currencies. This increased our operating costs significantly, most notable being the prices for fertilizer and chemicals. The dynamics on currency price arbitrage at the borders between Malawi and its neighbouring countries resulted in illegal outflow of sugar into those countries, which further contributed to pressure on the stocks allocated for domestic sales. We voluntarily suspended sugar exports to ensure adequate sugar availability in Malawi, but long term we remain committed to export sugar to the deep water and regional markets and therefore contribute to the country's foreign currency generation.

The group welcomed the huge decline in COVID-19 infections across the world and accelerated efforts to ensure normal operations and achieve further efficiency and growth in business. Revenue and profit growth, cost reduction, and operational excellence remain primary focus areas for the business. The endeavour to maintain trusted quality in all product formats and pack sizes and achievement of ultimate customer satisfaction continue to drive the passion that underlies and sustains the Illovo brand promise.

The group commits to continue contributing to the development of the country through significant employment, trade opportunities, tax contributions, and various statutory payments apart from the noteworthy 'creating shared value' investments.

PROSPECTS

It is expected that better weather patterns and a return to normal power generation by the Electricity Generation Company Limited (EGENCO) will improve the output from the agricultural operations, and therefore positively impact production efficiency and factory throughput. More efforts on drip irrigation and other elements of the agricultural recovery plan replete with excellent agronomic practices, continued grower support, a proactive approach at plant maintenance and efficient production initiatives and embedding of the overall performance improvement initiatives throughout the entire business value chain should result in even further growth in the group results.

The group will continue pursuing various initiatives in commercial and logistical operations, that are expected to contribute to better delivery of excellent quality product pack sizes at affordable prices to the ultimate consumer. Efforts at growth will also be engaged further in the export markets to assist us counter the impact on the business of the scarcity of foreign currency, and further ensure maximisation of the value from every ton of sugar sold.

Depreciating exchange rates for the Malawi Kwacha against major trading currencies, increasing inflation and interest rates, the scarcity of foreign currency and fuel continue to militate against the delivery of cost optimisation efforts for the business. The group will therefore continue to actively engage significant effort at cost reduction, improvement of operational efficiency, export revenue enhancement, and domestic market growth to drive delivery of good results for the business and all stakeholders into the foreseeable future.

DIVIDENDS

In view of the business performance for the year ended 31st August 2022, the Directors are pleased to declare a second interim dividend of K10.00 per share, on top of the first interim dividend of K5.56 per share. A final dividend of K5.44 per share will be presented to the Shareholders at the AGM for their approval by Directors and will be paid in March 2023. This will bring the total dividend for the year to K21.00 per share against the prior year full dividend of K18 per share.

Garvin Dalgleish
Chairman

Lekani Katandula
Managing Director

Report of the Independent Auditor on the Condensed Consolidated and Separate Financial Statements of Illovo Sugar (Malawi) plc



Opinion

The condensed consolidated and separate financial statements, which comprise the condensed statements of financial position as at 31st August 2022, the condensed statement of profit or loss and other comprehensive income, condensed statements of changes in equity and condensed statements of cash flows for the year then ended, and related notes, are derived from the audited consolidated and separate financial statements of Illovo Sugar (Malawi) plc for the year ended 31st August 2022.

In our opinion, the accompanying condensed consolidated and separate financial statements are consistent, in all material respects, with the audited consolidated and separate financial statements, in accordance with International Financial Reporting Standards and in compliance with the Companies Act, 2013.

Condensed Consolidated and Separate Financial Statements

The condensed consolidated and separate financial statements do not contain all the disclosures required by International Financial Reporting Standards and requirements of the Companies Act, 2013. Reading the condensed consolidated and separate financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated and separate financial statements and the auditor's report thereon. The condensed consolidated and separate financial statements and audited consolidated and separate financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited consolidated and separate financial statements.

The Audited Consolidated and Separate Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited consolidated and separate financial statements in our report dated 25th November 2022. That report also includes communication of other key audit matters. Key audit matters are those matters that, in our professional judgement were of most significance in our audit of the consolidated and separate financial statements of the current period.

Directors' Responsibility for the Condensed Consolidated and Separate Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on whether the condensed consolidated and separate financial statements are consistent, in all material respects, with the audited consolidated and separate financial statements based on our procedures, which were conducted in accordance with International Standards on Auditing (ISA) 810 (Revised), Engagements to report on Summary Financial Statements.

Ernst & Young

Chartered Accountants (Malawi)

Chiwemi Chihana
Registered Practising Accountant

25th November 2022

Yambani tsiku lilironse ndi Illovo

