



AN ILLOVO SUGAR AFRICA COMPANY

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

**EXTRACTS FROM THE AUDITED FINANCIAL STATEMENTS
FOR THE FIVE MONTH PERIOD ENDED 31 AUGUST 2017 (COMPARATIVES ARE FOR THE YEAR ENDED 31 MARCH 2017)**

GROUP		COMPANY	
Audited 5 month period ended	Audited 12 month period ended	Audited 5 month period ended	Audited 12 month period ended
31-Aug-17	31-Mar-17	31-Aug-17	31-Mar-17

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Audited 5 month period ended	Audited 12 month period ended	Audited 5 month period ended	Audited 12 month period ended
31-Aug-17	31-Mar-17	31-Aug-17	31-Mar-17

FINANCIAL PERFORMANCE

Condensed consolidated and separate statements of comprehensive income

	K'm	K'm	K'm	K'm
Revenue	49,099	124,035	26,258	67,039
Operating profit	12,696	18,702	7,980	4,675
Dividend income	1	63	-	-
Net finance cost	(1,733)	(7,846)	(1,035)	(4,133)
Profit before taxation	10,964	10,919	6,945	542
Taxation	(3,229)	(3,839)	(1,982)	(646)
Net profit/(loss) for the period	7,735	7,080	4,963	(104)
Other comprehensive (charges)/income	(472)	1	(472)	1
Total comprehensive income/(loss)	7,263	7,081	4,491	(103)
Adjusted for:				
Other comprehensive income/(charges)	472	(1)	472	(1)
Headline earnings	7,735	7,080	4,963	(104)
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)	1,084	992		
Headline earnings per share (tambala)	1,084	992		

Quality of earnings statement

Operating profit	12,696	18,702
Adjust for:		
Change in fair value of growing cane	9,655	(2,828)
Operating profit before fair value changes	22,351	15,874

Business segmental analysis

	2017	2016
Revenue		
Sugar production	9,552	73,718
Cane growing	39,547	50,317
	49,099	124,035
Operating profit		
Sugar production	8,977	19,006
Cane growing	3,719	(304)
	12,696	18,702

Condensed consolidated and separate statements of financial position

	2017	2016	2017	2016
ASSETS				
Property, plant and equipment	41,252	38,268	29,361	26,681
Investment	-	-	324	324
Non-current assets	41,252	38,268	29,685	27,005
Current assets	81,197	63,899	54,146	40,560
Total Assets	122,449	102,167	83,831	67,565
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity	43,885	36,622	15,094	10,603
Deferred taxation	15,112	19,913	6,255	9,173
Non-current liabilities	22,964	22,333	22,964	22,333
Current liabilities	40,488	23,299	39,518	25,456
Total shareholders' Equity and Liabilities	122,449	102,167	83,831	67,565
Depreciation	1,459	2,868		
Capital expenditure	4,443	8,699		

Condensed consolidated and separate statements of cash flows

	K'm	K'm	K'm	K'm
Cash generated from operations before working capital changes	23,805	18,557	12,317	6,435
Working capital requirements	(16,960)	11,799	(8,587)	15,722
Finance costs, taxation and dividends	(1,102)	(5,227)	1,248	64
Net cash inflow from operating activities	5,743	25,129	4,978	22,221
Cash flow used in investing activities	(4,437)	(8,441)	(3,672)	(5,533)
Net cash inflow before financing activities	1,306	16,688	1,306	16,688
Cash flow used in financing activities	-	(10,000)	-	(10,000)
Increase in cash and cash equivalents	1,306	6,688	1,306	6,688

Condensed consolidated and separate statements of changes in equity

	2017	2016	2017	2016
Share capital and premium				
Balance at beginning and end of the period	782	782	782	782
Retained earnings				
Balance at beginning of the period	35,864	28,784	9,845	9,949
Net profit/(loss) for the period	7,735	7,080	4,963	(104)
Balance at end of the period	43,599	35,864	14,808	9,845
Non-distributable reserve				
Balance at beginning of the period	(24)	(25)	(24)	(25)
Cash flow hedges	(472)	1	(472)	1
Balance at end of period	(496)	(24)	(496)	(24)
Shareholders' equity	43,885	36,622	15,094	10,603

OVERVIEW

Despite several operational and weather related challenges during the 2016/17 production year, Illovo Malawi strategically took every opportunity to limit cane and sugar losses by maintaining a strict focus on the group's agricultural and milling operations at both the Nchalo and Dwangwa estates. In terms of the company's new financial year ending 31 August total cane supplied by the company's own agricultural operations and by independent outgrower farmers for the 12-month period 1 September 2016 to 31 August 2017 ended at slightly over two million tons with overall sugar production at 240 000 tons. Sugar production for the five month April to August 2017 period totalled 147 000 tons.

Sugar cane production continued to be severely impacted by adverse weather conditions, with periods of high rainfall at the beginning of the crushing season at Dwangwa together with very dry conditions during the season affecting both sites. Cane growth was also impacted by inconsistent electricity supply to irrigate the crop as continuing low lake and river water levels impacted upon ESCOM's ability to generate sufficient hydro-electric power.

Despite the weather-related challenges for the period, agricultural and factory performances for both sites were generally satisfactory.

The domestic sugar market also presented its challenges in April 2017 but active management of the product supply chain and various commercial initiatives ensured a consistent and phased supply of sugar to the market. Domestic sugar sales were also supported by various product promotions. Export sugar sales, particularly into regional markets for the period were below initial expectations. The commercial teams continued to explore every global export market opportunity with some pleasing sales volumes into both the EU and USA speciality markets for the five month period.

Economic conditions during the period April to August 2017 remained challenging. The ongoing focus on performance-improvement initiatives, in particular the continued cost reduction drive across the entire value chain, continued to deliver positive results. Total sugar and molasses revenues for the five month period totalled K 49.1 billion, with operating profit at K 12.7 billion and headline earnings at K 7.7 billion.

PROSPECTS

Normal weather patterns for the ensuing year to August 2018 and an anticipated improvement in both lake and river water levels, with the expected return of the rains in December 2017, should assist ESCOM's power generation operations which should provide a more reliable and consistent supply of electricity to both estates during the year. Longer term, a combination of the ongoing agricultural yield improvements at Nchalo, including the continued phased installation of additional efficient irrigation systems, planned structural changes within the agronomy sections and with additional cane planted by outgrowers, are all expected to result in improved cane yields and higher sucrose content in cane.

Milling operations at Nchalo and Dwangwa will benefit from efficiency and performance improvement initiatives, building on the positive impacts of their respective successful off-rop programmes which addressed a number of plant inefficiencies during the previous year's operations. However, due to various climatic and operational challenges in general, it is anticipated that there will be a marginal decrease in total sugar production for the full year ending August 2018.

The commercial environment will continue to build on the successful product branding and product offering in the local direct consumption market and will also continue to extend the company's supply footprint to the wider consumer market with the further roll-out of smaller pack sizes. Sugar exports into regional, EU and USA special markets will continue to be an area of focus for the commercial teams after first fully satisfying sugar supply to the local market.

Inflation rates, together with exchange and interest rate movements, are likely to continue to affect the business but a more stable economic environment, continuing operational performance improvements and cost control initiatives with a strong focus on resetting the cost base of the business are expected to deliver positive financial benefits to the business.

DIVIDENDS

Due to the ongoing cash flow constraints of the group the Directors will propose at the forthcoming general meeting of Members, to be held on 23 November 2017, that no final dividend be payable for the five month period ended 31 August 2017.

By order of the Board
23 October 2017

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

The summary consolidated and separate financial statements, which comprise the summary statements of financial position as at 31 August 2017, the summary statements of comprehensive income, summary statements of changes in equity and summary statements of cash flows for the five month period then ended are derived from the audited consolidated and separate financial statements of Illovo Sugar (Malawi) plc for the five month period ended 31 August 2017.

In our opinion, the accompanying summary consolidated and separate financial statements are consistent in all material respects, with the audited consolidated and separate financial statements, in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards.

Summary Consolidated and Separate Financial Statements

The summary consolidated and separate financial statements do not contain all the disclosures required by the International Financial Reporting Standards and the requirements of the Malawi Companies Act. Reading the summary 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 summary consolidated and separate financial statements and the 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 23 October 2017. That report also includes the 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 Summary Consolidated and Separate Financial Statements

Directors are responsible for the preparation of the summary consolidated and separate financial statements in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation of the summarised consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary 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 810 (Revised), *Engagements to Report on Summary Financial Statements*.

Deloitte.
Chartered Accountants

Madalo Mwenelupembe
Partner
Date 23 October 2017