

FINANCIAL RESULTS FOR THE YEAR ENDED 31 MARCH 2017

ILLOVO SUGAR (MALAWI) PLC – RESULTS PRESENTATION – 1 AUG 2017



AGENDA

1. Company Overview
2. Salient Features
3. Highlights
4. Finance, Production and Market Overview
5. Strategic Response
6. Prospects
7. Q&A
8. Annexure 1 – Directorate



COMPANY OVERVIEW

Mark Bainbridge, Managing Director

Lekani Katandula, Finance Director



COMPANY OVERVIEW

Leading sugar business

- 2.1 million tons of cane crushed and 240 thousand tons of sugar made

Positive contribution to economic growth

- Largest private agricultural and sugar milling company in Malawi
- Many local industries are dependent upon the company for their viability
- Outgrower schemes contribute almost 20% of total cane supply
- Generate valuable foreign exchange through export sugar sales
- Major contributor to the Malawian tax authorities through direct and indirect taxes

Significant provider of employment

- 9 500 employees at peak during the year on both estates (5 800 permanent employees and 3 700 seasonals)

Commitment to the society in which we operate

- Wide ranging corporate social responsibility (CSR) projects are undertaken: education, health, environmental, food security and social and community development projects
- We are now evolving our CSR model into one of sustainable shared-value creation involving multiple partners



SALIENT FEATURES

Financial

- ✓ Operating profit up 44% to K18.7 billion
- ✓ Net finance costs down 23%
- ✓ Profit after tax up 292% to K7 billion
- ✓ Return on net assets up 6%
- ✓ Increased cash operating profit up 53%
- ✗ Debt levels still too high to pay dividends
- ✓ Cost reduction initiatives: K4 billion in the year

Physicals

- ✗ Sugar production: 239,951 tons – down 11%
- ✗ Own cane production down 5% to 1.7 million tons due to decreasing cane yields arising from unfavourable weather conditions
- ✗ Refined sugar make down by 18% to 37,572 tons
- ✓ Dwangwa all time record crush rate and weekly crush made

Markets

- ✓ Domestic sales volumes up by 6%
- ✗ Regional sales volumes down 3%
- ✓ Sales to low priced EU bulk raw market down by 62%
- ✗ Sensitivity to global factors in the sugar markets

Risks and Opportunities

- ✓ Successful product mix review with introduction of affordable pack sizes
- ✓ Greater market access for bottlers sugar to regional bottling plants
- ✗ Influx of illegally imported sugar due to price parity and fx movements
- ✗ Operating within volatile regional currencies environment



HIGHLIGHTS – PROJECT MPHAMVU

Project Mphamvu

Address affordability, accessibility and rebranding coupled with value proposition of smaller packs in the trial zone

Awarded “**Most Improved Brand of the Year**” prize by the Chartered Institute of Marketing

Outcome

- ✓ Rationalisation of the route to market
- ✓ Better understanding of market segments, margins and volumes by channel
- ✓ Rebrand launched October 2016 with new pack design
- ✓ Successful trials of 220g and 500g with targeted price points
- ✓ Revaluation of our quality focus and needed improvement



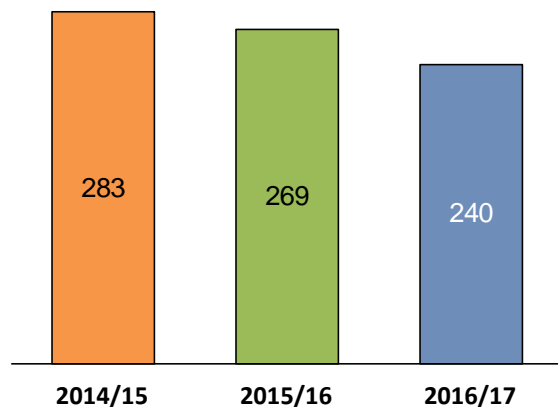
HIGHLIGHTS (cont'd)

- Management continue to focus on **safety and risk management** at all levels
- Various **quality audits** at both estates were successfully concluded
- Good progress on **cost reduction** and **continuous improvement methods**
- Commissioning of the LOC (**Logistics Operation Centre**) at Limbe
- Improved **profitability** and **reduced net debt** despite low sugar production
- Celebrated our **golden jubilee year** at Nchalo – 50 years of making sugar in Malawi
- Getting closer to our **consumers**
- On-going support of **Outgrowers**
- Improvement in year end **share price** by 7.5%



PERFORMANCE DASHBOARD

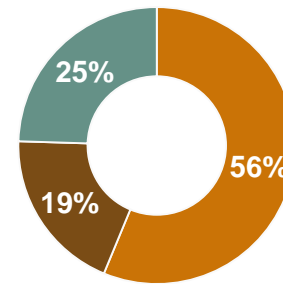
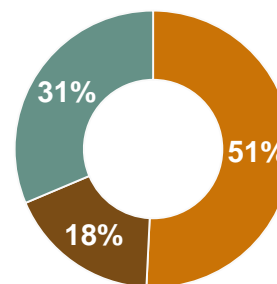
Sugar Production ('000 tons)



Sugar Sales (%)

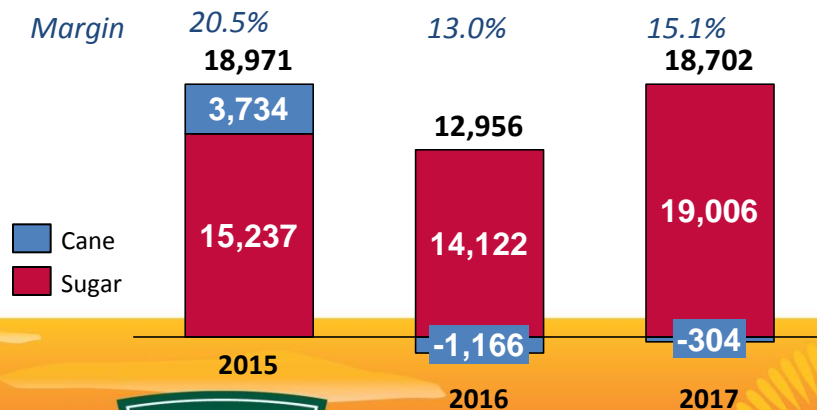
By market – 2016

By market – 2017



Local Regional Exports Deep water exports

Operating Profit (K 'millions)



Cane
Sugar

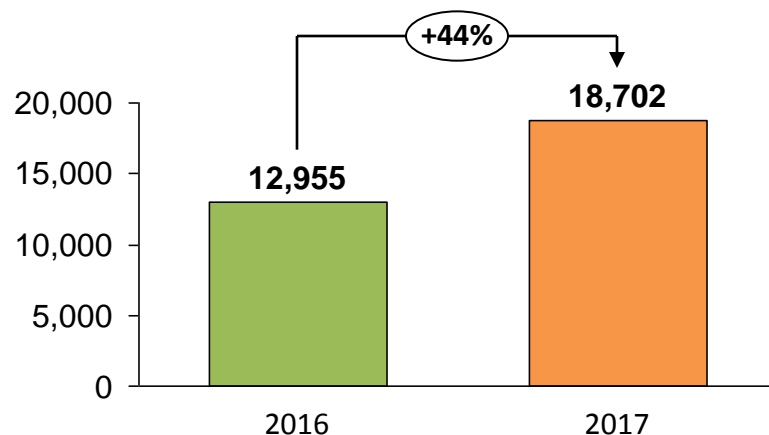
Overview

- Decreased sugar production driven by the adverse weather conditions, pests and diseases, power and water challenges
- Favourable economic fundamentals in Malawi continue to drive growth in demand for sugar, increasing domestic market sales
- The business benefitted from improvements to the sales mix with sugar being redirected from various lower priced EU markets into regional markets
- The benefit of the weaker Kwacha improved export price realisations and standing cane valuation

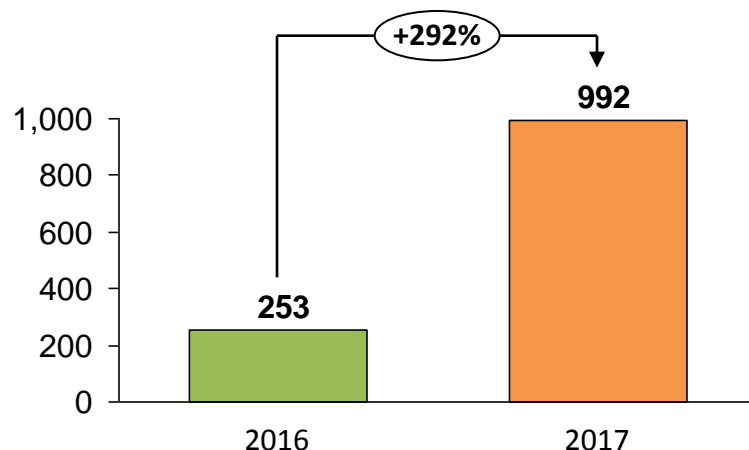


KEY FINANCIAL METRICS

Operating Profit (K'm)



Headline earnings per share (tambala)



Income Statement	2015/16 Actual	2016/17 Actual
Revenue	99 925	124 035
Operating profit	12 955	18 702
Net financing costs	(10 106)	(7 783)
Profit before tax	2 849	10 919
Taxation	(1 045)	(3 839)
Profit after tax	1 804	7 080
Analysis	2015/16 Actual	2016/17 Actual
Operating margin (%)	13.0%	15.1%
Interest cover (times)	1.3	2.4
Effective tax rate (%)	36.6%	35.2%
EBITDA (K'm)	15 418	20 063
Capital Expenditure (K'billion)	3.3	4.1
Debt : equity	81.6%	66.1%



SIGNIFICANT REDUCTION IN NET DEBT LEVELS

Free Cash Flow	Actual - March 2016 K'm	Actual - March 2017 K'm	Net Debt	Actual - March 2016 K'm	Actual - March 2017 K'm
Cash operating profit	9 168	14 053	Opening Net Debt	(4 029)	(38 275)
Working capital requirements	(29 885)	11 738	Free Cash Flow	(34 857)	14 075
Inventory	(4 261)	(46)			
Receivables	(7 072)	6 119	Other movements	612	(7)
Payables	(18 551)	5 665			
Interest	(10 106)	(7 784)			
Taxation paid	(805)	(1)	Closing Net Debt	<u>(38 275)</u>	<u>(24 207)</u>
Core replacement capital	(3 230)	(3 932)			
Free Cash Flow	(34 857)	14 075	Debt Equity %	82%	66%



PRODUCTION – NCHALO ESTATE AND FACTORY



PRODUCTION – IMPACT OF CLIMATIC CHALLENGES AND THE ADVERSE IMPACT ON PRODUCTION

PRODUCTION

Own Cane (tons)

Yield - Own Cane (tons/hectare)

Sucrose Content - Own Cane (%)

Outgrower Cane (tons)

Yield - Outgrower Cane (tons/hectare)

Sucrose Content - Outgrower Cane (%)

Cane Crushed (tons)

Crush Rate (tons cane per hour)

Total Sugar Production (tons)

2014/15	2015/16	2016/17
Actual	Actual	Actual
1 948 232	1 813 668	1 721 057
103	94	89
14.17	14.32	13.94
450 760	420 596	363 668
78	68	61
14.46	14.68	14.21
2 398 991	2 234 264	2 084 724
495	472	477
282 962	269 389	239 951



PRODUCTION CHALLENGES & RESPONSES

Challenges

- Lower water levels (Shire and Dwangwa river and the Lake) resulting in bulk water supply constraints i.e. reduced irrigation
- Power interruptions affecting supply of water to fields
- Pest infestations due to drought stressed cane
- Operational performance

Responses

- Drive for more efficient forms of irrigation (Drip irrigation to maximise yields)
- Agric yield recovery program at Nchalo
- Improved factory throughput during the season
- Unrelenting focus on cost reduction
- Focus on quality to reduce bulk sugar production in favour of higher margin export sugars



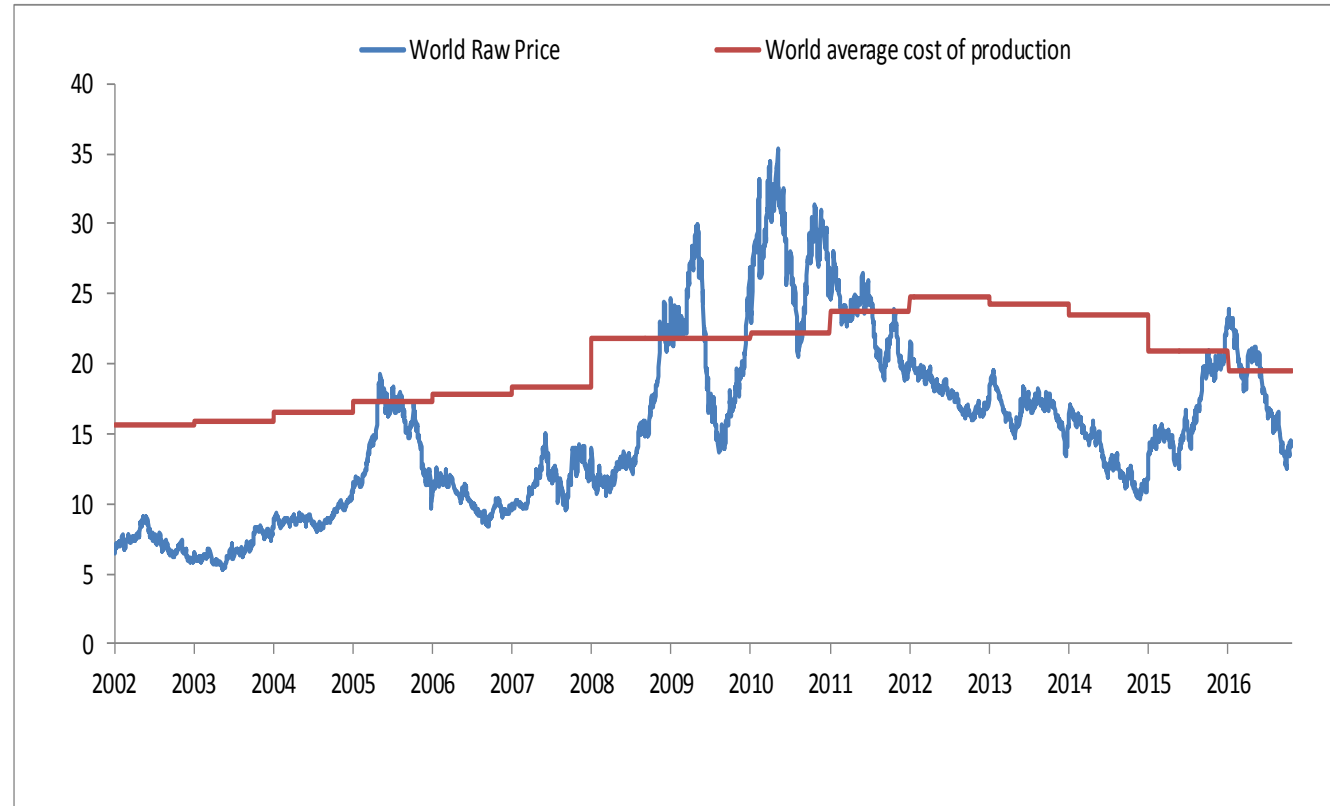
DWANGWA ESTATE - cane fields adjacent to Lake Malawi



WORLD SUGAR MARKET VOLATILITY

World sugar prices have exhibited a significant decline over recent months

- Prices have been depressed by weak Brazilian Real, Indian subsidies, and low oil price
- High levels of global stocks will take some time to clear
- 2016/17 prices were better than previous two years but still much lower than earlier years



Economic fundamentals support an increase in the world price in the medium term

- Continued world demand growth of 2% p.a.
- Construction of new capacity is not viable at current price levels without significant subsidies

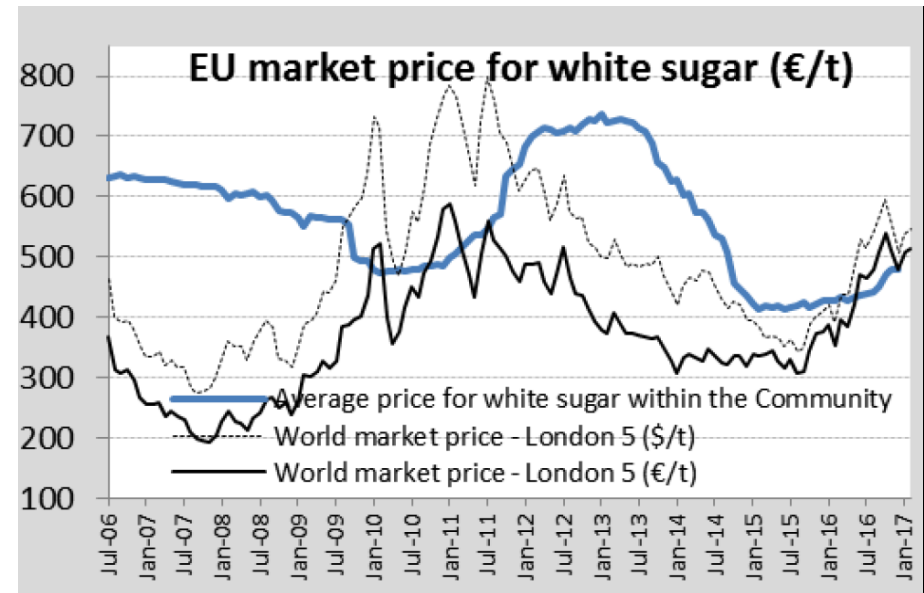


EUROPEAN SUGAR MARKET

EU prices have reached import parity, and in medium-term are expected to remain there

- European producers repositioning ahead of quota reform in September 2017
- EU producers trying to increase volumes to gain economies of scale
- This will reduce the benefits that arise from the concessions made to least development countries in supplying the EU market
- EU prices are now more closely aligned to world prices
- Producers more actively competing outside their historical focus areas

US\$:Euro exchange rate – weaker Euro impacts exports realisation



STRATEGIC RESPONSE

DEVELOPMENT OF KEY MARKETS

- Consolidate and grow the domestic market share
- Optimise route to market strategies
- Reduce bulk exports to EU
- Regional market provides valuable alternatives
- Focus on niche market of bottlers sugar into the region
- Improving quality of product, packaging and supply



PRODUCTION: AGRICULTURE AND FACTORY

- Invest in Agriculture recovery plan (investing in human resources and irrigation systems) to improve yields
- Sustain good factory performance to reduce off-specification sugar production and decrease LTA (Lost Time Available)
- Production plans to be demand driven with clear understanding of quality and packaging types to meet market demand

RESETTING THE COST BASE

- Continue targeted decrease in cost of production to ensure acceptable margins even during troughs of the sugar price cycle
- Sustained implementation of various productivity improvement programmes
- Review of insourced and outsourced services to optimise profit margins
- Our goal is to increase our resilience against operational and economic “shocks”



Market and economic conditions are expected to remain challenging in the year ahead

- Sugar production for the new season is expected to be marginally higher than last year
- Inflation rates, foreign exchange and interest rate movements, will continue to have a marked effect in profitability in the year ahead
- The company will continue to maintain its on-going cost control initiatives

Progress on underlying strategic imperatives is expected to continue

- The company will continue to build on the successful product rebrand and introduction of the smaller pack sizes and extend the delivery footprint to the wider consumer market
- Margins in the regional export markets are expected to remain under pressure from surplus sugar stocks on the world market
- Continued focus on product quality across the supply chain
- Exploring capital investments in power self sufficiency
- Pursue agriculture turnaround strategy to improve cane yields

We are one of Africa's largest sugar producers with a strong platform for future growth

- Our market development initiatives have seen the business making inroads into new markets and magnifying our presence in existing markets
- Build and sustain agricultural capacity and viability for outgrowers



End Q&A



ANNEXURE 1 - DIRECTORATE

Chairman

G B (Gavin) Dalgleish (51) BScEng(Chem), MScEng(Chem): Gavin was appointed as a non-executive Director in November 2011 and assumed the position of Chairman in August 2013. He holds a master's degree in chemical engineering and first joined Illovo in 1988 as a postgraduate student. He has since held a number of technical, business-development, operational and general management positions in Illovo. He also spent three years leading the Australia-based global technology unit of AB Mauri, a yeast business which is a subsidiary of Illovo's holding company, Associated British Foods plc, before returning to Illovo in December 2010. Gavin assumed the position of Operations Director of Illovo in 2012, and was appointed Managing Director with effect from 1 September 2013. He is also Chairman of the Nomination/Remuneration Committee.

Executive Directors

Managing Director: M A (Mark) Bainbridge (49) BEng (Hons)Engineering: Mark was appointed Managing Director in December 2016. He joined the Illovo Sugar group in June 2013 as the Managing Director of the Illovo business in Tanzania. He has had seasoned and extensive multinational experience in sugar manufacturing environments since 1986 and previously served in various senior technical, project and leadership positions for British Sugar in the United Kingdom and AB Sugar in China. Prior to joining Illovo Sugar in 2013, Mark was the Development Director – Bo Tian Sugar Co. China. He is a Trustee of Mary's Meals in Malawi.

Finance Director: L L (Lekani) Katandula (41) BAcc, FCCA, CA(Mw), CFA, CISA: Lekani was appointed Finance Director in August 2015. Prior to joining the Group, Lekani was with Deloitte Malawi where he was Audit and Advisory Partner for over 11 years. He has a wealth of technical knowledge and experience in financial standards and reporting systems and leadership having operated in senior managerial and partnership levels in a reputable external audit practice. He currently also serves as a trustee at Phoenix International School and as a non-executive director of Ethanol Company Limited, Alliance Capital Limited and Malawi Telecommunications Limited.

General Manager – Nchalo: M F (Marc) Pousson (51) NHDip (Elect HC), GCC(Elect): Marc was appointed an Executive Director in May 2017. He joined Illovo in 1992 as an engineer in training and after successfully completing the programme he held a number of operational, technical and management positions at various operations in the Illovo group. Most recently he spent over 3 years as Operations Director of Zambia Sugar plc. Marc has over 20 years' experience in the sugar industry, all with Illovo.



ANNEXURE 1 - DIRECTORATE

Non-executive Directors

M H (Mohammed) Abdool-Samad (47) BCom, CA(SA): Mohammed was appointed as a Non-executive Director in November 2011. He was appointed as Financial Director of Illovo in 2011. He holds a BCom degree and qualified as a chartered accountant in 1996. From 1996 to 2000, he held various managerial positions at Deloitte & Touche. In 2001 he joined Anglo American plc, providing risk management and treasury audit services. He was appointed Senior Finance Manager of Anglo Coal South Africa in 2005, Chief Financial Officer in 2006, and after a restructure, Chief Financial Officer of Anglo American Thermal Coal in 2009, responsible for Anglo American's global thermal coal assets. He is Chairman of the Audit Committee and also a member of the Risk Management Committee.

M A P (Mathews) Chikaonda (Dr) (62) DipBus(Dist), BA(Fin&Econ)(Hons), MBA(Fin), PhD (Fin): Mathews was appointed as an Independent Non-executive Director in October 2006. He was until his retirement in 2016 the Group CEO of Press Corporation Limited (PCL). Prior to this, he served as Assistant Professor of Finance and Associate Professor of Finance (tenured) from 1988 to 1991, and 1992 to 1994, respectively, at Memorial University of Newfoundland in Canada. Thereafter, Mathews, served as Deputy Governor of the Reserve Bank of Malawi from August 1994 until January 1995, when he was appointed Governor of the Reserve Bank of Malawi. He served in this post until March 2000 when he was appointed to the Cabinet and served in the Government of Malawi as Minister of Finance and Economic Planning until January 2002. Mathews, is a Director of Pannar Seed (Malawi) Limited, and is also a Member of the Leadership Council, as well as a Director, of the US-based Initiative for Global Development (IGD). He currently serves as Chairman on the Boards of National Bank of Malawi and Telekom Networks Malawi.

P W (Paul) Guta (45) BSc(Hons), MSc(StratMgt), CertMkt: Paul was appointed as an Independent Non-executive Director in February 2017. He is currently the Managing Director of Nedbank Malawi Limited having been appointed to this position in 2014. He previously held various business management roles in Corporate and Retail banking since 2003. From 1997 to 2003 he was in the oil industry with BP Malawi (now Puma Energy). He is the 1st Vice-President of the Bankers Association of Malawi and Chairman of the Institute of Bankers of Malawi. He is also currently a Board member and Chairman of the Finance Committee of AMREF Health Africa Limited. He is a Non-executive Director of Lube Masters Limited. He is currently a member of the Audit Committee.



ANNEXURE 1 - DIRECTORATE

Non-executive Directors

J P (John) Hulley (56) NatDip(MechEng), MDP (GenMgt): John was appointed as a Non-executive Director in October 2013. He was appointed to the Board of Illovo in September 2013 as its Operations Director. From 1978 until 1993 he served the Illovo in various positions and, after re-joining the company again in 2000, he held various management positions in Illovo's South African operations, before being appointed General Manager of Illovo's Swaziland subsidiary, Ubombo Sugar Limited in 2008, and subsequently its Managing Director. He also held management positions in other companies in the sugar industry, including a leading engineering and project management consulting company providing services to the sugar industry and other heavy engineering industries. He is Chairman of the Risk Management Committee.

P A (Phillip) Madinga (45) BSocSci(Economics), BBM&A(Hons), MBA: Phillip was appointed as an Independent Non-Executive Director in February 2017. He is the Group General Manager, Corporate and Commercial Banking of First Merchant Bank Limited, a financial institution incorporated in Malawi and listed on the Malawi Stock Exchange. Prior to this he was Managing Director of FDH Bank Limited. He also worked for several banks as Executive Head of Corporate and Investment Banking with Standard Bank Limited, Head of Corporate Banking for Loita Bank (now Ecobank), Deputy Head of Credit for Nedbank Malawi Limited and Project Monitoring Officer for Investment and Development Bank of Malawi Limited. He has over 23 years' experience in banking and finance. In his own capacity, Phillip is the Board Chairman of Sunbird Tourism Limited. He is also a Non-executive Director on the Board of Axis Pensions Limited and Non-executive Director of Leasing and Finance Company. He has been appointed as a member of both the Audit Committee and the Nomination/Remuneration Committee.

A R (Ami) Mpungwe (65) BA(Hons), PGD International Law and Diplomacy, SMP, LCP: Ami was appointed as a Non-executive Director in October 2006. He was the first Tanzanian High Commissioner to South Africa. He retired in 1999 after 25 years' service in the Tanzanian diplomatic service and has a wealth of political and commercial experience in operating on the African continent. He is a Non-executive Director of Illovo and two of its other operating subsidiaries; Zambia Sugar plc which is listed on the Lusaka Stock Exchange and Kilombero Sugar Company Limited in Tanzania. He is also a Director of a number of other companies in Tanzania. He is a member of the Risk Management Committee and also the Nomination/Remuneration Committee.

