

ILLOVO SUGAR (MALAWI) LIMITED



(Incorporated in Malawi on 31 May 1965 under registration number 839)
**EXTRACTS FROM THE UNAUDITED FINANCIAL STATEMENTS
 FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016**

FINANCIAL PERFORMANCE

GROUP			COMPANY		
Sugar season basis Unaudited 6 months ended		Audited 12 months ended	Sugar season basis Unaudited 6 months ended		Audited 12 months ended
30 Sep 2016	30 Sep 2015	31 Mar 2016	30 Sep 2016	30 Sep 2015	31 Mar 2016
<i>Restated</i>	<i>Restated</i>		<i>Restated</i>	<i>Restated</i>	

Condensed consolidated statement of comprehensive income

	K'm	K'm	K'm	K'm	K'm	K'm
Revenue	65,483	53,736	99,925	35,230	31,246	55,094
Operating profit	10,782	6,450	12,956	1,376	2,253	3,433
Dividend income	34	33	40	-	-	-
Net finance cost	(3,426)	(3,443)	(10,146)	(3,418)	(2,056)	(7,791)
Profit/(loss) before taxation	7,390	3,040	2,850	(2,042)	197	(4,358)
Taxation	(2,248)	(929)	(1,045)	584	(66)	1,165
Net profit/(loss) for the period	5,142	2,111	1,805	(1,458)	131	(3,193)
Other comprehensive income	112	-	(438)	112	-	(438)
Total comprehensive income	5,254	2,111	1,367	(1,346)	131	(3,631)
Adjusted for:						
Other comprehensive income	(112)	-	438	(112)	-	438
Headline earnings	5,142	2,111	1,805	(1,458)	131	(3,193)
Number of shares in issue ('000)	713,444	713,444	713,444			
Weighted average number of shares on which net profit per share is based ('000)	713,444	713,444	713,444			
Net profit per share (tambala)	721	296	253			
Headline earnings per share (tambala)	721	296	253			

Quality of earnings statement

Operating profit	10,782	6,450	12,956
Adjust for:			
Change in fair value of growing cane	(2,868)	(2,274)	(3,884)
Operating profit less fair value changes	7,914	4,176	9,072

Business segmental analysis

Revenue			
Sugar production	39,335	32,853	58,782
Cane growing	26,148	20,883	41,143
	65,483	53,736	99,925
Operating profit			
Sugar production	9,873	6,984	14,122
Cane growing	909	(534)	(1,166)
	10,782	6,450	12,956

Condensed consolidated statement of financial position

ASSETS						
Property, plant and equipment	26,404	23,853	24,951	18,148	17,319	17,736
Cane roots	8,540	6,862	7,496	6,320	4,614	5,207
Investment	-	-	-	324	324	324
Non-current assets	34,944	30,715	32,447	24,792	22,257	23,267
Current assets	77,999	83,429	67,244	44,644	26,509	47,739
Total Assets	112,943	114,144	99,691	69,436	48,766	71,006
EQUITY AND LIABILITIES						
Capital and reserves	34,729	30,286	29,542	9,360	14,468	10,706
Deferred taxation	15,403	13,163	15,909	7,806	120	8,363
Non-current liabilities	21,402	17,363	19,444	21,402	16,815	19,444
Current liabilities	41,409	53,332	34,796	30,868	17,363	32,493
Total Equity and Liabilities	112,943	114,144	99,691	69,436	48,766	71,006
Depreciation	1,544	1,283	2,409			
Capital expenditure	4,040	2,784	5,653			

Condensed consolidated statement of cash flows

	K'm	K'm	K'm	K'm
Cash generated from operations before working capital changes	10,797	5,665	11,405	2,642
Working capital requirements	14,433	(31,579)	(29,217)	(26,883)
Finance costs, taxation and dividends	(2,966)	(2,279)	(7,609)	(3,483)
Net cash inflow/ (outflow) from operating activities	22,264	(28,193)	(25,421)	(27,724)
Cash flow used in investing activities	(4,040)	(2,771)	(5,483)	(3,180)
Net cash inflow/(outflow) before financing activities	18,224	(30,964)	(30,904)	(30,904)
Cash flow (used in)/from financing activities	(10,269)	16,413	26,371	26,371
Increase/(decrease) in cash and cash equivalents	7,955	(14,551)	(4,533)	(4,533)

Condensed consolidated statement of changes in equity

Share capital & premium				
Balance at beginning of the period	782	782	782	782
Retained earnings				
Balance at beginning of the period - as previously reported	28,760	41,052	41,052	23,088
Adjustments related to the restatement of cane roots	-	(13,659)	(17,364)	(12,287)
Balance at beginning of the period - restated	28,760	27,393	23,688	10,801
Net profit/(loss) for the period	5,142	2,111	5,510	(439)
Non-distributable reserve	45	-	(438)	(438)
Balance at end of period	33,947	29,504	28,760	9,924
Capital and reserves	34,729	30,286	29,542	10,706

Restatement of cane roots

IAS 41 Agriculture distinguishes between bearer plants and other biological assets. A bearer plant is defined as a living plant that: is used in production or supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

Bearer plants no longer form part of the scope of IAS 41 Agriculture and are therefore not measured at fair value. Bearer plants must be accounted for in terms of IAS 16 Property, Plant and Equipment and measured at cost less accumulated depreciation and any accumulated impairment losses.

The group's cane root assets meet the definition of a bearer plant and therefore cane roots will no longer be measured at fair value and therefore the cost of replanting fields in previous years will no longer be escalated by the annual inflation rates. The financial statements have been restated accordingly.

The impact on the condensed consolidated financial statements is as follows:

	GROUP		COMPANY	
	Sugar season basis 6 months 30 Sep 2015	Actuals 12 months 31 Mar 2016	Sugar season basis 6 months 30 Sep 2015	Actuals 12 months 31 Mar 2016
	K'm	K'm	K'm	K'm
Operating profit - as previously reported	9,096	18,248	4,220	7,367
Adjustments related to the restatement of cane roots	(2,646)	(5,292)	(1,967)	(3,934)
Operating profit - restated	6,450	12,956	2,253	3,433
Headline earnings - as previously reported	3,963	5,510	1,508	(439)
Adjustments related to the restatement of cane roots	(1,852)	(3,705)	(1,377)	(2,754)
Headline earnings - restated	2,111	1,805	131	(3,193)
Headline earnings per share (tambala) - as previously reported	555	772		
Adjustments related to the restatement of cane roots	(259)	(519)		
Headline earnings per share (tambala) - restated	296	253		

BASIS OF PREPARATION

As the sugar season runs from 1 April to 31 March, the earnings from cane growing and sugar production, incorporated in the above results to 30 September 2016, comprise one half of the latest estimate of earnings for the sugar season ending 31 March 2017.

REVIEW OF OPERATIONS

On a seasonal basis, revenue, operating profit and headline earnings for the half year to September 2016 were all higher than the prior period reflecting the benefits of cost efficiency improvements which will continue into the second half.

Agricultural operations at both Dwangwa and Nchalo continued to be affected by persistent dry weather, pest infestations and a lack of water, and irrigation regimes were also disrupted by poor electricity supply. Outgrower cane has been similarly affected. Factory operations were satisfactory at Dwangwa but Nchalo has been affected by various mechanical performance issues.

Domestic sugar sales volumes in the first half of the year increased by 24% over the same period last year, while sales into regional and deep water export markets also improved. Efforts by both the Malawi Revenue Authority and Ministry of Industry, Trade and Tourism officials have largely curbed the illegal importation of sugar from neighbouring countries.

These results take into account a change in accounting policy for the valuation of cane root assets following the amendment of IAS 41 which now permits the valuation of such assets at cost less accumulated depreciation. Prior year results have been restated.

PROSPECTS

Sugar production for the full season is expected to be approximately 6% lower than last season. Full year domestic sugar sales are expected to be more than 10% ahead of last year driven, in part, by a local market product re-launch and the introduction of new pack sizes. Overall export sales volumes are expected to decline marginally on a year-on-year basis.

DIVIDEND

Notice is hereby given that despite some recovery in the commercial environment, the company's debt levels remain high which, coupled with the high interest rate environment, has resulted in no interim dividend being declared. This will be reviewed again at year-end taking into account full year cash generation and the extent to which improvements in domestic and regional markets appear sustainable.

BY ORDER OF THE BOARD

Malawi Sugar Limited
 Secretaries
 10 November 2016