



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

**EXTRACTS FROM THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2018 (COMPARATIVES ARE FOR THE FIVE MONTHS ENDED 31 AUGUST 2017)**

**STATUTORY YEAR END**

Members were advised at the annual general meeting of the company that took place on 19 August 2016 that in order to align reporting processes with Associated British Foods plc the statutory year-end of the company would be moved to end on 31 August of each respective year, with this change being effected from the 2017 reporting period. In this regard, the five month audited financial statements for the period ended 31 August 2017 were presented to members at the annual general meeting that took place on 23 November 2017. These full year financial statements are now aligned to the new reporting period for the financial year ended 31 August 2018, with comparatives for a five month period ended 31 August 2017.

**OVERVIEW**

The Dwangwa estate experienced adverse weather conditions during the financial year which was disruptive to both cane growing and milling operations, with the estate being subject to exceptionally wet weather in the last two months of 2017. The crushing season closed in early December with overall average sucrose in cane down on a year on year basis.

The new crushing season started again in April with the mill experiencing a problematic startup with various plant operational challenges and rain delays.

At Nchalo, very dry weather conditions, on-going electricity supply problems and pests and diseases hampered the growth of the crop. The mill completed crushing in mid-November and, like Dwangwa, reduced sucrose percent cane and various milling performance issues reduced overall sugar production for the season.

The new season started well in April with excellent cane throughput. Unfortunately, unexpected rains in July 2018 affected cane harvesting activities and resulted in reduced cane supply to the mill. Pleasingly, the benefits of the yield recovery plan at Nchalo and the investment in new and more efficient irrigation methods has also started to deliver positive results.

Despite on-going support from the business, our smallholder growers continued to struggle both financially and operationally and have continued to experience declines in overall sucrose levels in cane during the year.

With the on-going delivery of the commercial imperatives including the quality drive along the entire route to consumer and business value chain together with the continued promotional and customer focused activities by the commercial team, overall domestic market sugar sales totaled 170 000 tons for the full year September 2017 to August 2018.

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

Headline earnings for the year ended 31 August 2018 totaled K 16.4 billion compared to K 7.7 billion for the preceding five month period, April to August 2017. Management has prioritized reducing debt levels and has repaid a significant portion of the foreign debt during the year. Overall finance costs for the 12 month period September 2017 to August 2018 amounted to K 5.9 billion (five months to August 2017 :K 1.7 billion).

**PROSPECTS**

A return to more normal weather patterns, improvements in EGENCO's power generation ability and in the longer term, the continuing positive effects of the agricultural yield improvement plans at Nchalo, and the development of strategies to return financial and operational stability to the smallholder sugarcane growers, should result in positive overall improved cane crop yields and sucrose content in cane at both operations.

In terms of milling operations, both Dwangwa and Nchalo factories will continue to build on effective maintenance and capital investment programs and also in on-going people skills and capability development to ensure product quality, sustainability and improvement in operational levels and performance throughout all areas of the factory.

The business will continue its various critical success initiatives in the local direct consumption market and extend the delivery footprint to the wider consumer market. Sugar exports, into very challenging regional and deep water export markets, will continue to be an area of focus for the commercial teams who will continue striving to optimise value in every ton of sugar sold.

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

**DIVIDENDS**

After analysis of the investment requirements of the business and current capital structure, the directors will not declare a dividend for the year ended 31 August, 2018.

**Gavin Dalgleish** **Mark Bainbridge**  
Chairman *Managing Director*

21 November 2018

**FINANCIAL PERFORMANCE**

**Condensed consolidated and separate statements of comprehensive income**

	GROUP		COMPANY	
	Audited 12 months ended 31-Aug-18	Audited 5 months ended 31-Aug-17	Audited 12 months ended 31-Aug-18	Audited 5 months ended 31-Aug-17
Revenue	141,760	49,099	75,625	26,258
Operating profit	30,197	12,696	10,711	7,980
Dividend income	31	1	-	-
Net finance cost	(5,901)	(1,733)	(3,647)	(1,035)
Profit before taxation	24,327	10,964	7,064	6,945
Taxation	(7,878)	(3,229)	(2,624)	(1,982)
Net profit for the period	16,449	7,735	4,440	4,963
Other comprehensive income/(charges)	605	(472)	605	(472)
Total comprehensive income	17,054	7,263	5,045	4,491
Adjusted for:				
Other comprehensive (income)/losses	(605)	472	(605)	472
Headline earnings	16,449	7,735	4,440	4,963

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)	2,306	1,084		
Headline earnings per share (tambala)	2,306	1,084		

Quality of earnings statement			
Operating profit	30,197	12,696	
Adjust for:			
Change in fair value of growing cane	(1,042)	9,655	

Operating profit less fair value changes	29,155	22,351		
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Business segmental analysis			
Revenue			
Sugar production	82,588	9,552	
Cane growing	59,172	39,547	
	141,760	49,099	

Operating profit			
Sugar production	29,413	8,977	
Cane growing	784	3,719	
	30,197	12,696	

**Condensed consolidated and separate statements of financial position**

ASSETS			
Property, plant and equipment		50,481	41,252
Investment		-	324
Non-current assets		50,481	41,252
Current assets		88,375	81,197
Total Assets		138,856	122,449

SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity		60,939	43,885
Deferred taxation		19,212	15,112
Non-current liabilities		3,876	23,198
Current liabilities		54,829	40,254
Total shareholders' Equity and Liabilities		138,856	122,449

Depreciation	4,057	1,459		
Capital expenditure	14,413	4,443		

**Condensed consolidated and separate statements of cash flows**

	GROUP		COMPANY	
	Audited 12 months ended 31-Aug-18	Audited 5 months ended 31-Aug-17	Audited 12 months ended 31-Aug-18	Audited 5 months ended 31-Mar-17
Cash generated from operations before working capital changes	33,180	23,801	12,800	12,313
Working capital requirements	(4,790)	(16,960)	765	(8,587)
Net finance costs and taxation	(13,156)	(1,102)	(2,144)	1,248
Net cash inflow from operating activities	15,234	5,739	-	11,421
Cash flow used in investing activities	(13,149)	(4,433)	(9,336)	(3,668)
Net cash inflow before financing activities	2,085	1,306	-	2,085
Cash flow used in financing activities	(9,721)	-	(9,721)	-
(Decrease) / increase in cash and cash equivalents	(7,636)	1,306	(7,636)	1,306

**Condensed consolidated and separate statements of changes in equity**

Share capital and premium			
Balance at beginning and end of the period		782	782
Retained earnings			
Balance at beginning of the period		43,599	35,864
Net profit for the period		16,449	7,735
Balance at end of the period		60,048	43,599
Non-distributable reserve			
Balance at beginning of the period		(496)	(24)
Cash flow hedges		605	(472)
Balance at end of period		109	(496)
Shareholders' equity		60,939	43,885



**REPORT OF THE INDEPENDENT AUDITOR ON THE CONDENSED CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**

To the shareholders of Illovo Sugar (Malawi) plc

**Opinion**

The condensed consolidated and separate financial statements, which comprise the condensed statements of financial position as at 31 August 2018, the condensed statement of comprehensive income, condensed statement of cash flows and condensed statement of changes in equity 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 31 August 2018.

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 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 21 November 2018. That report also includes communication of other 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 year ended 31 August 2018.

**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 Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

*Ernst & Young*

Chartered Accountants (Malawi)  
Shiraz MF Yusuf  
Registered Practising Accountant  
21 November 2018