2018

ILLOVO SUGAR (MALAWI) PLC

ANNUAL REPORT
FOR THE YEAR ENDED
31 AUGUST 2018

SUGAR
ILLOVO
MALAWI

AN **ILLOVO SUGAR AFRICA** COMPANY

ILLOVO SUGAR (MALAWI) PLC
REPORT FOR THE YEAR ENDED 31 AUGUST 2018

KEY FEATURES

	12 months ended 31-Aug-18	5 months ended 31-Aug-17
Results (K million)		
Revenue	141 760	49 099
Operating profit	30 197	12 696
Net profit	16 449	7 735
Headline earnings	16 449	7 735
Share performance (tambala per share)		
Headline earnings	2 306	1 084
Net asset value	8 542	6 151
Year-end market price	24 000	22 800
Financial statistics		
Return on average shareholders' equity (%)	31.4	19.2
Return on net assets (%)	32.6	15.5
Interest cover (times)	5.1	7.3

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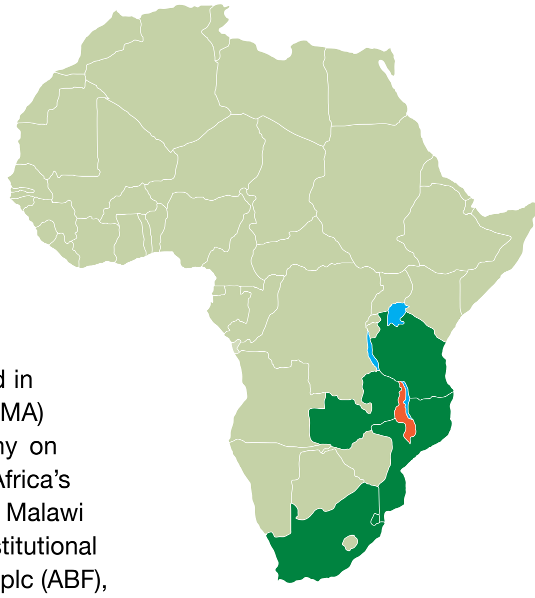
ILLOVO SUGAR (MALAWI) PLC

GROUP PROFILE



Illovo Sugar (Malawi) plc (Illovo Malawi / the group) was incorporated in Malawi as a private company (The Sugar Corporation of Malawi (SUCOMA) Limited) on 31 May 1965 and then converted to a public company on 15 September 1997. Illovo Sugar Africa Proprietary Limited (Illovo), Africa's largest sugar producer, holds 76% of the issued share capital of Illovo Malawi with the balance of the shares being held by the public and other institutional investors. The ultimate holding company is Associated British Foods plc (ABF), in the United Kingdom, which as at 28 June 2016, following shareholder approval acquired 100% (previously 51%) of Illovo's issued share capital.

Illovo Malawi is the country's biggest producer of sugar and plays a major role within the Malawian economy. It has developed significant agricultural and milling assets at the Dwangwa Sugar Estate in the mid-central region at Nkhotakota and at the Nchalo Sugar Estate situated in the south of the country at Chikwawa. In a normal year, Illovo Malawi, together with smallholder Malawian farmers, grows two million tons of sugarcane enabling the production of up to 230 000 tons of sugar.

Both its factories produce raw and refined sugar with the Nchalo factory also manufacturing value-added speciality sugars. Both operations also produce molasses, a by-product of the sugar manufacturing process, which is currently sold as a fermentation raw material to the two fuel alcohol distilleries in Malawi.

Over 70% of the sugar produced this year was sold into the local direct consumption market through the company's established distribution channels and also into the local artisanal and industrial market, with the balance earning valuable foreign exchange through export sales into regional African markets and into markets in the European Union (EU) and the United States of America (USA).

Illovo Malawi is the country's largest private-sector employer providing employment for over 9 000 people and it is also a major contributor to the Malawian tax authorities through both direct and indirect taxes. Many local industries are dependent upon Illovo for their viability and the employment created by these businesses provides an income base for many more families than are directly employed. It further supports an estimated 3 700 people through various smallholder farmer sugar cane schemes.

Malawi is classified as one of the world's Least Developed Countries on the United Nations Human Development Index. The prevailing low Gross Domestic Product (GDP) per capita results in generally high poverty levels particularly across Malawi's vast rural areas. Recognising the significant development needs of the communities in which it operates and to meet the group's stated objective to ensure the creation of "thriving communities" surrounding its areas of operation, Illovo Malawi undertakes corporate social responsibility and creating shared value initiatives together with a broader objective to complement Malawi's national strategy to alleviate poverty and to contribute towards national food security and a healthy population. The group continues to partner with government, non-governmental organisations and other agencies to address these development issues.

The group also fully recognises the essential role that a managed and protected environment plays in the growing of sugar cane used in the production of sugar and manages the impact of its activities, striving to maintain an environment which meets the needs of current and future generations and continuing to develop its business in a socially responsible manner.

OPERATING LOCATIONS

KEY

- CANE ESTATES AND SUGAR FACTORIES
- CITIES
- DISTRIBUTION CENTRES

GROUP STRUCTURE AND SHAREHOLDING

(Refer note 10 on page 19 and note 15.1 on page 51)

ASSOCIATED BRITISH FOODS
100%

ILLOVO SUGAR GROUP
100%

PUBLIC AND INSTITUTIONAL INVESTORS
16%

SUCOMA HOLDINGS
76%

OLD MUTUAL LIFE ASSURANCE COMPANY
8%

ILLOVO SUGAR MALAWI
100%

DWANGWA SUGAR CORPORATION

CORPORATE INFORMATION

Company Secretary / Compliance Officer	:	M S Kachingwe
Business address and registered office	:	Illovo Sugar (Malawi) plc, Churchill Road, Limbe, Malawi
Postal address	:	Private Bag 580, Limbe, Malawi
Telephone	:	+265 (0)1 843 988
Fax	:	+265 (0)1 840 761
E-mail address	:	Illovomalawi@Illovo.co.za
Website address	:	www.Illovosugar.com
Transfer secretaries	:	Standard Bank Limited Transfer Secretaries, Transactional Products and Services, Kaomba Centre, corner Sir Glyn Jones Road & Victoria Avenue, Blantyre, Malawi
Postal address	:	P O Box 1111, Blantyre, Malawi
Telephone	:	+265 (0)1 820 144
E-mail address	:	custodymalawi@standardbank.local
Auditors	:	Ernst & Young (EY)
Principal Attorneys	:	Chisanga and Tomoka
Principal bankers	:	Standard Bank Malawi plc

DIRECTORATE

CHAIRMAN – NON-EXECUTIVE

G B (Gavin) Dalgleish (52)
BScEng(Chem), MScEng(Chem)

Gavin was appointed as a director of Illovo Malawi in November 2011 and assumed the position of chairman in August 2013. He holds a master's degree in chemical engineering and first joined the Illovo Sugar Group (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 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 of Illovo with effect from 1 September 2013. He is a member of the Nomination/Remuneration Committee.

EXECUTIVE DIRECTORS

M A (Mark) Bainbridge (50)
BEng(Hons) Engineering

Mark was appointed Managing Director of Illovo Malawi on 1 January 2017. He joined Illovo in June 2013 as the Managing Director of the group's Tanzanian subsidiary, Kilombero Sugar Company. 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 in 2013, Mark was the Development Director of Bo Tian Sugar Co. China. He is a trustee of Mary's Meals in Malawi.

L L (Lekani) Katandula (43)
BAcc, FCCA, CA(Mw), CFA, CISA

Lekani joined Illovo Malawi in August 2015. Prior to joining the group, he was employed by Deloitte Malawi where he was Audit and Advisory Partner for over 11 years. He has a wealth of technical knowledge and experience in financial reporting standards, 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 both Alliance Capital Limited and Malawi Telecommunications Limited.

E M (Edward) Namboya (42)
BAcc, FCCA, CA(Mw)

Edward joined Illovo Malawi as Financial Controller in May 2014. Edward has extensive practical knowledge and experience in financial reporting standards, management and financial reporting, computer systems, taxation and leadership. He started his professional career at Deloitte Malawi where he worked for over ten years and rose to the position of Senior Audit Manager responsible for audit, training and technical matters. He joined Press Corporation plc in 2010 where he served as Group Financial Accountant for a period of two years and was later appointed as Chief Finance Officer in 2012 for Malawi Telecommunications Limited, a subsidiary of Press Corporation. Edward currently serves as a member of the board of trustees for Saint Andrews International High School and non-executive board member of NBM Pension Administration Limited.

M F (Marc) Pousson (52)
NHDip (Elect HC), GCC(Elect)

Marc was appointed as a director of Illovo Malawi 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 Illovo. Most recently he spent more than three years as Operations Director of Zambia Sugar Plc. Marc has over 20 years' experience in the sugar industry, all with Illovo.

NON-EXECUTIVE DIRECTORS

M H (Mohammed) Abdool-Samad (47)
BCom, CA(SA)

Mohammed was appointed as a director of Illovo Malawi 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 of the business, 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 and the Nomination/Remuneration committee.

P W (Paul) Guta (46)
BSc(Hons),MSc(StratMgt), CertMkt

Paul was appointed as a director of Illovo Malawi in February 2017. Appointed as the Managing Director of Nedbank Malawi in 2014, a post which he still occupies, Paul previously has served in various business management roles in corporate and retail banking. From 1997 to 2003 he was in the oil industry with BP Malawi (now Puma Energy). He is the 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 Illovo Malawi's Audit Committee.

P A (Phillip) Madinga (46)
BSocSci(Econ), BBM&A(Hons), MBA

Phillip was appointed as a director of Illovo Malawi in February 2017. Currently he is the Chief Commercial Officer at NBS Bank plc. Until June 2017 he was 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 plc, and commissioner on the Malawi National Planning Commission. He is chairman of the Nomination/Remuneration Committee and a member of the Audit Committee.

A R (Ami) Mpungwe (67)

BA(Hons), PGD International Law and Diplomacy, SMP, LCP

Ami has spent 25 years in the Tanzanian diplomatic service and has consequently during this time accumulated a wealth of political and commercial experience from operating on the African continent. He was the first Tanzanian High Commissioner to South Africa and retired from the service in 1999. He was a previous non-executive director of Illovo Sugar Proprietary Limited and in addition to being appointed as a non-executive director of Illovo Malawi in October 2006, he also still remains on the boards of Illovo's operating subsidiaries in Zambia, at Zambia Sugar Plc which is listed on the Lusaka Stock Exchange and in Tanzania, at Kilombero Sugar Company Limited. He is also a director of a number of other companies in Tanzania. He is a member of the Risk Management Committee and the Nomination/Remuneration Committee.

R (Ravi) Savjani (29)

BSc(Hons)(Econ), ACMA, CGMA

Ravi was appointed as a director of Illovo Malawi in May 2018. He holds a First Class Honours degree in Economics from the University of Warwick. He trained in finance and corporate finance at Deloitte in London where he also commenced his accountancy qualification, which he completed soon thereafter. Ravi subsequently held a number of roles in the private equity industry in London and also assisted with the establishment of a financial services business headquartered in Dubai, where he currently serves as a director. He is currently a consultant for financial services companies in the region. He is a member of the Risk Management Committee.

BOARD AND COMMITTEE MEETINGS ATTENDANCE

Attendance at board and committee meetings during the year ended 31 August 2018

DIRECTOR	Board Meeting		Audit Committee Meeting		Risk Committee Meeting		Nomination/ Remuneration Committee Meeting		Annual General Meeting	
	A	B	A	B	A	B	A	B	A	B
M H Abdool-Samad	4	4	2	2	2	2	3	3	2	2
M A Bainbridge	4	4	N/A	N/A	N/A	N/A	N/A	N/A	2	2
M A P Chikaonda (resigned) (1)	4	1	N/A	N/A	N/A	N/A	N/A	N/A	2	1
G B Dalgleish	4	4	N/A	N/A	N/A	N/A	3	3	2	2
P W Guta	4	3	2	1	N/A	N/A	N/A	N/A	2	2
J P Hulley (retired) (2)	4	1	N/A	N/A	2	1	N/A	N/A	2	1
L L Katandula	4	4	N/A	N/A	N/A	N/A	N/A	N/A	2	2
P A Madinga	4	4	2	2	N/A	N/A	3	3	2	2
E M Namboya (3)	4	3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
A R Mpungwe	4	4	N/A	N/A	2	2	3	3	2	2
M F Pousson	4	4	N/A	N/A	N/A	N/A	N/A	N/A	2	2
R Savjani (4)	4	2	N/A	N/A	2	-	N/A	N/A	N/A	N/A

Column A indicates the number of meetings held during the year and column B indicates the number of meetings attended by the director whilst a member of the board/committee.

N/A indicates that the director is not a member.

Note

1 M A P Chikaonda resigned with effect from 23 August 2018.
2 J P Hulley retired with effect from 23 November 2017.
3 E M Namboya was appointed with effect from 21 February 2018 and attended all required meetings conducted post appointment.
4 R Savjani was appointed with effect from 9 May 2018 and attended all required meetings conducted post appointment.

DIRECTORS' REPORT

OVERVIEW

During the 12 month period (September 2017 to August 2018), weather conditions at both estates remained erratic with the agricultural operations subjected to fluctuating periods of exceptionally wet weather particularly at Dwangwa during November to December 2017, and to very dry conditions in January 2018 at Nchalo. Inclement weather also affected the factory start-up for the new season at Dwangwa in April 2018 and also hampered new season operations at Nchalo during July 2018. Despite these periods of extremely wet weather, which raised the level of Lake Malawi, outflows from the lake continued to be restricted resulting in inadequate power generation by the Electricity Generation Company (EGENCO) which impacted on irrigation operations at the estates and those of sugar cane grower communities. The estates and surrounding grower schemes continued to be affected by pests and diseases resulting in additional chemical control requirements. However despite the on-going challenges the company's own sugarcane yields reflected a pleasing recovery over the previous year. In addition, the benefit of the yield recovery plan at Nchalo, the investment in new and more efficient irrigation methods and the installation of additional complementary power generation sets has also started to deliver positive results. Conversely our smallholder farmers, despite on-going support from the business, are still struggling both financially and operationally and have continued to experience declines in overall sucrose levels in cane. Year on year cane crushed was almost the same at slightly over two million tons from a combination of both own and grower plantations.

Both factories faced challenges throughout the final stages of the 2017 season. Overall recoveries and plant performance were marginally down on expected levels with less sugar being made. The 2017 season closed at Nchalo in mid-November and at Dwangwa, in early December 2017. Offcrop maintenance programs began immediately thereafter. The new season, which commenced in April 2018, saw Dwangwa experiencing a problematic start-up with various plant operational challenges and rain delays, but with Nchalo starting well with excellent cane throughput. Unfortunately, unexpected rains in July affected cane harvesting activities and resulted in reduced cane supply to the mill. Overall year on year sugar production was down 11 000 tons.

With the on-going delivery of the commercial imperatives, including the quality drive along the entire route to consumer and business value chain, and with the continued promotional and customer focused activities by the commercial team, domestic market sugar sales showed very pleasing growth from 60 000 tons for the five month period April to August 2017 to 170 000 tons for the full year September 2017 to August 2018. The prompt assistance from Ministry of Industry, Trade and Tourism and Malawi Revenue Authority officials to actively curb the illegal import of sugar also contributed to the achievement of local market sugar sales growth.

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

With regard to the financial performance for the year ended 31 August 2018, headline earnings totalled K 16.4 billion compared to the preceding five month period, April to August 2017, of K 7.7 billion. Despite pro-active management of debt levels and repayment of some of the foreign debt during the year overall finance costs for the 12 month period September 2017 to August 2018 totalled 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 operation stability to the smallholder sugar cane farmers, should result in positive overall improved cane crop yields and sucrose content in cane across all 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.

With regard to the commercial environment the business will continue its various successful initiatives in the local direct consumption market and extend the sugar delivery footprint to the wider consumer market. Sugar exports, into very challenging regional and deep water markets, will continue to be an area of focus for the commercial teams who will strive 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, improve operating margins and generate positive free cash flows into the future.

G B Dalgleish

Chairman

M A Bainbridge

Managing Director

CORPORATE GOVERNANCE

COMPLIANCE / GOVERNANCE

The directors are committed to best practice in corporate governance as enshrined under the Companies Act 2013 (The 2013 Act) and regulations made thereunder, the Malawi Code II Sector Guidelines for Listed Companies (The Code) (now incorporated into the 2013 Act) and the Malawi Stock Exchange Listing Requirements (MSELR). As far as it concerns the business of the group the directors have adhered to The 2013 Act, the MSELR and The Code in all material respects for the year ended 31 August 2018. The directors are currently developing a related party transaction policy to address the "arms length" basis of such transactions.

ANNUAL FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the Auditor's Report, is made for the purpose of clarifying to members the respective responsibilities of the directors and the auditors in the preparation of annual financial statements.

The directors are required by the Companies Act, 2013, to prepare financial statements for each financial year, which give a true and fair view of the state of affairs and profit or loss of the group. The directors consider that, in preparing the financial statements, appropriate accounting policies are consistently applied and supported by reasonable and prudent judgements and estimates and confirm that all applicable accounting standards have been followed.

After making appropriate enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence in the year ahead. For this purpose, they continue to adopt the going-concern basis in preparing the financial statements. The external auditors concur with this opinion.

The directors have responsibility for ensuring that the group maintains accounting records which disclose with reasonable accuracy at any time the financial position of the group and which enable them to ensure that the financial statements comply with the requirements of the Companies Act, 2013.

The directors also have responsibility for safeguarding the assets of the group and for the prevention and detection of fraud and other irregularities.

BOARD OF DIRECTORS

The group has a unitary board of directors that is balanced between executive and non-executive directors.

The board supervises the management of the group's business and affairs and is involved in all decisions that are material to the business. In doing so, the board acts at all times in the best interest of the group.

The board meets at least once in each quarter with additional meetings held when appropriate. At each board meeting a complete update on the affairs and business of the group is presented by executive management.

In addition, the articles of association provide for decisions taken between meetings to be confirmed by way of directors' resolutions.

The roles of the chairman and the chief executive are separated and the chairman is a non-executive director.

EXECUTIVE MANAGEMENT

Executive management meets regularly to discuss issues material to the operations of the group.

To ensure that there is adequate interaction between management and the board, four members of executive management are directors.

AUDIT COMMITTEE

The audit committee comprises of three directors, all of whom are non-executive. The committee meets twice a year with management and has both external and internal auditors in attendance.

The committee sets materiality and reviews annual audited financial statements, the interim financial results and the external and internal auditors' reports and details its findings to the board for consideration when approving the financial statements for delivery to the shareholders.

The audit committee, on behalf of the board, reviews the scope and coverage of internal audit together with its findings.

In terms of section 4 103(e) of the Malawi Stock Exchange listing requirements the audit committee has considered the appropriateness of the experience and expertise of the Financial Director and will report at the annual general meeting of members that they are satisfied that E M Namboya has the relevant experience and expertise in this role.

“Over 10% of total revenues were spent during the year procuring sugar cane from growers surrounding both estates. This represented a significant support to the livelihoods of small scale rural farmers, their families and also to the local communities.”

RISK MANAGEMENT COMMITTEE

The risk management committee is chaired by a non-executive director. A comprehensive risk assessment audit is undertaken twice per annum of factors which could have a material impact on the group results.

As well as financial assessment, other audited areas include agricultural, electrical and mechanical risk, health and safety, quality and food safety, environmental compliance and exposure to changes in the economic environment. The reports are reviewed by the committee to ensure that risk identification, mitigation and management are undertaken. A comprehensive enterprise risk management strategy has been adopted by the group with robust risk improvement plans developed and business continuity planning and testing regularly undertaken.

NOMINATION/REMUNERATION COMMITTEE

The nomination/remuneration committee comprises four non-executive directors. The committee is responsible for reviewing compensation of the executive directors and executive management of the group and recommending the appointment / reappointment of directors.

ETHICAL STANDARDS

The group has adopted a code of management practices that applies to the group’s management and staff. The code provides a benchmark against which employee conduct can be assessed to ensure that the highest ethical standards are met.

FRAUD CONTROL

The group has an established and well-publicised fraud hotline that enables employees and members of the public to raise evidence of irregular activity directly with an independent entity.

The group has developed a comprehensive anti-bribery and corruption policy which has been implemented throughout the organisation to all officers and employees and has adopted a zero-tolerance approach to corruption and fraud.

INTERNAL CONTROL

The board has overall responsibility for the group’s systems of internal control and for monitoring their effectiveness. The systems are designed to safeguard the group’s assets and shareholders’ investments.

The group’s external auditors are granted unrestricted access to all information that may be required in the execution of their duties. Reports from the external auditors are regularly monitored to assess the effectiveness of the group’s systems of internal control.

The directors and external auditors have not detected any adverse information that would indicate a material breakdown in systems of internal control during the year under review.

ADVOCACY / STAKEHOLDER ENGAGEMENT / SUSTAINABILITY

STRATEGIC INTENT

As part of the group's strategic intent, through its Creating Shared Value (CSV) committee, it seeks to be welcomed in the communities in which it operates because of what it does, how well it does it and be accepted as a progressive company by all communities and also be cognisant of the rural locations of its operations and the impact that it has on job creation and poverty alleviation in such areas. The group recognises that for CSV to be meaningful and sustainable it requires a conscious effort to incorporate the principles and thinking around shared value into its strategic and day to day operations.

The group continued its close working relationship with government and donor agencies to identify opportunities to work together for greater positive impact on communities within the group's sphere of influence and supported the government's strategy to help reduce infant and maternal mortality by fortifying all sugar for domestic direct market consumption with vitamin A. In an on-going effort to provide safe drinking water, the group continued to drill and equip boreholes in areas surrounding the estates. Several community-focussed construction and rehabilitation projects were also undertaken during the year.

Illovo Malawi plays a significant role within the Malawian economy in terms direct impacts (wages paid to employees, cane payments to growers, tax payments and interest spending); indirect impacts through its value chain; and induced impacts in the form of increased consumption and spending in the economy as a whole. The group earns valuable foreign exchange through the sales of its export sugar and is also a major source of revenue to the Malawi fiscus both through direct and indirect taxes. Its operations are also of considerable benefit to the overall local economy, providing permanent and seasonal employment for more than 9 000 people. Many local industries, which collectively employ large numbers of people, are dependent upon the group for their on-going business sustainability.

The group remained a strong supporter of small scale grower schemes in terms of capacity, material and various technical inputs. Over 10% of total revenues were spent during the year procuring sugar cane from growers surrounding both estates. This represented a significant support to the livelihoods of small scale rural farmers, their families and also to the local communities.

All employees, including agricultural and factory workers, earn above the national minimum wage and the World Bank's poverty line and well above the Anker living wage calculation.

Infrastructure, normally provided by national government, is generally lacking in the areas of the groups' operations and therefore the group provides housing, water, and electricity, healthcare and schooling assistance to its employees and their dependants. It is estimated that more than 70 000 people live on the group's premises at Dwangwa and Nchalo.

Housing is provided to more than 4 500 employees and their family units. The houses are serviced and electricity, clean drinking water and services, including sewerage and waste disposal, are provided.

In total, 12 company-run clinics operate on both estates which are staffed by medical doctors and other qualified health personnel. On average, these clinics attend to more than 25 000 patients on a monthly basis, including members of local communities who do not have access to health care.

During the year, almost 5 000 employees and their dependents attended voluntary HIV / AIDS counselling and testing programmes, with more than 3 000 affected patients registered on the company's "wellness" programme. Clinics also dispense antiretroviral drugs on behalf of the government. The business has entrenched and effective occupational health regimes and continues to look after the well-being of its own people, both in terms of health and the provision of a healthy and safe workplace.

There are more than 13 000 pupils attending estate schools which are supported by the group. The group also continued its active involvement in school feeding programmes.

The group believes that an effective staff development programme is important for sustainable development and as a consequence it has instituted staff training programmes as part of its business. The group carries out business understanding programmes that assist in developing effective mechanisms for the sharing of relevant information, which enables employees to gain a better understanding of the business. The group also undertakes discussions with employee representatives which facilitates effective consultation by management with the workforce before taking decisions that affect the workers and also helps in the speedy identification and effective resolution of conflict.

The group maintained its proactive approach towards eliminating child labour and forced labour. Its "Guidelines for the Prevention of Child Labour and Forced Labour" pursue the effective abolition of all forms of child labour, forced labour and human trafficking in accordance with the principles of the International Labour Organisation (ILO) conventions, the United Nations Global Compact (UNGC) and the UK Modern Day Slavery Act of 2015. This commitment is enshrined in the Illovo Group Code of Conduct and Business Ethics by which all Illovo group companies and its supply chains are bound.

Illovo has made explicit commitments to protect land rights across its operations through its "Guidelines on Land and Land Rights". Through these guidelines, Illovo adopts a zero-tolerance policy for land grabs throughout its operations and calls for all its suppliers to do likewise. The guidelines also call for the company to broadly protect the land rights of others; engage in free, prior and informed consent (FPIC) before acquiring or influencing community and smallholder land rights; perform environmental and social impact assessments of its future land-related actions; use the results of such assessments to shape its consequent land-focused activities; provide for self and supplier monitoring and evaluation across its operations; and put in place grievance mechanisms that enable local communities and individual smallholders to register and track complaints and claims against the group. To implement these commitments, Illovo has formulated a "Road Map on Land Rights" and established a Land Policy Roundtable Committee to advise in implementing these land guidelines.

"Cane fibre or bagasse, the fibrous residue following the extraction process, is used as a bio-renewable fuel source in the factory boilers to produce steam for processing requirements."

HEALTH AND SAFETY / ENVIRONMENT / QUALITY

Safety standards and methods are constantly monitored and updated and safety awareness throughout the group remained an important focus area with awareness and training activities aimed at protecting the safety and well-being of our own employees, external contractors and the wider community continuing throughout the year. Several safety programmes, intensive training and focussed initiatives were implemented during the year with daily briefings being undertaken to re-enforce safety measures and to inculcate a safety mind-set throughout all areas of the business.

The group recognises the essential role that a managed and protected environment plays in the growing of sugar cane used in the production of sugar and manages the impact of its activities, striving to maintain an environment which meets the needs of current and future generations and continues to develop its business in a socially responsible manner. Cane fibre or bagasse, the fibrous residue following the extraction process, is used as a bio-renewable fuel source in the factory boilers to produce steam for processing requirements. Both sugar factories have upgraded their waste-water discharge systems, resulting in water from the milling process being settled before being recycled for use as irrigation water on the fields. This process supplements lake / river water demand and reduces the requirement from these sources for crop irrigation. Both estates participate in annual tree planting activities in an effort to retard environmental degradation and soil erosion and continue to make substantial donations of tree seedlings on a regular basis to surrounding communities.

The group also continued to maintain biodiversity corridors throughout its sugar estates. A 400-hectare reserve known as Nyala Park has been set aside within the Nchalo estate boundary and is maintained with species of the original flora and fauna of the Shire Valley.

Quality aspects of the business along the entire value chain remained an area of focus with several continuous improvement projects being implemented to ensure that the strictest standards of food safety and quality are observed in the manufacturing and delivery process. Both agricultural and factory operations retained accreditation under the ISO quality management system. The Nchalo factory retained its Foundation for Food Safety Certification (FFSC) accreditation, under the Food Safety System Certification (FSSC) 22000 standard and also maintained accreditation under the Hazards Analysis and Critical Control Points (HACCP) programme. Dwangwa obtained FSSC 22000 accreditation for refined sugar during the year.

VALUE ADDED STATEMENT

The value added statement shows the wealth the group has been able to create through manufacturing, trading and investing operations and its subsequent distribution and reinvestment in the business.

	12 months ended Aug-18 K million	5 months period ended Aug-17 K million
Wealth created		
Revenue	141 760	49 099
Income from investments	31	1
Paid to growers for cane purchases	(14 678)	(7 509)
Cane growing and manufacturing costs	(58 284)	(22 845)
	68 829	18 746
Wealth distributed		
To employees as salaries, wages and other benefits	25 586	12 174
To lenders of capital as interest	5 901	1 733
To shareholders as dividends	-	-
To the government as taxation	12 804	244
	44 291	14 151
Wealth reinvested		
Retained profits in holding and subsidiary company	16 449	7 735
Depreciation	4 057	1 459
Deferred taxation	4 032	(4 599)
	24 538	4 595
	68 829	18 746
Analysis of taxes paid to and collected on behalf of central and local government		
Current taxation	8 122	-
Customs duties, import surcharges and other taxes	4 682	244
Total contribution to central and local government	12 804	244
The above amount contributed excludes the following:		
- employees taxation deducted from remuneration	6 910	1 781
- net VAT amount collected on behalf of the government	7 848	2 045
- withholding taxes	2 121	964
	16 879	4 790
Total contributed to government	29 683	5 034

Wealth distributed (%)

To employees as salaries, wages and other benefits	37
To lenders of capital as interest	8
To shareholders as dividends	-
To the government as taxation	19
	64

Wealth reinvested (%)

Retained profits in holding and subsidiary company	24
Depreciation	6
Deferred taxation	6
	36

REVIEW OF FIVE PERIODS

K million	Note		12 month ended 31-Aug-18	5 month period ended 31-Aug-17	12 month ended 31-Mar-17	12 month ended 31-Mar-16	12 month ended 31-Mar-15
Statements of profit and loss and other comprehensive income							
Revenue			141 760	49 099	124 035	99 925	92 508
Operating profit			30 197	12 696	18 702	12 955	18 971
Dividend income			31	1	63	40	52
Net finance costs			(5 937)	(1 733)	(7 846)	(10 146)	(3 931)
Profit before taxation			24 327	10 964	10 919	2 849	15 092
Net profit for the year			16 449	7 735	7 080	1 804	10 411
Headline earnings			16 449	7 735	7 080	1 804	10 411
Dividends paid			-	-	-	-	(13 199)
Reconciliation of headline earnings							
Net profit for the period			16 449	7 735	7 080	1 804	10 411
Adjusted for :							
Net profit on sale of property			-	-	-	-	-
Headline earnings			16 449	7 735	7 080	1 804	10 411
Statements of financial position							
Shareholders' equity			60 939	43 885	36 622	29 541	28 175
Deferred tax			19 212	15 112	19 913	15 910	15 013
Malawi government vitamin A grant			227	234	-	-	-
Interest-bearing debt			22 194	23 565	24 296	38 541	4 150
Total funding			102 572	82 796	80 831	83 992	47 338
Property, plant and equipment			50 481	41 252	38 268	32 447	29 259
Current assets - cash			249	33	146	-	-
Current assets - other			88 126	81 164	63 753	67 244	52 375
Total assets			138 856	122 449	102 167	99 691	81 634
Other current liabilities			(36 284)	(39 653)	(21 336)	(15 699)	(34 296)
Net assets			102 572	82 796	80 831	83 992	47 338
Earnings and dividends	Note						
Basic and diluted earnings per share	1	tambala	2 306	1 084	992	253	1 459
Headline earnings per share	2	tambala	2 306	1 084	992	253	1 459
Dividends paid and proposed per share		tambala	-	-	-	-	750
Dividend cover on headline earnings	3	times	-	-	-	-	1.9
Financial statistics							
Return on average shareholders' equity	4	%	31.4	19.2	17.0	6.0	35.5
Return on net assets	5	%	32.6	15.5	19.7	20.5	42.1
Gearing	6	%	36.0	53.6	66.1	-	14.7
Interest cover	7	times	5.1	7.3	2.4	1.3	4.8
Net asset value per share	8	tambala	8 542	6 151	5 133	4 141	3 949

	12 month ended 31-Aug-18	5 month period ended 31-Aug-17	12 month ended 31-Mar-17	12 month ended 31-Mar-16	12 month ended 31-Mar-15
Operational statistics					
Cane harvested (hectares)	17 758	11 795	19 412	19 198	18 961
Nchalo	11 764	8 168	12 925	12 905	12 602
Dwangwa	5 994	3 627	6 487	6 293	6 359
Tons cane per hectare (weighted average)	92	90	89	94	103
Nchalo	82	83	82	88	97
Dwangwa	112	108	102	108	113
Cane crushed (tons)	2 006 423	1 260 834	2 084 725	2 234 264	2 398 991
Nchalo	970 061	676 996	1 058 720	1 132 523	1 227 088
Dwangwa	662 533	389 894	662 337	681 145	721 143
Growers	373 829	193 944	363 668	420 596	450 760
Sucrose percent (weighted average)	14.02	13.97	13.98	14.39	14.22
Nchalo	13.78	13.91	13.63	13.93	13.85
Dwangwa	14.42	13.90	14.42	14.98	14.71
Growers	13.97	14.34	14.21	14.68	14.46
Sugar produced (tons)	230 020	146 568	239 951	269 389	282 962
Nchalo	122 203	84 704	128 689	147 987	157 229
Dwangwa	107 817	61 864	111 262	121 402	125 733
Analysis of sugar sales by destination (tons)	227 321	79 420	244 671	255 468	273 244
Domestic market	170 792	59 575	137 606	129 720	169 836
Export market	56 529	19 845	107 065	125 748	103 408

Note

1 Basic and diluted earnings per share
Net profit divided by the weighted average number of ordinary shares in issue.

2 Headline earnings per share
Headline earnings divided by the weighted average number of ordinary shares in issue.

3 Dividend cover on headline earnings
Headline earnings per share divided by dividends per share.

4 Return on average shareholders' equity
Net profit expressed as a percentage of average shareholders' equity.

5 Return on net assets
Operating profit expressed as a percentage of average net operating assets.

6 Gearing
Interest-bearing debt (net of cash) expressed as a percentage of shareholders' equity.

7 Interest cover
Operating profit divided by net financing costs.

8 Net asset value per share
Shareholders' equity divided by the number of shares in issue at the end of the period.

ILLOVO SUGAR (MALAWI) PLC

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 2018


Yambani tsiku lirilonse
ndi Illovo
AVAILABLE HERE
LOWEST PRICES
TRUSTED
ILLOVO
QUALITY
Tseketseke
Brown Sugar
FINEST
BROWN SUGAR
500g
1kg

STATUTORY INFORMATION

1. NATURE OF BUSINESS

The principal activities of the group are the growing of sugar cane and the manufacture of sugar. This is more fully described under the group profile appearing on page 2.

2. REVIEW OF OPERATIONS

Detailed commentary is given in the directors' report on pages 7 to 8.

3. ACQUISITIONS

There were no acquisitions of investments in the current year.

4. SHARE CAPITAL

Full details of the current authorised and issued share capital are set out in the consolidated and separate statements of changes in equity on page 40 of the financial statements. There have been no changes in the current year.

5. SHAREHOLDERS

An analysis of shareholders and their shareholdings is given on page 67.

The register of members reflects five beneficial shareholdings equal to or greater than 1% of the issued ordinary share capital. Details are given on page 67.

6. DIVIDENDS

Due to the cash flow constraints of the group no dividends were declared.

The directors of the wholly owned and only subsidiary of the company, Dwangwa Sugar Corporation Limited, did not pay any dividends to the company during the year.

7. ILLOVO SUGAR MALAWI EMPLOYEES' SHARE PURCHASE SCHEME

During the year under review, the trustees of the scheme neither disposed of, nor purchased any shares in the company. The total number of shares held at year end was 1 029 397.

8. SUBSIDIARY COMPANY

Information concerning the subsidiary of the company is set out in note 7 to the financial statements.

9. REGISTER

The register of shares of the company is available for inspection at the registered office.

10. HOLDING COMPANY

SUCOMA Holdings Limited (incorporated in Mauritius) is the holding company of Illovo Sugar (Malawi) plc (incorporated in Malawi) with a 75.98% interest in its issued share capital. Illovo Sugar Africa (Pty) Limited (incorporated in the Republic of South Africa) owns 100% shareholding in Illovo Group Holdings Limited which in turn, owns 100% shareholding in SUCOMA Holdings Limited. The ultimate holding company is Associated British Foods plc (incorporated in the United Kingdom).

11. AUDITOR

Ernst & Young will continue in office in accordance with the provisions of the Companies Act, 2013.

12. SPECIAL RESOLUTIONS

There were no special resolutions adopted during the financial year.

13. POST BALANCE SHEET / YEAR END EVENTS

N Saayman was appointed to the board as a director in September 2018.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The directors of Illovo Sugar (Malawi) plc are responsible for the preparation and the integrity of the annual financial statements of the group and the company and the objectivity of other information presented in the annual financial statements. In order to fulfil this responsibility, the group maintains internal accounting and administrative control systems designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with the group's policies and procedures.

The going-concern basis has been adopted in preparing these financial statements. The directors have no reason to believe that the group and the company will not be a going-concern in the foreseeable future.

The group's external auditors, Ernst & Young, audited the financial statements and the auditor's report is represented on pages 21 to 23.

The annual financial statements of the group and the company which appear on pages 24 to 66 were approved by the board of directors on 21 November 2018 and are signed on its behalf by:

G B Dalgleish
Chairman

M A Bainbridge
Managing Director

21 November 2018

Building a better
working world

Chartered Accountants (Malawi)
Apex House
Kidney Crescent
PO Box 530
Blantyre, Malawi

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ILLOVO SUGAR (MALAWI) PLC

Opinion

We have audited the consolidated and separate financial statements of Illovo Sugar (Malawi) plc (the Group) set out on pages 24 to 66 which comprise the consolidated and separate statements of financial position as at 31 August 2018 and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as at 31 August 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act 2013.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of financial statements in Malawi. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 current period. The matter noted below was addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter. For the key audit matter noted below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to the key audit matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements.

The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matters

Group and Company: Growing cane valuation

The Consolidated and Separate Statement of Financial Position carries growing cane of K26.07 billion and K16.42 billion respectively. This represents 19% of total assets and 30% of current assets for the consolidated statement of financial position and 17% of total assets and 27% current assets for the separate statement of financial position.

The valuation process of growing cane is complex and involves significant judgment regarding certain assumptions when concluding on inputs to the valuation. These assumptions are disclosed in note 9 to the financial statements.

The major inputs in determining the growing cane valuation are:
- expected cane yield
- average maturity of cane
- estimated sucrose content
- estimated sucrose price

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The estimation of sucrose price is based on forecasted revenue, marketing, distribution and packaging costs and estimated opening and closing stock for the succeeding period. The inherent uncertainty relating to forecasting future inputs involves judgement.

Given the level of judgment involved in estimating sucrose price and the significance of the balance to the financial statements as a whole, we consider the valuation of growing cane to be a key audit matter.

How the matter were addressed in the audit

Our procedures included, but were not limited to the following:

- We gained an understanding of how management determines the valuation of growing cane including the involvement of management experts.
- We assessed the objectivity, competence and capabilities of management experts that are involved in providing input in the valuation of growing cane; this assessment included reviewing their qualifications and professional experience with reference to the work that they perform for the Group.
- We obtained an understanding though enquiries with management for any material deviations in the valuation model year-on-year.
- We recalculated the growing cane valuation and evaluated the inputs used within the calculation by performing, but not limited to, the following:
  - Tested inputs used and assessed the estimates of yield, average maturity of cane and sucrose content by comparing the estimates to historical data.
  - Tested inputs used in the estimation of sucrose price and the underlying assumptions by agreeing the sugar and molasses revenue and related costs for the previous period to actual sales and costs and assessed the underlying assumptions applied in the estimated sucrose price by comparing it to historical data and other relevant market and economic information.
  - Performed a sensitivity analysis on the key assumptions used in the valuation.
  - Assessed sugar production tonnage to the estimation of cane yield based on planned area of production.
- We assessed the related disclosures included in the financial statements by comparing it to the requirements of the International Financial Reporting Standards.

Other Information

The directors are responsible for the other information. The other information comprises the statutory information, and approval of annual financial statements. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Company and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether

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due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities within the Group and its business activities to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young

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

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies of the group conform to International Financial Reporting Standards (IFRS) and have been consistently applied. The financial statements have been prepared in accordance with IFRS. The principal accounting policies adopted are set out below.

1.1 Basis of preparation

These consolidated and separate financial statements have been prepared on the historical cost basis. No other procedures are adopted to reflect the impact on the financial statements of specific price changes or changes in the general level of prices.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 1 to the financial statements.

These consolidated and separate financial statements are presented in Malawi Kwacha (K) and rounded to the nearest one million.

1.2 Accounting framework

The consolidated and separate financial statements (collectively referred to as "the financial statements") have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB); the interpretations applicable to companies reporting under IFRS as developed by the IFRS Interpretations Committee and issued after approval by the IASB; the Companies Act of Malawi, 2013; and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council (FRSC).

The basis of preparation is consistent with the prior year, except for the adoption of the new and revised standards which have been disclosed in note 2 of the Accounting Policies. The adoption of these standards has had no significant impact on the consolidated and separate financial statements.

1.3 Underlying concepts

The financial statements are prepared on the going-concern basis.

Assets and liabilities, as well as income and expenses, are not offset unless specifically permitted by an accounting standard.

Financial assets and financial liabilities are offset, and the net amount reported, only when a legally enforceable right to set off the amounts exists and the intention is to either settle on a net basis or to realise the asset and settle the liability simultaneously.

The financial statements have been prepared on the historical cost basis except for growing cane and certain financial instruments that are measured at fair value at the end of each reporting period, as explained in 1.4 below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

1.4 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of International Accounting Standard (IAS) 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the group can access at the measurement date.

Level 2 inputs: Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 inputs: Unobservable inputs for the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

1.5 Foreign currencies

The individual financial statements of the group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Malawi Kwacha (K), which is the functional currency of the group and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

Consolidated Financial Statements

1.6 Basis of consolidation

The separate financial statements reflect the interest in entities controlled by the company at cost less any provision for impairment.

The consolidated financial statements incorporate the assets, liabilities, income, expenses and cash flows of the company and all entities controlled by the company as if they are a single economic entity.

Control is achieved when the company has power over the entity; is exposed, or has rights to variable returns from its involvement with the entity; and has the ability to use its power to affect its returns. The company reassesses whether or not it controls an entity if the facts and circumstances indicate that there are changes to one or more of these elements.

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary.

Non-controlling interests in the net assets of consolidated subsidiaries are shown separately from the group's equity therein. On acquisition, the non-controlling interests are measured as their proportionate share of the fair value of the entity's identifiable assets and liabilities. Subsequent to acquisition, the non-controlling interests are allocated a proportionate share of the subsidiary's profit or loss and each component of other comprehensive income even if this will result in the non-controlling interest having a deficit balance, unless there is doubt as to the recoverability of the deficit balance.

A change in the group's ownership interest in a subsidiary that does not result in the group losing control is accounted for as an equity transaction. The carrying amounts of the group's interest and the non-controlling interest are adjusted to reflect the change in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the company.

When the group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between:

(i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and

(ii) the previous carrying amount of the assets (including any goodwill) and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the group had directly disposed of the related assets and liabilities of the subsidiary (i.e., reclassified to profit or loss). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement, and when applicable the cost on initial recognition of an investment in an associate or joint venture.

When necessary, adjustments are made to the financial statements of a subsidiary to bring the accounting policies into line with the group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

1.7 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value.

Fair value is calculated as the sum of the acquisition date fair values of the assets transferred by the group, the liabilities incurred by the group to the former owners of the acquiree and the equity interests issued by the group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except for:

- Deferred taxation assets or liabilities that are measured in accordance with IAS 12 Income Taxes;
- Assets or liabilities related to employee benefit arrangements that are recognised and measured in accordance with IAS 19 Employee Benefits;
- Liabilities or equity instruments related to share-based payments arrangements of the acquiree, or share-based payment arrangements of the group entered into to replace share-based payment arrangements of the acquiree, are measured in accordance with IFRS 2 Share- based Payment at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill represents the future economic benefits arising from assets that are not capable of being individually identified and separately recognised in a business combination and is determined as the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity at the date of acquisition. If, after reassessment, the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is recognised as an asset, is stated at cost less impairment losses and is not amortised. For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently, when there is an indication that the unit may be impaired. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Statements of financial position

1.8 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Owner-occupied properties in the course of construction are carried at cost, less any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying value. Cost includes professional fees and, for qualifying assets, borrowings costs capitalised in accordance with the group's accounting policy.

Cane roots meet the definition of a bearer plant and are accounted for as property, plant and equipment using the cost model.

Depreciation is charged so as to write-off the cost of assets to their residual value over their useful estimated lives, using the straight-line method. Depreciation commences when the assets are ready for their intended use and is calculated at rates appropriate in terms of management's current assessment of useful lives and residual values. Freehold land is not depreciated.

The group's depreciation rates are as follows:

Buildings	60 years
Cane roots	7 years
Plant, machinery and equipment	3 – 60 years
Vehicles	5 – 15 years

The methods of depreciation, useful lives and residual values are reviewed annually.

Management considers market conditions and projected disposal values when assessing residual values and maintenance programmes and technological innovations when assessing useful lives.

Leasehold properties and assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Any gain or loss arising on the derecognition of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

1.9 Inventory

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method, except in the case of downstream products where the "first in first out" basis is used.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Redundant and slow-moving inventories are identified and written down to their net realisable values.

1.10 Investment property

An investment property is land, a building or part of a building, held by the owner to earn rentals or for capital appreciation or for both.

The cost model is applied in accounting for investment property (i.e., the investment property is recorded at cost less any accumulated depreciation and impairment losses).

1.11 Factory overhaul costs

Factory overhaul costs represent expenditure actually incurred on plant and equipment for the overhaul of the factory in preparation for the milling operation. This expenditure is written off in full over its expected useful life.

1.12 Biological assets

Biological assets are measured at fair value less costs to sell.

Growing cane

The fair value of growing cane is determined as the estimated sucrose content in the sugar cane at 31 March, valued at the estimated sucrose price for the following season, less any farm management costs from year end to 31 March.

The estimated sucrose price is adjusted for the estimated costs of harvesting the sugar cane and transporting it from the field to the mill.

The sucrose content is estimated in tons and is adjusted by a factor to reflect the growth of the cane at 31 March (i.e. the cane growth percentage). The cane growth percentage reflects the long-term average climate and agricultural conditions at each operation and will not fluctuate for year-on-year changes in milling season length or weather events (e.g. floods or drought). Rather, such changes are embodied in the fair value through a revision to the estimated sucrose content to which the cane growth percentage is applied.

The valuation as at August is derived from the March valuation by deducting the costs, necessarily incurred to farm sugar cane until the commencement of the following season and the expected profit margin on the cane growing activity.

1.13 Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, for which it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, where the effect of the time value of money is material.

1.14 Post-retirement obligations

The group provides retirement benefits for its employees through two defined contribution plans, the SUCOMA Group Pension Scheme and the Illovo Sugar Malawi Pension Fund. Contributions by group companies to defined contribution retirement plans are recognised as an expense in the year in which the related services are rendered by employees.

1.15 Deferred income

Deferred income is recognised in profit or loss on a systematic basis over the periods in which the group recognises as expenses the related costs for which the deferred income is intended to compensate.

1.16 Deferred taxation

Deferred taxation is recognised on all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

A deferred taxation asset represents the amount of income taxes recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses and the carry forward of unused tax credits. Deferred taxation assets are only recognised to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred taxation assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

A deferred taxation liability represents the amount of income taxes payable in future periods in respect of taxable temporary differences. Deferred taxation liabilities are recognised for all taxable temporary differences, unless specifically exempt.

Deferred taxation assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

1.17 Financial instruments

Financial assets and financial liabilities are recognised on the group's statement of financial position when the group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value including transaction costs. However, transaction costs in respect of financial instruments designated as held "at fair value through profit or loss" are expensed.

Financial assets and financial liabilities are accounted for "at fair value through profit or loss" where the financial asset or financial liability is either held-for-trading or is designated as "at fair value through profit or loss".

Financial assets

A financial asset is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

Trade and other receivables are classified as "loans and receivables" and are measured at amortised cost, using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are classified as "loans and receivables" and measured at amortised cost.

Investments are classified as "held-to-maturity" where the group has the express intention and ability to hold the investment to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest rate method, less any impairment losses recognised to reflect irrecoverable amounts.

Other investments are classified as "available-for-sale" and are measured at fair value with any gains or losses being recognised through other comprehensive income. Where the investment is disposed of, or is determined to be impaired, the cumulative gain or loss in equity is reclassified to profit or loss. Fair value, for this purpose, is market value if the investment is listed on a publicly quoted exchange, or a value arrived at by using appropriate valuation models if unlisted.

Financial assets are derecognised when the contractual rights to receive cash flows have been transferred, have expired or when substantially all the risks and rewards of ownership have passed.

All other assets are derecognised on disposal or when no future economic benefits are expected from their use.

Financial liabilities

A financial liability is a contractual obligation to deliver cash, or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

Interest-bearing bank loans and overdrafts are measured at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of the borrowings is recognised over the term of the borrowings in accordance with the group's accounting policy for borrowing costs.

Trade and other payables are initially measured at fair value and are subsequently measured at amortised costs, using the effective interest rate method.

Financial liabilities are derecognised when the relevant obligation has either been discharged, cancelled or has expired.

Derivative financial instruments

The group enters into derivative financial instruments, largely foreign exchange forward contracts, to manage its exposure to foreign exchange rate risks.

The use of financial derivatives is governed by the group's policies, which provide written principles on the use of financial derivatives consistent with the group's risk management strategy. The group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date and are subsequently re-measured to fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and is effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivative financial instruments embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

Equity

Equity instruments issued by the company are recorded at the value of the proceeds received, net of direct issue costs.

Debt and equity instruments are classified as either financial liabilities or as equity based on the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

1.18 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset, by equal annual instalments.

1.19 Change in presentation of factory overhaul costs

The factory overhaul costs/off-season costs are costs incurred to prepare the production facilities and equipment for the upcoming milling season. The off-season costs are therefore indispensable for normal production activities in the subsequent seasons. The Illovo policy is to present factory overhaul costs under inventory as the factory overhaul costs are assets in the form of materials or supplies to be consumed in the production process.

Previously, factory overhaul costs were presented as a separate line on the consolidated and separate statements of financial position. To ensure consistency in the presentation of the of the Illovo Sugar Group financial statements, Illovo Sugar (Malawi) plc has adopted the policy of presenting the factory overhaul costs as part of inventory.

Consequently, the consolidated and separate statements of financial position as at 31 August 2017 was restated to include factory overhaul costs in the inventory balance.

The effect of adopting the group policy is disclosed below;

Impact on equity (increase/(decrease) in equity

	31-Aug-18
	K Million
Inventories	1.689
Factory overhaul costs	(1.689)
Total assets	-
Equity	-

Statements of profit or loss and other comprehensive income

1.20 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Cash and settlement discounts, rebates, sales taxes and other indirect taxes are excluded from revenue.

Where the group acts as an agent and is remunerated on a commission basis, only the commission is included in revenue. Where the group acts as principal, the total value of business handled is included in revenue.

Revenue from sale of goods is recognised when the group has transferred the significant risks and rewards of ownership of the goods, the group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be reliably measured, it is probable that the economic benefits associated with the transaction will flow to the group and the costs of the transaction can be measured reliably. The recognition date usually coincides with when the title of the goods has passed to the customer and the goods have been delivered.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Where extended terms are granted, interest received is accounted for over the term until payment is received.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

1.21 Employee benefit costs

The cost of providing employee benefit costs is accounted for in the period in which the benefits are earned by employees.

The cost of short-term employee benefits is recognised in the period in which the service is rendered and is not discounted. The expected cost of short-term accumulating compensated absences is recognised as an expense as the employees render service that increases their entitlement or, in the case of non-accumulating absences, when the absences occur.

The expected cost of profit-sharing and bonus payments is recognised as an expense when there is a legal and constructive obligation to make such payments as a result of past performance and a reliable estimate of the obligation can be made.

1.22 Borrowings costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

1.23 Taxation

The charge for current taxation is based on the results for the year as adjusted for income that is exempt from taxation, expenses that are not deductible for taxation purposes and items that are taxable in other financial years. The charge for current tax is calculated using the tax rates that have been enacted or substantively enacted by the reporting date.

Deferred taxation is recognised in profit or loss except when it relates to items credited or charged to other comprehensive income, in which case deferred taxation is also recognised in other comprehensive income.

Transactions and events

1.24 Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

In the capacity of a lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying value of the leased asset and recognised on a straight-line basis over the term of the lease.

In the capacity of a lessee

Rentals payable under operating leases are charged to profit or loss on the straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the term of the lease.

Assets held under finance leases are recognised as assets of the group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the group's general policy on borrowing costs.

1.25 Impairment of assets

At each reporting date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

1.26 Hedge accounting

The group designates certain hedging instruments as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as hedges of future cash flows is recognised directly in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. A hedge of the foreign currency risk of a firm commitment is designated and accounted for as a cash flow hedge.

Gains or losses on the cash flow hedge of a forecast transaction or firm commitment, previously recognised in other comprehensive income and accumulated in equity, are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss. However, if the cash flow hedge results in the recognition of a non-financial asset or a non-financial liability, then the associated gains or losses accumulated in equity are included in the initial measurement of that asset or liability.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any gain or loss recognised in other comprehensive income and accumulated in equity remains in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the gains or losses are recognised immediately in profit or loss.

The effective portion of any gains or losses on hedging instruments designated as hedges of net investments in foreign operations is recognised in other comprehensive income and accumulated in the foreign currency translation reserve. The gains or losses relating to the ineffective portion are recognised immediately in profit or loss. On disposal of the foreign operation, the gains or losses are reclassified to profit or loss.

1.27 Earnings per share

The calculation of basic and diluted earnings per share is based on the net profit attributable to the shareholders and the weighted average number of ordinary shares in issue during the year. Where new equity shares are issued for no consideration, the profit is apportioned over the shares in issue after the issue and the corresponding figures for the earlier periods are adjusted accordingly.

1.28 Dividend per share

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the company's board of directors.

Dividends that are declared after the reporting date but before the financial statements are authorised for issue by the company's board of directors, are not recognised as a liability at the end of the reporting date.

This is because no obligation exists at that reporting date. Such dividends are however, disclosed in a note to the financial statements.

The calculation of dividend per share is based on the dividends declared to shareholders during the period divided by the number of ordinary shares of shareholders on the date of payment.

1.29 Comparative figures

When accounting policies are changed with retrospective effect comparative figures are restated in accordance with the new policies. In addition, comparative figures are adjusted to conform to changes in presentation in the current period

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

2.1 Standards and interpretations affecting amounts reported and/or disclosed in the financial statements

In the current period, the entity has adopted those new and revised standards and interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and are effective for annual reporting periods beginning on 1 October 2016.

The adoption of these new and revised standards and interpretations did not have a significant impact on the financial statements of the entity.

2.2 Standards and interpretations in issue, not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the group's financial statements are disclosed below. The group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

2.2.1 IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2018, the group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the group in 2019 when the group will adopt IFRS 9. Overall, the group expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. In addition, the group will implement changes in classification and measurement of certain financial instruments.

(a) Classification and measurement

The equity shares in Ethanol presently being carried at cost are intended to be held for the foreseeable future. No impairment losses were recognised in profit or loss during prior periods for this investment. The group will apply the option to present fair value changes in Other Comprehensive Income (OCI), and, therefore, the application of IFRS 9 will not have a significant impact.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

IFRS 9 requires the group to record expected credit losses on all of its trade receivables, either on a 12-month or lifetime basis. The group will apply the simplified approach and record lifetime expected losses on all trade receivables. The group has determined that, due to the secured nature of its loans and receivables, there will be no significant impact on the loss allowance.

(c) Hedge accounting

The group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The group has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the group excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on group's financial statements.

2.2.2 IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018 . Early adoption is permitted. The group plans to adopt the new standard on the required effective date using the full retrospective method. During 2018, the group performed a preliminary assessment of IFRS 15.

The group is primarily in the business of selling raw and refined sugar. The sugar is sold in separate identified contracts with customers.

(a) Sale of goods

For contracts with customers in which the sale of sugar is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on the group's revenue and profit or loss. The group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

In preparing to adopt IFRS 15, the group is considering the following:

Variable consideration

Some contracts with customers provide a right of return, trade discounts or volume rebates. Currently, the group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. If revenue cannot be reliably measured, the group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception and updated thereafter.

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue.

The group expects that application of the constraint will result in more revenue being deferred than under current IFRS.

- Rights of return

Under IFRS 15, because the contract allows the customer to return the products, the consideration received from the customer is variable. The group has decided to use the expected value method to estimate the goods that will be returned because this method better predicts the amount of variable consideration to which the group will be entitled. The group applied the requirements in IFRS 15 on constraining estimates of variable consideration to determine the amount of variable consideration that can be included in the transaction price.

- Volume rebates

The group provides retrospective volume rebates to its customers on all products purchased by the customer once the quantity of products purchased during the period exceeds a threshold specified in the contract. Under its existing accounting policy, the group estimates the expected volume rebates using the probability-weighted average amount of rebates approach and includes them in trade and other payables. These amounts may subsequently be repaid in cash to the customer or are offset against amounts payable by customer.

Under IFRS 15, retrospective volume rebates give rise to variable consideration. To estimate the variable consideration to which it will be entitled, the group considered that the most likely amount method better predicts the amount of variable consideration for contracts with only a single volume threshold while for contracts with more than one volume threshold it would apply either the expected value method or the most likely amount method, depending on which of them better predicts the amount of variable consideration for the particular type of contract.

(b) Advances received from customers

Generally, the group receives only short-term advances from its customers. They are presented as part of trade and other payables. Under the current accounting policy, the group presents such advances as deferred revenue under the current liabilities heading in the statements of financial position. No interest was accrued on the advances received under the current accounting policy.

Under IFRS 15, the group must determine whether there is a significant financing component in its contracts. However, the group decided to use the practical expedient provided in IFRS 15, and will not adjust the promised amount of the consideration for the effects of a significant financing components in the contracts, where the group expects, at contract inception, that the period between the group transfer of a promised good to a customer and when the customer pays for that good or service will be one year or less. Therefore, for short-term advances, the group will not account for a financing component even if it is significant.

(c) Presentation and disclosure requirements

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the group's financial statements. The group has assessed that the impact of some of these disclosures requirements will not be significant.

2.2.3 IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from the current accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

2.2.4 IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the group.

2.2.5 IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The group may need to establish processes and procedures to obtain information that is necessary to apply the interpretation on a timely basis.

2.2.6 Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are solely payments of principal and interest on the principal amount outstanding (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated and separate financial statements of the group.

2.2.7 Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

The group will apply these amendments when they become effective.

2.2.8 Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments are not applicable to the group.

2.2.9 Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Interests in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

2.2.10 Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the group.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the group but may apply to future transactions.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the group's current practice is in line with these amendments, the group does not expect any effect on its consolidated financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats, as part of general borrowings, any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the group's current practice is in line with these amendments, the group does not expect any effect on its consolidated financial statements.

CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 AUGUST 2018
(COMPARATIVES ARE FOR THE FIVE MONTHS PERIOD ENDED 31 AUGUST 2017)

		GROUP		COMPANY	
		12 months ended 31-Aug-18	5 months ended 31-Aug-17	12 months ended 31-Aug-18	5 months ended 31-Aug-17
	Notes	K million	K million	K million	K million
Revenue	2	141 760	49 099	75 625	26 258
Operating profit	3	30 197	12 696	10 711	7 980
Dividend income		31	1	-	-
Finance costs	4	(5 937)	(1 747)	(3 683)	(1 294)
Interest income	4	36	14	36	259
Profit before taxation		24 327	10 964	7 064	6 945
Income tax expense	5	(7 878)	(3 229)	(2 624)	(1 982)
Net profit for the period		16 449	7 735	4 440	4 963
Other comprehensive income					
Items that may be reclassified to profit and loss in subsequent years:					
Cash flow hedges		864	(674)	864	(674)
Tax effect of the cash flow hedges		(259)	202	(259)	202
		605	(472)	605	(472)
Total comprehensive income for the period		17 054	7 263	5 045	4 491
Basic and diluted earnings per share (tambala)	22	2 306	1 084		

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

AS AT 31 AUGUST 2018

		GROUP		COMPANY	
		31-Aug-18	31-Aug-17 restated	31-Aug-18	31-Aug-17 restated
	Notes	K million	K million	K million	K million
ASSETS					
Non-current assets					
Property, plant and equipment	6	50 481	41 252	35 899	29 361
Investments	7			324	324
		50 481	41 252	36 223	29 685
Current assets					
Inventories	8	42 468	39 691	25 377	23 157
Growing cane	9	26 074	25 482	16 420	16 085
Trade and other receivables	10	18 104	14 657	17 016	13 538
Amount due from related parties	15.8.1	1 324	1 334	1 324	1 334
Derivative financial assets	17	156	-	156	-
Bank balances and cash	11	249	33	248	32
		88 375	81 197	60 541	54 146
Total assets		138 856	122 449	96 764	83 831
EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital and premium		782	782	782	782
Hedging reserves		109	(496)	109	(496)
Retained earnings		60 048	43 599	19 248	14 808
		60 939	43 885	20 139	15 094
Non-current liabilities					
Long-term borrowings from related parties	15.9	3 649	22 964	3 649	22 964
Malawi government vitamin A grant	12	227	234	194	199
Deferred tax	13	19 212	15 112	12 648	6 255
		23 088	38 310	16 491	29 418
Current liabilities					
Trade and other payables	14	31 187	27 472	24 151	19 495
Amount due to related parties	15.8.2	1 500	3 791	12 531	10 734
Short-term borrowings	16	10 092	-	10 092	-
Bank overdrafts	11	8 453	601	8 453	601
Derivative financial liabilities	17	-	708	-	708
Taxation payable		3 597	7 682	4 907	7 781
		54 829	40 254	60 134	39 319
Total equity and liabilities		138 856	122 449	96 764	83 831

The responsibilities of the group's directors with regard to the preparation of the financial statements are set out on page 20. The financial statements on pages 24 to 66 were approved and authorised for issue by the board of directors on 21 November 2018 and were signed on its behalf by:

G B Dalgleish (Chairman)

M A Bainbridge (Managing Director)

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 AUGUST 2018
(COMPARATIVES ARE FOR THE FIVE MONTHS PERIOD ENDED 31 AUGUST 2017)

	Share Capital K million	Share Premium K million	Hedging Reserves K million	Retained Earnings K million	Total K million
GROUP					
Balance at 31 March 2017	14	768	(24)	35 864	36 622
Total comprehensive income for the period			(472)	7 735	7 263
- profit for the period			-	7 735	7 735
- cash flow hedges			(472)	-	(472)
Balance at 31 August 2017	14	768	(496)	43 599	43 885
Total comprehensive income for the year			605	16 449	17 054
- profit for the year			-	16 449	16 449
- cash flow hedges			605	-	605
Balance at 31 August 2018	14	768	109	60 048	60 939
COMPANY					
Balance at 31 March 2017	14	768	(24)	9 845	10 603
Total comprehensive loss for the period			(472)	4 963	4 491
- profit for the period			-	4 963	4 963
- cash flow hedges			(472)	-	(472)
Balance at 31 August 2017	14	768	(496)	14 808	15 094
Total comprehensive income for the year			605	4 440	5 045
- profit for the year			-	4 440	4 440
- cash flow hedges			605	-	605
Balance at 31 August 2018	14	768	109	19 248	20 139

ANALYSIS OF SHARE CAPITAL AND PREMIUM	GROUP AND COMPANY	
	Aug-18 K million	Aug-17 K million
Authorised share capital		
1 000 000 000 (2017: 1 000 000 000) ordinary shares of 2 tambala each	20	20
Issued share capital		
713 444 391 (2017: 713 444 391) ordinary shares of 2 tambala each	14	14
Share premium	768	768
	782	782

The hedging reserve arises in respect of foreign currency forward sales contracts in place at 31 August 2018 and 31 August 2017 which mature in the new financial year.

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 AUGUST 2018
(COMPARATIVES ARE FOR THE FIVE MONTHS PERIOD ENDED 31 AUGUST 2017)

	Notes	GROUP Aug-18 K million	GROUP Aug-17 restated K million	COMPANY Aug-18 K million	COMPANY Aug-17 restated K million
Cash flows from operating activities					
Cash operating profit	a	33 180	23 801	12 800	12 313
Working capital requirements	b	(4 790)	(16 960)	765	(8 587)
Cash generated from operations		28 390	6 841	13 565	3 726
Finance costs	c	(5 070)	(1 116)	(2 816)	(663)
Interest income	4	36	14	36	259
Taxation (paid)/refunded	d	(8 122)	-	636	1 652
Net cash inflows from operating activities		15 234	5 739	11 421	4 974
Cash flows from investing activities					
Purchase of property, plant and equipment	6	(14 413)	(4 443)	(10 571)	(3 676)
Proceeds on disposal of plant and equipment		783	9	785	8
Proceeds on disposal of growing cane at Kaombe Sugar Farm	9	450	-	450	-
Dividend income		31	1	-	-
Net cash outflows from investing activities		(13 149)	(4 433)	(9 336)	(3 668)
Net cash inflows before financing activities		2 085	1 306	2 085	1 306
Cash flows from financing activities					
Long-term borrowings repaid	15.9	(19 721)	-	(19 721)	-
Short-term borrowings received	16	10 000	-	10 000	-
Net cash outflows from financing activities		(9 721)	-	(9 721)	-
Net (decrease)/increase in cash and cash equivalents		(7 636)	1 306	(7 636)	1 306
Cash and cash equivalents at beginning of period		(568)	(1 874)	(569)	(1 875)
Cash and cash equivalents at end of period	11	(8 204)	(568)	(8 205)	(569)
Comprising of:					
Bank balances and cash	11	249	33	248	32
Bank overdrafts	11	(8 453)	(601)	(8 453)	(601)
		(8 204)	(568)	(8 205)	(569)

NOTES TO THE CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 AUGUST 2018
(COMPARATIVES ARE FOR THE FIVE MONTHS PERIOD ENDED 31 AUGUST 2017)

	Notes	GROUP Aug-18 K million	GROUP Aug-17 restated K million	COMPANY Aug-18 K million	COMPANY Aug-17 restated K million
a Cash operating profit is calculated as follows:					
Operating profit		30 197	12 696	10 711	7 980
Add back: Depreciation of property, plant and equipment	6	4 057	1 459	2 906	996
Profit on disposal of property, plant and equipment		(25)	(5)	(25)	(4)
Change in fair value of growing cane	9	(1 042)	9 655	(785)	3 345
Grant amortisation		(7)	(4)	(7)	(4)
Cash operating profit		33 180	23 801	12 800	12 313
b Working capital requirements comprise the following:					
Movement in inventories		(2 777)	(24 723)	(2 220)	(14 928)
Movement in trade and other receivables		(3 447)	(2 746)	(3 478)	(2 373)
Movement in amounts due (from)/to related parties		(2 281)	(852)	1 807	1 228
Movement in trade and other payables		3 715	11 361	4 656	7 486
Working capital requirements		(4 790)	(16 960)	765	(8 587)
c Finance costs paid:					
Interest charged on:					
Long-term borrowings	15.9	(1 743)	(655)	(1 743)	(655)
Short-term borrowings	16	(1 146)	-	(1 146)	-
Bank short-term facilities	4	(2 168)	(447)	84	-
Other - Illovo Sugar Africa Proprietary Limited :Procurement	15.10.3	(13)	(14)	(11)	(8)
Finance costs paid on interest bearing debt		(5 070)	(1 116)	(2 816)	(663)
d Taxation (paid)/refunded is reconciled to the amounts disclosed in the statements of comprehensive income as follows:					
Amounts (payable)/recoverable at beginning of period		(7 682)	146	(7 781)	(1 431)
Per statements of comprehensive income (excluding deferred taxation)		(4 037)	(7 828)	3 510	(4 698)
Amounts payable at end of period		3 597	7 682	4 907	7 781
Taxation (paid)/refunded		(8 122)	-	636	1 652

1. Critical accounting judgements and key sources of estimation uncertainty

Critical accounting judgements made by management

In the process of applying the group's accounting policies, management has made the following judgement, apart from those involving estimations, that affect the amounts recognised in the financial statements and related disclosures:

Impairment of assets

In making its judgement, management assesses at each reporting date whether there is an indication that items of property, plant and equipment and other assets may be impaired. If any such indication exists, the recoverable amount of the asset is assessed in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of fair value less costs to sell and value in use.

Key sources of estimation uncertainty

In the process of applying the group's accounting policies, management has made the following key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date:

Property, plant and equipment residual values and useful lives

These assets are written down to their estimated residual values over their anticipated useful lives using the straight-line basis. Management reviews the residual values annually considering market conditions and projected disposal values. In assessing useful lives, maintenance programmes and technological innovations are considered. The carrying value of property, plant and equipment is disclosed in note 6 to the financial statements.

Growing cane valuation

Growing cane is valued at the estimated sucrose content, valued at the estimated sucrose price for the following season, less the estimated costs for harvesting and transport. The value of growing cane is further adjusted for the cane maturity as at the balance sheet date, the costs necessarily incurred to farm the sugar cane until maturity and the expected profit margin on the cane growing activity. The estimated sucrose content requires management to assess the expected cane and sucrose yields for the following season considering weather conditions and harvesting programmes. In reviewing the estimated sucrose price, management is required to assess into which markets the forthcoming crop will be sold and establish domestic and export prices as well as the related foreign currency exchange rates. The cane maturity as at the balance sheet date is based on an internationally validated model of sugar cane growth using historical climatic inputs from the sugar estates. In addition, management prepares detailed costs forecasts to determine the costs to farm the sugar cane to maturity as well as the expected profit margin. The carrying value of growing cane is disclosed in note 9 to the financial statements.

Provision for doubtful debts

Allowances for doubtful debts are recognised against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

Operating segments

Segment reporting is presented in respect of the group's business segments.

Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segmental capital expenditure represents the costs incurred during the period to acquire segment assets that are expected to be used for more than one year.

Management has determined the business segments and reports on the operating segments as follows:

Cane growing	-	Growing of sugar cane for use in the sugar production process.
Sugar production	-	Manufacture and sale of sugar from sugar cane.

There are no other key assumptions concerning the future, or key sources of estimation uncertainty at the reporting date, that management have assessed as having a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

	GROUP Aug-18 K million	GROUP Aug-17 K million	COMPANY Aug-18 K million	COMPANY Aug-17 K million
2. Revenue				
Revenue represents the proceeds receivable from the sale of:				
Sugar	137 213	46 417	72 898	24 597
Molasses and other products	4 547	2 682	2 727	1 661
	141 760	49 099	75 625	26 258
Analysed by market segment:				
Domestic market	116 314	40 042	62 106	21 528
EU market	12 471	5 078	6 626	2 614
USA market	5 195	3 206	2 760	1 705
Regional market	7 780	773	4 133	411
	141 760	49 099	75 625	26 258

	GROUP Aug-18 K million	GROUP Aug-17 K million	COMPANY Aug-18 K million	COMPANY Aug-17 K million
3. Operating profit				
Revenue	141 760	49 099	75 625	26 258
Cost of sales	(79 686)	(22 671)	(48 657)	(11 363)
Distribution expenses	(8 060)	(3 935)	(4 294)	(2 128)
Administration expenses	(23 817)	(9 797)	(11 963)	(4 787)
Operating profit after changes in fair value of biological assets	30 197	12 696	10 711	7 980
Less fair value adjustments:				
- growing cane (see note 9)	(1 042)	9 655	(785)	3 345
Operating profit before changes in fair value of biological assets	29 155	22 351	9 926	11 325
Administration expenses comprise:				
Operating costs	(11 026)	(3 570)	(5 248)	(1 202)
IT costs	(1 764)	(945)	(988)	(589)
Human Resources costs	(3 750)	(1 572)	(2 412)	(1 015)
Security costs	(920)	(766)	(434)	(590)
Healthcare costs	(947)	(416)	(433)	(198)
Risk and loss control costs	(1 756)	(965)	(951)	(589)
Civils costs	(2 957)	(1 400)	(1 090)	(472)
Other overheads	(534)	(96)	(320)	(96)
Depreciation	(163)	(67)	(87)	(36)
	(23 817)	(9 797)	(11 963)	(4 787)
Operating profit has been determined after taking into account the following items:				
Depreciation (see note 6)	(4 057)	(1 459)	(2 906)	(996)
Profit on disposal of plant and equipment	25	5	25	4
Amortisation of factory overhaul costs	-	(3 161)	-	(1 886)
Directors' fees	(12)	(4)	(12)	(4)
Auditor's remuneration:				
- statutory audit fees	(77)	(49)	(55)	(32)
- fees for other services	(44)	(24)	(22)	(10)
- expenses	(8)	(7)	(8)	(7)
Operational support service fees (see note 15.10.1)	(2 481)	(973)	(1 488)	(584)
Operating lease charges	(734)	(333)	(555)	(299)
Contribution to retirement benefit funds	(712)	(470)	(477)	(360)
Foreign exchange gains - trading balances	389	23	362	17

	Note	GROUP Aug-18 K million	GROUP Aug-17 K million	COMPANY Aug-18 K million	COMPANY Aug-17 K million
4. Finance costs					
Interest charged on:					
Long-term borrowings (see note 1 below)		(1 410)	(1 026)	(1 410)	(1 026)
Short-term borrowings		(1 238)	-	(1 238)	-
Bank short-term facilities		(2 168)	(447)	84	-
Other - Illovo Sugar Africa Proprietary Limited :Procurement		(13)	(14)	(11)	(8)
Foreign exchange losses recognised in finance costs		(1 108)	(260)	(1 108)	(260)
Interest expense on bank borrowings, short-term and long-term debt		(5 937)	(1 747)	(3 683)	(1 294)
Interest income					
Interest income - interest income on short-term bank deposits		36	14	36	259

(1) Interest on long-term borrowings from related parties is disclosed in Note 15.9

	Note	GROUP Aug-18 K million	GROUP Aug-17 K million	COMPANY Aug-18 K million	COMPANY Aug-17 K million
5. Income tax expense					
Current tax		4 037	7 828	(3 510)	4 698
Deferred tax	13	3 841	(4 599)	6 134	(2 716)
Total income tax recognised in the current period		7 878	3 229	2 624	1 982
		%	%		
Reconciliation of rate of taxation:					
Malawi corporation rate of taxation		30.0	30.0		
Increase/(Decrease) in charge for period due to:					
Exempt income		-	(0.5)		
Disallowable expenditure		2.4	-		
Effective rate of taxation		32.4	29.5		

6. Property, plant and equipment

GROUP

	Land and buildings K million	Vehicles and aircraft K million	Plant, equipment and furniture K million	Capital work in progress K million	Cane roots K million	Total K million
Cost						
Opening balance at 1 April 2017	5 043	6 217	21 106	2 738	14 686	49 790
Additions	-	137	468	1 232	2 606	4 443
Transfers	498	-	665	(1 163)	-	-
Disposals	-	(27)	(6)	-	-	(33)
Closing balance at 31 August 2017	5 541	6 327	22 233	2 807	17 292	54 200
Opening balance at 1 September 2017	5 541	6 327	22 233	2 807	17 292	54 200
Additions	-	-	-	9 696	4 717	14 413
Transfers	902	507	8 316	(9 725)	-	-
Disposals	(464)	(120)	(455)	-	(373)	(1 412)
Closing balance at 31 August 2018	5 979	6 714	30 094	2 778	21 636	67 201
Depreciation						
Opening balance at 1 April 2017	578	2 182	4 638	-	4 124	11 522
Charge for the period	39	222	326	-	872	1 459
Disposals	-	(27)	(6)	-	-	(33)
Closing balance at 31 August 2017	617	2 377	4 958	-	4 996	12 948
Opening balance at 1 September 2017	617	2 377	4 958	-	4 996	12 948
Charge for the year	83	954	672	-	2 348	4 057
Disposals	(58)	(80)	(147)	-	-	(285)
Closing balance at 31 August 2018	642	3 251	5 483	-	7 344	16 720
Net book value						
Closing balance at 31 August 2017	4 924	3 950	17 275	2 807	12 296	41 252
Closing balance at 31 August 2018	5 337	3 463	24 611	2 778	14 292	50 481

Expenditure on assets under construction is initially shown as capital work in progress and is transferred to the relevant class of asset when commissioned.

The group's sugar and cane growing activities are situated on land under 99 year lease from the government of Malawi as follows:

Commencement:	Aug-18 Hectares	Aug-17 Hectares
1 January 1965	4 763	4 763
1 March 1966	4	4
1 October 1974	12 391	12 391
1 March 1977	13 300	13 300
1 July 1992	3 767	3 767

	Land and buildings K million	Vehicles and aircraft K million	Plant, equipment and furniture K million	Capital work in progress K million	Cane roots K million	Total K million
6. Property, plant and equipment (continued)						
COMPANY						
Cost						
Opening balance at 1 April 2017	3 492	4 129	14 994	1 428	10 614	34 657
Additions	-	114	83	1 494	1 985	3 676
Transfers	429	-	665	(1 094)	-	-
Disposals	-	(11)	-	-	-	(11)
Closing balance at 31 August 2017	3 921	4 232	15 742	1 828	12 599	38 322
Opening balance at 1 September 2017	3 921	4 232	15 742	1 828	12 599	38 322
Additions	-	-	-	6 575	3 996	10 571
Transfers	587	423	4 629	(5 639)	-	-
Disposals	(464)	(118)	(448)	-	(373)	(1 403)
Closing balance at 31 August 2018	4 044	4 537	19 923	2 764	16 222	47 490
Depreciation						
Opening balance at 1 April 2017	409	1 565	3 176	-	2 826	7 976
Charge for the period	29	185	146	-	636	996
Disposals	-	(11)	-	-	-	(11)
Closing balance at 31 August 2017	438	1 739	3 322	-	3 462	8 961
Opening balance at 1 September 2017	438	1 739	3 322	-	3 462	8 961
Charge for the year	54	852	238	-	1 762	2 906
Disposals	(58)	(78)	(140)	-	-	(276)
Closing balance at 31 August 2018	434	2 513	3 420	-	5 224	11 591
Net book value						
Closing balance at 31 August 2017	3 483	2 493	12 420	1 828	9 137	29 361
Closing balance at 31 August 2018	3 610	2 024	16 503	2 764	10 998	35 899

Expenditure on assets under construction is intially shown as capital work in progress and is transferred to the relevant class of asset when commissioned.

The company's sugar and cane growing activities are situated on land under 99 year lease from the government of Malawi as follows:	Aug-18 Hectares	Aug-17 Hectares
Commencement:		
1 January 1965	4 763	4 763
1 March 1966	4	4
1 October 1974	12 391	12 391
1 July 1992	3 767	3 767

	GROUP		COMPANY	
	Aug-18 K million	Aug-17 K million	Aug-18 K million	Aug-17 K million
7. Investments				
Investment in subsidiary company				
The only subsidiary of the company is Dwangwa Sugar Corporation Limited, a company registered in Malawi.				
Interest in the subsidiary is as follows:				
Issued capital			42	42
Effective percentage holding			100%	100%
Shares at cost			324	324
Other investments				
Unlisted investment at cost:				
Ethanol Company Limited	0.2	0.2		
210 000 Ordinary shares of K 1 each, representing 7.64% of issued share capital				
	0.2	0.2		

	GROUP Aug-18 K million	GROUP Aug-17 K million	COMPANY Aug-18 K million	COMPANY Aug-17 K million
8. Inventories				
Consumables	5 266	5 800	3 427	3 504
Sugar	35 050	32 202	20 652	18 786
Factory overhaul costs	2 152	1 689	1 298	867
	42 468	39 691	25 377	23 157

The group deducted stock provisions of K188.3 million (August 2017: K23.0 million) to arrive at these numbers out of this K80.9 million (August 2017: K7.7 million) related to write down of export sugar stocks to net realisable value.

The company deducted stock provisions of K121.0 million (August 2017: K21.0 million) to arrive at these numbers out of this K80.9 million (August 2017: K7.7 million) related to write down of export sugar stocks to net realisable value.

	GROUP		COMPANY	
	Aug-18 K million	Aug-17 K million	Aug-18 K million	Aug-17 K million

9. Growing cane

The carrying value of growing cane can be reconciled as follows:

Carrying value at beginning of period	25 482	35 137	16 085	19 430
Change in fair value	1 042	(9 655)	785	(3 345)
Disposal of Kaombe Sugar Farm	(450)	-	(450)	-
Carrying value at end of period	26 074	25 482	16 420	16 085

The fair value of the growing cane is determined using inputs that are unobservable. Using the best information available in the circumstances growing cane fall, into the level 3 fair value category.

The following are the key assumptions in the valuation of growing cane:	Aug-18	Aug-17	Aug-18	Aug-17
Expected area to harvest the following season (ha)	19 126	19 821	12 418	13 113
Estimated yield (tons cane/ha)	93	87	84	83
Cane growth percentage at 31 March	67%	68%	71%	71%

A 1% change in the inflation could increase or decrease the fair value of the growing cane to the following values:	Aug-18 K million	Aug-18 K million	Aug-18 K million	Aug-18 K million
	+ 1%	-1%	+ 1%	-1%
Estimated sucrose price	26 157	25 742	16 544	16 293

	GROUP		COMPANY	
	Aug-18 K million	Aug-17 K million	Aug-18 K million	Aug-17 K million

10. Trade and other receivables

Trade and other receivables	12 210	10 300	12 210	10 300
Other receivables and prepayments	5 894	4 357	4 806	3 238
Balance at end of period	18 104	14 657	17 016	13 538

The directors consider that the carrying amount of trade and other receivables approximates their fair value. Trade and other receivables include debtors denominated in foreign currencies amounting to K 2 613 million (August 2017: K 3 901 million). The provision for doubtful debts as at 31 August 2018 is K103 million (August 2017: nil).

The foreign debtors are denominated in the following currencies:				
European Euro	1 423	3 101	1 423	3 101
South African Rand	360	724	360	724
United States Dollar	830	76	830	76
	2 613	3 901	2 613	3 901

The age analysis of trade receivables is as follows:				
Not past due	10 037	8 127	10 037	8 127
Past due by 30 days	1 687	1 687	1 687	1 687
Past due by 60 days	105	105	105	105
Past due by 90 days	381	381	381	381
	12 210	10 300	12 210	10 300

Trade receivables are either secured over real property or bank performance guarantees or unsecured depending on the specific customer credit risk assessment by the group's credit committee. They have fixed repayment terms ranging from 14 to 90 days and do not bear interest. The balances will be settled by cash payments.

	GROUP		COMPANY	
	Aug-18 K million	Aug-17 K million	Aug-18 K million	Aug-17 K million

11. Cash and cash equivalents

The group and the company have overdraft and guarantee facilities with various Malawian banking institutions. Local facilities attract interest rates of between 14.9% and 22.0% (August 2017: 21.0% and 28.0%).

	Group Aug-18	Group Aug-17	Company Aug-18	Company Aug-17
Bank balances and cash are made up of the following currencies:				
European Euro	10	2	10	2
Great British Pound	2	2	-	-
Malawi Kwacha	190	3	191	4
South African Rand	15	20	15	20
United States Dollar	32	6	32	6
	249	33	248	32
Bank overdraft balances are made up of the following currencies:				
Malawi Kwacha	8 453	601	8 453	601
Total cash and cash equivalents	(8 204)	(568)	(8 205)	(569)
Amount used	8 453	601	8 453	601
Amount unused	16 547	11 799	16 547	11 799
Total bank overdraft facility	25 000	12 400	25 000	12 400

The overdraft facilities are unsecured. The related finance costs are outlined in note 4.

12. Malawi government vitamin A grant

	Group Aug-18	Group Aug-17	Company Aug-18	Company Aug-17
At beginning of period	234	238	199	203
Amortised during the period	(7)	(4)	(5)	(4)
At end of period	227	234	194	199

This balance relates to government grants received from IrishAID and United Nations Children's Fund through the Malawi government in 2013. The money was used by the group to buy equipment for fortifying domestic sugar with vitamin A. Government grants have been reclassified from trade and other payables to non-current liabilities.

13. Deferred tax

	Group Aug-18	Group Aug-17	Company Aug-18	Company Aug-17
The movement in the year is analysed below:				
Balance at beginning of period	15 112	19 913	6 255	9 173
Current year other comprehensive income charge/(relief)	259	(202)	259	(202)
Current year charge/(relief) to profit or loss	3 841	(4 599)	6 134	(2 716)
Balance at end of period	19 212	15 112	12 648	6 255
Analysis of deferred tax liability:				
Excess capital allowances over depreciation	11 390	9 368	7 722	6 721
Growing cane	7 822	7 645	4 926	4 825
Other	-	(1 901)	-	(5 291)
Balance at end of period	19 212	15 112	12 648	6 255

	GROUP		COMPANY	
	Aug-18 K million	Aug-17 K million	Aug-18 K million	Aug-17 K million
14. Trade and other payables				
Trade payables	8 040	10 374	5 189	7 185
Other payables and accruals	23 147	17 098	18 962	12 310
	31 187	27 472	24 151	19 495
Other payables and accruals comprise:				
Accrued expenses	11 534	9 536	9 920	6 972
Grower payable	4 397	2 960	2 454	1 286
VAT payable	2 738	2 901	2 666	2 849
Advance receipts from customers	2 520	307	2 520	307
Payroll creditors	1 477	727	1 065	362
Leave pay accruals	435	496	294	364
Sundry accruals	46	171	43	170
	23 147	17 098	18 962	12 310

Trade and other payables include payables denominated in foreign currencies amounting to K 728 million (August 2017: K 1 262 million).

The foreign creditors are denominated in the following currencies:				
South African Rand	420	113	420	75
United States Dollar	308	1 149	308	1 149
	728	1 262	728	1 224

The average credit period for purchases of goods and services included under payables is 30 days. No interest is charged on overdue amounts. Other payables are non-interest bearing and have an average term of two month. The group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

For explanations on the group's liquidity risk management processes, refer to Note 27.7.

15. Related parties

Illovo Sugar (Malawi) plc (the group), in the ordinary course of business, enters into various transactions with related parties.

15.1 Holding companies

The group is controlled by the following entities:

Names	Type	Effective ownership interest	
		Aug-18	Aug-17
Sucoma Holdings Limited, incorporated in Mauritius	Immediate holding company	75.98%	75.98%
Illovo Group Holdings Limited, incorporated in Mauritius	Intermediate holding company	75.98%	75.98%
Illovo Sugar Africa Proprietary Limited, incorporated in South Africa	Illovo group holding company	75.98%	75.98%
Associated British Foods plc, incorporated in United Kingdom	Ultimate holding company	75.98%	75.98%

15.2 Ultimate holding company

Associated British Foods plc holds 100% (August 2017: 100%) of the issued share capital of Illovo Sugar Africa Proprietary Limited (formerly Illovo Sugar Proprietary Limited) and therefore has an effective ownership interest of 75.98% (August 2017: 75.98%) in the group.

A limited number of costs were incurred by Associated British Foods plc on behalf of the group for which it was reimbursed with no margin charged. These costs are disclosed in note 15.10.1 below.

15.3 Illovo group holding company

Illovo Sugar Africa Proprietary Limited holds 100% of the issued share capital of Illovo Group Holdings Limited which in turn owns 100% of the issued share capital of Sucoma Holdings Limited and therefore has an effective ownership interest of 75.98% in Illovo Sugar (Malawi) plc.

15.3.1 Transactions and balances with Illovo Sugar Africa Proprietary Limited related to procurement services

The group utilises a centralised procurement office located in Johannesburg, South Africa, to share in the benefit of the bulk purchasing power that arises from Illovo Sugar Africa Proprietary Limited combining the procurement requirements of six operations to negotiate preferential supply arrangements. On receipt of an order from the group, the centralised procurement office sources and purchases the required goods and services from third party suppliers. The cost of the procurement services, together with any transport costs, is recovered from the group and is disclosed in note 15.10.1 below. No mark-up is charged on the recovery of the procurement expenditure and any pricing benefit negotiated with the third party supplier by the centralised procurement office is passed on to the group.

The trading balance owing in respect of procurement expenditure on goods and services (as disclosed in note 15.8.2 below) is unsecured, is repayable within 30 days of statement and only bears interest if the repayment terms have been exceeded, after which a market-related interest (9% per annum) is charged (as disclosed in note 15.10.3 below). Interest is not raised on goods that have not been received, or damaged in transit, and for which there are legitimate queries pending. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balances will be settled by cash payments.

15.3.2 Other transactions and balances with Illovo Sugar Africa Proprietary Limited

Operational support service fees are charged to the group in order to recover the costs of providing technical support, business support and operating a centralised procurement office. Technical support includes services rendered to monitor and improve agricultural and manufacturing performance as well as technical engineering services. Business support covers the provision of a range of services including legal, taxation, treasury, governance, human resources and information technology. The services provided by the centralised procurement office are detailed above. Operational support service fees charged to the group during the current and prior year are disclosed in note 15.10.1 below. Operational support service fees are charged on a cost-plus basis, allowing a margin of 8% for technical and business support services and 15% for procurement services.

Various third party costs incurred by the group are paid for on its behalf by Illovo Sugar Africa Proprietary Limited for which it is reimbursed with no mark-up charged. The recovered costs are disclosed in note 15.10.1 below.

The trading balance owing by the group as disclosed in note 15.8.2 below represents amounts outstanding for transactions detailed above. The trading balance is unsecured, has no fixed repayment terms and does not bear interest. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balances will be settled by cash payments.

In September 2015, liquidity constraints resulted in the refinance of the group's long-overdue trading balances, owing for goods and services procured and operational support services, with a long-term loan. Failure to refinance these balances would have adversely disrupted operations and approval of the refinancing was obtained from the Malawi Stock Exchange and Reserve Bank of Malawi in advance. The long-term loan from Illovo Sugar Africa Proprietary Limited was repaid during the year. The loan was unsecured and attracted interest at a market-related interest rate being the prime interest rate in South Africa (as quoted by Standard Bank of South Africa) plus 200 basis points per annum. The loan balance and the related interest are disclosed in note 15.9 and note 15.10.3.

With effect from 1 September 2017 Illovo Sugar Africa Proprietary Limited became the group's appointed agent to coordinate and manage the marketing, sale and distribution of all the group's export sugar for which it received a 1% commission which is disclosed in note 15.10.1 below.

15.4 Intermediate holding company

Transactions and balances with Illovo Group Holdings Limited

Some third party costs incurred by the group are paid for on its behalf by Illovo Group Holdings Limited for which it is reimbursed with no mark-up charged. The recovered costs are disclosed in note 15.10.1 below. There are no trading balances outstanding for the reimbursement of costs.

In September 2015, liquidity constraints resulted in the refinance of the group's long-overdue trading balances owing to Illovo Group Marketing Services Limited, for export commissions and distribution cost recoveries, with a long-term loan. Failure to refinance these balances would have adversely disrupted operations and approval of the refinancing was obtained from the Malawi Stock Exchange and Reserve Bank of Malawi in advance. The long-term loan from Illovo Group Holdings Limited of K 3.648 billion (August 2017: K 3.657 billion) ($ 5 million) is unsecured and attracts interest at a market-related interest rate, being the six-month US LIBOR rate plus 400 basis points per annum. The loan is repayable in a single instalment on 31 October 2020. The loan balance and the related interest are disclosed in note 15.9 and note 15.10.3.

15.5 Immediate holding company

Transactions between the group and Sucoma Holdings Limited (SHL) relate to the payment of dividends. No dividends have been paid to shareholders, including SHL, in either the current or prior year. There are no outstanding balances owing to or by SHL.

15.6 Transactions and balances with fellow subsidiaries

Illovo Group Marketing Services Limited

Up to 31 August 2017 Illovo Group Marketing Services Limited (IGMSL) was the group's appointed agent to coordinate and manage the marketing, sale and distribution of all the group's export sugar for which it received a 1% commission which is disclosed in note 15.10.1 below.

Third party export logistics costs incurred by the group are paid for on its behalf by IGMSL for which it is reimbursed with no mark-up charged (as disclosed in note 15.10.1 below).

Trading balances owing to the group (as disclosed in note 15.8.1) represent proceeds received from export customers over the year-end cut-off which, as a result, were not able to be remitted to the group. Trading balance owing by the group (as disclosed in note 15.8.2) represent amounts outstanding for commissions and logistic costs yet to be reimbursed. All trading balances with IGMSL are unsecured, have no fixed repayment terms and do not bear interest. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balances will be settled by cash payments.

East African Supply Proprietary Limited

East African Supply Proprietary Limited, which is a fellow subsidiary company, recovers the cost of air services provided to the group necessary to facilitate the provision of operational support and director services by Illovo Sugar Africa Proprietary Limited (refer to note 15.10.1).

The trading balances owing by the group as disclosed in note 15.8.1 and 15.8.2 below represent amounts outstanding for air services. The trading balances are unsecured, have no fixed repayment terms and do not bear interest. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised.

Other cost recoveries

Operating costs incurred by the group are paid for on its behalf by fellow subsidiary companies such as Kilombero Sugar Company Limited, Ubombo Sugar Limited and Zambia Sugar Plc for which these fellow subsidiaries are reimbursed with no mark-up charged. In addition, the group recovers any operating costs paid on behalf of fellow subsidiaries. The recovered costs are disclosed in note 15.10.1 below.

The outstanding balances between the group and fellow subsidiary companies such as Kilombero Sugar Company Limited and Zambia Sugar Plc arising from cost recoveries are disclosed in notes 15.8.1 and 15.8.2 below. The balances are unsecured, have no fixed repayment terms and do not bear interest. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balances will be settled by cash payments.

Sales transactions

During the current and prior year, amounts of sugar as disclosed in note 15.10.2 were sold to AB Azucarera Iberia S.L. (formerly Azucarera Ebro SLU), Czarnikow Group Limited and Illovo Sugar (South Africa) Proprietary Limited on the same commercial terms and conditions that would be available to third party customers.

The outstanding trading balances between the group and fellow subsidiary companies arising from sugar sales are disclosed in note 15.8.1 below. The trading balances are unsecured, but have repayment terms in line with those applicable to third party customers. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balances will be settled by cash payments.

15.7 Subsidiary companies

The company owns 100% of the issued share capital of Dwangwa Sugar Corporation Limited, a company registered in Malawi.

The outstanding trading balances between the company and Dwangwa Sugar Corporation Limited are disclosed in note 15.8.2 below. The trading balances are unsecured, have no fixed repayment terms and do not bear interest. No expense has been recognised in the current or prior year in respect of a bad or doubtful debt and no allowance for doubtful debts has been recognised. The balances will be settled by cash payments.

			GROUP		COMPANY	
		Note	Aug-18 K million	Aug-17 K million	Aug-18 K million	Aug-17 K million
15.8	**Amounts due from/ (to) related parties**					
15.8.1	Amount due from related parties:					
	AB Azucarera Iberia S.L.	2	923	1 181	923	1 181
	East African Supply Proprietary Limited	2	-	4	-	4
	Illovo Group Marketing Services Limited	2	349	107	349	107
	Illovo Sugar (South Africa) Proprietary Limited	2	52	29	52	29
	Kilombero Sugar Company Limited	2	-	13	-	13
			1 324	1 334	1 324	1 334
	Amounts due from related parties are denominated in the following currencies:					
	European Euro		923	1 181	923	1 181
	South African Rand		52	36	52	36
	United States Dollar		349	117	349	117
			1 324	1 334	1 324	1 334
15.8.2	Amounts due to related parties:					
	Dwangwa Sugar Corporation Limited	3	-	-	11 592	7 245
	Holding company and fellow subsidiaries		1 500	3 791	939	3 489
			1 500	3 791	12 531	10 734
	Holding company and fellow subsidiaries comprise:					
	East African Supply Proprietary Limited	2	7	-	7	-
	Illovo Group Marketing Services Limited	2	352	2 225	352	2 225
	Illovo Sugar Africa Proprietary Limited - Corporate Division	1	229	348	164	310
	Illovo Sugar Africa Proprietary Limited - Procurement Division	1	904	1 187	408	923
	Illovo Sugar (South Africa) Proprietary Limited	2	8	10	8	10
	Zambia Sugar Plc	2	-	21	-	21
			1 500	3 791	939	3 489

Amounts due to Dwangwa Sugar Corporation Limited are denominated in Malawi Kwacha.

Amounts due to holding company and fellow subsidiaries are denominated in the following currencies:

	GROUP Aug-18	GROUP Aug-17	COMPANY Aug-18	COMPANY Aug-17
European Euro	172	2 178	172	2 178
South African Rand	1 147	1 544	586	1 242
United States Dollar	181	69	181	69
	1 500	3 791	939	3 489

Note
1 - Holding companies (refer to note 15.1 - 15.3)
2 - Fellow subsidiaries of holding companies (refer to note 15.4 - 15.6)
3 - Subsidiary of Illovo Sugar (Malawi) plc (refer to note 15.7)

	GROUP		COMPANY	
	Aug-18 K million	Aug-17 K million	Aug-18 K million	Aug-17 K million

15.9 Long-term borrowings from related parties

	Year of repayment	Effective interest rate (%)	Group Aug-18 K million	Group Aug-17 K million	Company Aug-18 K million	Company Aug-17 K million
Illovo Group Holdings Limited	2020	US LIBOR (6m) plus 4	3 649	3 657	3 649	3 657
Illovo Sugar Africa Proprietary Limited	2018	South African prime rate plus 2	-	19 307	-	19 307
Total borrowings			3 649	22 964	3 649	22 964
Less:						
Current portion			-	-	-	-
Long-term portion			3 649	22 964	3 649	22 964

	GROUP			GROUP		
	Aug-18 K million	Aug-18 K million	Aug-18 K million	Aug-17 K million	Aug-17 K million	Aug-17 K million
	Illovo Group Holdings Limited	Illovo Sugar Africa Proprietary Limited	Total	Illovo Group Holdings Limited	Illovo Sugar Africa Proprietary Limited	Total
Balance at the start of period	3 657	19 307	22 964	3 625	18 708	22 333
Amount paid	-	(19 721)	(19 721)	-	-	-
Interest charged	215	1 195	1 410	76	950	1 026
Interest paid	(174)	(1 569)	(1 743)	(47)	(608)	(655)
Foreign exchange losses recognised in finance costs	(49)	788	739	3	257	260
Balance at end of period	3 649	-	3 649	3 657	19 307	22 964

Long-term loans from related parties are denominated in the following currencies:

	-	-	-	-	19 307	19 307
South African Rand	3 649	-	3 649	3 657	-	3 657
United States Dollar	3 649	-	3 649	3 657	19 307	22 964

	COMPANY			COMPANY		
	Aug-18 K million	Aug-18 K million	Aug-18 K million	Aug-17 K million	Aug-17 K million	Aug-17 K million
	Illovo Group Holdings Limited	Illovo Sugar Africa Proprietary Limited	Total	Illovo Group Holdings Limited	Illovo Sugar Africa Proprietary Limited	Total
Balance at the start of period	3 657	19 307	22 964	3 625	18 708	22 333
Amount paid	-	(19 721)	(19 721)	-	-	-
Interest charged	215	1 195	1 410	76	950	1 026
Interest paid	(174)	(1 569)	(1 743)	(47)	(608)	(655)
Foreign exchange losses recognised in finance costs	(49)	788	739	3	257	260
Balance at end of period	3 649	-	3 649	3 657	19 307	22 964

Long-term loans from holding companies are denominated in the following currencies:

South African Rand	-	-	-	-	19 307	19 307
United States Dollar	3 649	-	3 649	3 657	-	3 657
	3 649	-	3 649	3 657	19 307	22 964

The foreign currency denominated loans will be repaid using future foreign currency export proceeds earned from European, USA and regional markets to minimise any realised exchange losses.

15 .10 Related party transactions

				GROUP Aug-18 K million	GROUP Aug-17 K million	COMPANY Aug-18 K million	COMPANY Aug-17 K million
15 .10.1	The annual payment transactions with related parties are as follows:	Note	Transaction				
	Associated British Foods plc	1	Cost recoveries	-	9	-	9
	East African Supply Proprietary Limited	2	Flight charges recoveries	105	36	105	36
	Illovo Group Marketing Services Limited	2	Export agency commission	-	91	-	47
	Illovo Sugar Africa Proprietary Limited	2	Export agency commission	254	-	135	-
	Illovo Group Marketing Services Limited	2	Logistics cost recoveries	1 912	263	1 912	263
	Illovo Sugar Africa Proprietary Limited - Corporate Division	1	Operational support service fees	2 481	973	1 488	584
	Illovo Sugar Africa Proprietary Limited - Corporate Division	1	Cost recoveries	1 255	374	916	282
	Illovo Sugar Africa Proprietary Limited - Procurement Division	1	Procurement of goods and services	17 139	5 503	10 768	3 658
	Kilombero Sugar Company Limited	2	Cost recoveries	27	9	27	9
	Zambia Sugar Plc	2	Cost recoveries	31	26	31	26
				23 204	7 284	15 382	4 914
15 .10.2	The annual sugar sales transactions with related parties are as follows:						
	Azucarera Ebro SLU	3		2 788	1 669	2 788	1 669
	Czarnikow Group Limited	4		3 295	511	3 295	511
	Illovo Sugar (South Africa) Proprietary Limited	2		2 394	249	2 394	249
				8 477	2 429	8 477	2 429
15 .10.3	The annual interest payable with related parties is as follows:		Effective interest rate (%)				
	Illovo Group Holdings Limited	1	LIBOR plus 400 basis points	215	76	215	76
	Illovo Sugar Africa Proprietary Limited - Corporate Division	1	Prime rate plus 200 basis points	1 195	943	1 195	950
	Illovo Sugar Africa Proprietary Limited - Procurement Division	1	9% on overdue balances	13	14	11	8
				1 423	1 033	1 421	1 034

Note
1 - Holding companies (refer to note 15.1 - 15.3)
2 - Fellow subsidiaries of Illovo Sugar Africa Proprietary Limited (refer to note 15.4 - 15.6)
3 - Fellow subsidiaries of Associated British Foods plc (refer to note 15.6)
4- Associate of Associated British Foods plc (refer to note 15.6)

15 .10.4 The compensation of key management personnel is disclosed in Note 24.

		GROUP		COMPANY	
		Aug-18 K million	Aug-17 K million	Aug-18 K million	Aug-17 K million

	Effective interest rate (%)				
16. Short-term borrowings					
Nico Asset Managers Limited	15.18%	5 079		5 079	
Old Mutual Investment Group	16.00%	5 013		5 013	
		10 092		10 092	

	GROUP AND COMPANY		
	Aug-18 K million	Aug-18 K million	Aug-18 K million
	Nico Asset Managers Limited	Old Mutual Investment Group	Total
Amount advanced	5 000	5 000	10 000
Interest charged	650	588	1 238
Interest paid	(571)	(575)	(1 146)
Balance at end of year	5 079	5 013	10 092

Nico Asset Managers Limited Loan

During the year under review the group obtained a short-term money market facility from Nico Asset Managers Limited of K5 billion. The applicable interest rate to Nico Asset Managers Limited loan was an average yield for the preceding 182 days treasury bill as per treasury bill auction results plus a premium of 100 basis points per annum . The loan attracts a commitment fees 0.12% payable in advance. Interest was payable quarterly in arrears.

Old Mutual Investment Group Loan

During the year under review the group obtained a short-term money market facility from Old Mutual Investment Group of K5.167 billion. The applicable interest rate to Old Mutual Investment Group Limited loan was an average yield for the preceding 182 days treasury bill as per treasury bill auction results plus a premium of 125 basis points per annum. Interest was payable on a quarterly basis in arrears, plus arrangements fees of 0.25% payable in advance.

	GROUP		COMPANY	
	Aug-18 K million	Aug-17 K million	Aug-18 K million	Aug-17 K million
17. Derivative financial instruments				
Forward exchange contracts - designated as cash flow hedges	156	(708)	156	(708)
Comprising:				
Assets	156	-	156	-
Liabilities	-	(708)	-	(708)
At end of period	156	(708)	156	(708)

The derivative assets/(liabilities) relate to foreign exchange contracts (FECs) designated as hedging instruments in cash flow hedges of forecast sales in Euros. These forecast transactions are highly probable. The foreign exchange forward contracts are measured at fair value through OCI.

The fair value of FECs as calculated by the banks is measured using a forward pricing model. The significant inputs into the Level 2 fair value of FECs are yield curves, market interest rates and market foreign exchange rates. The estimated fair values of recognised financial instruments approximate their carrying amounts. Additional disclosures concerning the derivative financial instruments used to manage currency risk have been provided in Note 27.4.

The cash flow hedges of the expected future sales in 2018 were assessed to be highly effective and a net unrealised gain of K 156 million, with a deferred tax liability of K47 million relating to the hedging instruments, is included in OCI. Comparatively, the cash flow hedged of the expected future sales in 2017 were assessed to be highly effective and an unrealised loss of K708 million with a deferred tax asset of K212 million was included in the OCI in respect of these contracts.

The amounts retained in OCI at 31 August 2018 are expected to mature and affect the statement of profit or loss in 2019. The disaggregation of changes of OCI by the hedging reserve in equity is shown on the next page:

	GROUP Aug-18 K million	GROUP Aug-17 K million	COMPANY Aug-18 K million	COMPANY Aug-17 K million
Derivative financial instruments (continued)				
Currency forward contracts	109	(496)	109	(496)
Reclassified to statement of profit or loss	496	24	496	24
Total	605	(472)	605	(472)
18. Capital commitments				
Contracted	889	1 170	622	829
Approved but not contracted	3 738	4 320	3 194	3 508
	4 627	5 490	3 816	4 337

Capital expenditure commitments are to be financed from internal resources and existing facilities.

19. Contingent liabilities

Various claims of an industrial relations nature totalling K 1.115 billion (August 2017: K 2.756 billion) have been made against the group in the ordinary course of business, the outcome of which is uncertain.

20. Operating lease commitments

	2019 K million	2020 K million	2021 K million	2022 K million	2023 onwards K million	GROUP Aug-18 Total K million	GROUP Aug-17 Total K million
GROUP							
Land and buildings	90	90	90	90	731	1 091	3 077
Motor vehicles	557	557	557	557	557	2 785	2 542
Computer equipment	239	196	190	121	93	839	790
	886	843	837	768	1 381	4 715	6 409

	2019 K million	2020 K million	2021 K million	2022 K million	2023 onwards K million	COMPANY Aug-18 Total K million	COMPANY Aug-17 Total K million
COMPANY							
Land and buildings	78	78	78	78	78	390	2 364
Motor vehicles	477	477	477	477	477	2 385	2 258
Computer equipment	152	110	104	97	93	556	365
	707	665	659	652	648	3 331	4 987

21. Exchange rates and inflation

	GROUP AND COMPANY	
	Aug-18 K million	Aug-17 K million

The period-end of the buying and selling rates of the foreign currencies most affecting the performance of the group is stated below, together with the increase in the consumer price index for the year, which represents an official measure of inflation.

	Aug-18	Aug-17
Kwacha/European Euro	846.0	872.1
Kwacha/South African Rand	49.5	56.4
Kwacha/United States Dollar	734.8	734.8
Overall Consumer Price Inflation	9.0%	9.3%

The average for the period of the buying and selling rates of the foreign currencies most affecting the performance of the group is stated below, together with the increase in the consumer price index for the year, which represents an official measure of inflation.

	Aug-18	Aug-17
Kwacha/European Euro	873.3	838.7
Kwacha/South African Rand	56.9	56.8
Kwacha/United States Dollar	724.1	734.8
Overall Consumer Price Inflation - average	9.3%	11.5%

22. Basic and diluted earnings per share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the group is based on the following data:

	Aug-18	Aug-17
Earnings		
Earnings for the purposes of basic and diluted earnings per share	16 449	7 735
Number of shares ('000s)		
Weighted average number of ordinary shares for the purpose of basic/diluted earnings per share	713 444	713 444
Basic and diluted earnings per share (tambala)	2 306	1 084
Reconciliation of headline earnings:		
Net profit for the year	16 449	7 735
Headline earnings	16 449	7 735
Headline earnings per share (tambala)	2 306	1 084

Headline earnings are defined as profit after tax less profit on disposal of real property.

23. Dividend per share

Dividend per share is calculated by dividing the total dividends declared in the year by the weighted average number of ordinary shares in issue during the period.

	Aug-18	Aug-17
Number of shares in issue ('000s)	713 444	713 444
Weighted average number of shares on which dividend per share is based ('000s)	713 444	713 444
Dividend paid per share (tambala)	-	-

Due to cash flow constraints the directors do not recommend payment of a dividend.

24. Compensation of key management personnel	GROUP AND COMPANY Aug-18 K million	GROUP AND COMPANY Aug-17 K million
The remuneration of directors and key management during the period was as follows:		
Short-term benefits	3 012	777
Post-retirement benefits	1 072	52
Other long-term benefits	178	1 056
	4 262	1 885

The remuneration of directors and key executives is determined by the Nomination/Remuneration committee having regard to the performance of individuals and market trends.

25. Retirement benefit plans

The group operates two defined contribution plans. The SUCOMA Group Pension Scheme, which is managed internally by trustees, is a defined contribution scheme and the contributions by employees and the group are 7.5% (August 2017: 7.5%) and 12.5% (August 2017: 12.5%) of the fund member's basic pensionable salaries, respectively. The Illovo Sugar Malawi Pension Fund, which is managed internally by trustees, is also a defined contribution scheme and the contributions by employees and the group are 5.0% (August 2017: 5.0%) and 12.5% (August 2017: 12.5%) of the fund member's basic pensionable salaries, respectively. The trustees are employees of the group. The administration of both pension funds has been subcontracted to Nico Life Insurance Company Limited. Nico Asset Managers Limited is the investment manager for the two funds.

The total expense recognised in profit or loss of K 712.0 million (August 2017: K 470.2 million) represents contributions payable to these plans by the group.

	Sugar production K million	Cane growing K million	TOTAL K million

26. Segmental analysis

The primary business segments of the group are classified into sugar production and cane growing as follows:

GROUP
Period to 31 August 2018

	Sugar production K million	Cane growing K million	TOTAL K million
Revenue	82 588	59 172	141 760
Operating profit	29 413	784	30 197
Dividend income	25	6	31
Finance costs	(4 584)	(1 353)	(5 937)
Interest income	43	(7)	36
Taxation	(6 000)	(1 878)	(7 878)
Statements of financial position			
Non-current assets	25 382	25 099	50 481
Property, plant and equipment	25 382	25 099	50 481
Current assets	58 185	30 190	88 375
Inventories	40 028	2 440	42 468
Growing cane	-	26 074	26 074
Trade and other receivables	16 428	1 676	18 104
Amount due from related parties	1 324	-	1 324
Derivative financial assets	156	-	156
Bank balances and cash	249	-	249
Current liabilities	35 908	18 921	54 829
Trade and other payables	18 687	12 500	31 187
Amount due to related parties	1 309	191	1 500
Short-term borrowings	5 092	5 000	10 092
Bank overdrafts	8 453	-	8 453
Derivative financial liabilities	-	-	-
Taxation payable	2 367	1 230	3 597
Non-current liabilities	13 564	9 524	23 088
Shareholders equity	34 095	26 844	60 939
Property, plant and equipment transactions are categorised as follows:			
Purchases during the period	4 796	9 617	14 413
Depreciation	1 337	2 720	4 057

Revenue from one customer amounted to K41.2 billion (August 2017: K11.9 billion).

GROUP
Period to 31 August 2017

	Sugar production K million	Cane growing K million	TOTAL K million
Revenue	9 552	39 547	49 099
Operating profit	8 977	3 719	12 696
Dividend income	1	-	1
Finance costs	(1 323)	(424)	(1 747)
Interest income	7	7	14
Taxation	(5)	(3 224)	(3 229)
Statements of financial position			
Non-current assets	20 288	20 964	41 252
Property, plant and equipment	20 288	20 964	41 252
Current assets	51 319	29 878	81 197
Inventories	35 301	2 701	38 002
Growing cane	-	25 482	25 482
Factory overhaul costs	1 689	-	1 689
Trade and other receivables	12 964	1 693	14 657
Amount due from related parties	1 334	-	1 334
Bank balances and cash	31	2	33
Current liabilities	22 782	17 472	40 254
Trade and other payables	14 881	12 591	27 472
Amount due to related parties	-	3 791	3 791
Bank overdrafts	601	-	601
Derivative financial liabilities	708	-	708
Taxation payable	6 592	1 090	7 682
Non-current liabilities	23 128	15 182	38 310
Shareholders equity	25 697	18 188	43 885
Property, plant and equipment transactions are categorised as follows:			
Purchases during the period	105	4 338	4 443
Depreciation	431	1 028	1 459

The geographical segment of the group's business has not been prepared because all the group's operations are held within Malawi.
There were no significant non-cash transactions during the current or prior years.

27. Financial instruments

Introduction and overview

The group has exposure to the following risks arising from its transactions in financial instruments:
- Capital
- Treasury
- Foreign currency
- Interest rate
- Credit
- Liquidity

This note, in addition to notes 10, 11, 14, 15 and 16 presents information about the group's exposure to each of the above risks, the group's objectives, policies and processes for identification, measurement, monitoring and controlling risk and the group's management of capital.

27.1 Categories of financial instruments

	GROUP Aug-18 K million	GROUP Aug-17 K million	COMPANY Aug-18 K million	COMPANY Aug-17 K million
Financial assets				
Loans and receivables (including bank balances and cash)	19 677	16 024	18 588	14 904
The details of financial assets are as follows:				
Trade and other receivables	18 104	14 657	17 016	13 538
Bank balances and cash	249	33	248	32
Amount due from related parties	1 324	1 334	1 324	1 334
	19 677	16 024	18 588	14 904
Financial liabilities				
Financial liabilities measured at amortised cost	54 881	55 062	58 876	53 993
Financial instruments designated as cash flow hedges	-	708	-	708
	54 881	55 770	58 876	54 701
The details of financial liabilities at amortised costs are as follows:				
Long-term borrowings	3 649	22 964	3 649	22 964
Trade and other payables	31 187	27 706	24 151	19 694
Related parties	1 500	3 791	12 531	10 734
Short-term borrowings	10 092	-	10 092	-
Bank overdrafts	8 453	601	8 453	601
	54 881	55 062	58 876	53 993

27.2 Capital risk management

The group manages its capital to ensure that it remains a going concern whilst maximising the returns to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the group consists of debt (which includes bank overdraft facilities net of cash balances) and equity.

27.3 Treasury risk management

A treasury risk management committee, consisting of senior executives in the group, meets periodically to analyse currency and interest rate exposures and formulate treasury management strategies in the light of prevailing market conditions and current economic forecasts. This committee operates within group policies approved by the board.

The group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the group's policies approved by the board of directors, which provide principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a regular basis. The group does not enter into nor trade in financial instruments, including derivative financial instruments, for speculative purposes.

	GROUP		COMPANY	
	Aug-18 K million	Aug-17 K million	Aug-18 K million	Aug-17 K million

27.4 Foreign currency risk management

The group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts, where possible. Foreign currency exposures are carefully monitored and management utilises foreign currency export proceeds to settle foreign currency denominated obligations.

The carrying amounts of the group's unhedged and uncovered foreign currency denominated assets and monetary liabilities at the reporting date are as follows:

	Group Aug-18 K million	Group Aug-17 K million	Company Aug-18 K million	Company Aug-17 K million
Assets				
European Euro	2 346	4 282	2 346	4 282
South African Rand	52	36	52	36
United States Dollar	1 179	193	1 179	193
	3 577	4 511	3 577	4 511
Liabilities				
European Euro	172	2 178	172	2 178
South African Rand	1 567	20 964	1 006	20 624
United States Dollar	4 138	4 875	4 138	4 875
	5 877	28 017	5 316	27 677

27.4.1 Foreign currency sensitivity analysis

The group is largely exposed to the European Euro, South African Rand and United States Dollar. The following table details the group's sensitivity to a 10% increase and decrease in the Malawi Kwacha (K) against the relevant foreign currencies. A 10% movement is the usual sensitivity rate used when reporting foreign currency risk internally to key personnel and represents management assessment of the change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items. A positive/(negative) number below denotes a increase/(decrease) in profit before tax where the Kwacha weakens/strengthens against the relevant currency. The impact on the group's pre-tax equity due to changes in the fair value of forward exchange contracts designated as cash flow hedges is not material.

	European Euro impact		South African Rand impact		United States Dollar impact	
	Aug-18 K million	Aug-17 K million	Aug-18 K million	Aug-17 K million	Aug-18 K million	Aug-17 K million
Profit or loss	217	210	(152)	(2 093)	(296)	(468)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year-end exposure does not reflect the average exposure during the season. Purchases from foreign suppliers are seasonal with higher purchases towards the last quarter of the year in order to meet demand.

27.5 Interest rate risk management

Taking cognisance of the seasonality of the group's cash flow and long-term interest rate forecasts, the risk management committee positions the group's interest rate exposures according to expected movements in local and international interest rates.

27.5.1 Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates on the financial assets and liabilities at the reporting date and a 5% interest rate change taking place at the beginning of the year.

If interest rates had been 500 basis points higher/lower and all other variables held constant, the group's profit before tax for the year ended 31 August 2018 would move by K 924 million (August 2017: K 490 million). The effect on profit or loss and equity is the same.

27.6 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The group uses other publicly available financial information and its own as a means of mitigating the risk of financial loss from defaults. The group uses other publicly available financial information and its own trading records to rate its major customers. The group's exposure and the performance of its counterparties are continuously monitored.

Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. On-going credit evaluation is performed on the financial condition of accounts receivable and where appropriate, credit guarantee insurance cover is purchased.

The group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any one time during the year. The credit risk on liquid funds is limited because the counterparties are reputable banks.

There are no off-statement financial position credit exposures.

The highest credit exposure outside the bank balances was K 12 210 million (August 2017: K 10 300 million) in relation to trade receivables.

27.7 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with management, which has built an appropriate liquidity risk management framework for the management of the group's short, medium and long-term funding and liquidity requirements. The group manages liquidity risk by maintaining adequate reserves and banking facilities, continuously monitoring forecast and actual cash flows and matching of the maturity profiles of financial assets and liabilities. Included in note 12 is a listing of additional undrawn facilities that the group has access to if the need arises.

	GROUP		COMPANY	
	Aug-18 K million	Aug-17 K million	Aug-18 K million	Aug-17 K million
Net debt				
Long-term borrowings from related parties	3 649	22 964	3 649	22 964
Short-term borrowings	10 092	-	10 092	-
Bank overdrafts	8 453	601	8 453	601
Bank balances and cash	(249)	(33)	(248)	(32)
	21 945	23 532	21 946	23 533

The group's overall liquidity position has improved from the previous five-month period due to generation of positive cash flows. During the period foreign debt amounting to K19.7 billion (R 345 million) was repaid using internally generated cash flows thereby also reducing the group's foreign currency exposure. Focus will be maintained on cash flow generation strategies to bring the net debt position to more sustainable levels.

27.7.1 Liquidity risk tables

The following tables detail the group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the actual cash flows of financial liabilities based on the earliest date on which the group can be required to pay. The table below shows both interest and principal cash flows.

	Weighted average effective rate	1 year	1 - 5 years	Total
	%	K million	K million	K million
31 August 2018				
Bank overdraft	18.5	8 453	-	8 453
Short-term borrowings	15.6	10 092	-	10 092
Long-term borrowings	10.6	-	3 649	3 649
		18 545	3 649	22 194
31 August 2017				
Bank overdraft	24.5	601	-	601
Short-term borrowings	26.8	-	-	-
Long-term borrowings	10.6	-	22 964	22 964
		601	22 964	23 565

The group's non-financial assets are interest-free and their maturity period is indefinite.

The following table details the group's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	1-3 months	3 months to 1 year	1 - 5 years	5+ years	Total
	K million	K million	K million	K million	K million
31 August 2018					
Trade and other receivables	18 104	-	-	-	18 104
Bank balances and cash	249	-	-	-	249
	18 353	-	-	-	18 353
31 August 2017					
Trade and other receivables	14 657	-	-	-	14 657
Bank balances and cash	33	-	-	-	33
	14 690	-	-	-	14 690

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The group has access to other unutilised financing facilities as described in note 11. The group expects to meet its obligations arising from operating cash flows and proceeds of maturing financial assets.

27.7.2 Changes in liabilities arising from financing activities

	01-Sep-17	Cash flows	Interest payments	Foreign exchange movement	Interest charged	31-Aug-18
	K million	K million	K million	K million	K million	K million
Current borrowings	-	10 000	(1 146)	-	1 238	10 092
Non current borrowings	22 932	(19 721)	(1 743)	739	1 410	3 617
Total liabilities from financing activities	22 932	(9 721)	(2 889)	739	2 648	13 709

28. Fair value measurement

Fair value measurement hierarchy for assets and liabilities as at 31 August 2018:

	Fair value measurement using:				
	Date of Valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		K million	K million	K million	K million
Assets Measured at Fair Value					
Growing cane	31 August 2018	26 074	-	-	26 074
Foreign exchange forward contracts	31 August 2018	156	-	156	-
Assets for which fair values are disclosed					
Trade receivables	31 August 2018	18 104	-	-	18 104
Amount due from related parties	31 August 2018	1 324	-	-	1 324
Liabilities measured at fair value	31 August 2018	-	-	-	-
Liabilities for which fair values are disclosed					
Trade payables	31 August 2018	31 187	-	-	31 187
Amounts due to related parties	31 August 2018	1 500	-	-	1 500
Long term borrowings from related related parties	31 August 2018	3 649	-	-	3 649
Short term borrowings	31 August 2018	10 092	-	-	10 092

There were transfers between Level 1 and Level 2 categories during the period.

29. Events after the reporting period

There were no significant events that require disclosure or adjustment to the consolidated and separate financial statements.

ANALYSIS OF SHAREHOLDERS

31 August 2018

Category			Shareholders Number	Shareholders %	Ordinary Shares Number held	Ordinary Shares % of shares issued
Individuals						
1	–	5 000	1 604	74.61	2 117 861	0.30
5 001	–	10 000	237	11.02	1 953 931	0.27
10 001	–	50 000	195	9.07	3 873 862	0.54
50 001	–	100 000	22	1.02	1 707 697	0.24
100 001	–	200 000	26	1.21	3 812 728	0.54
200 001	–	500 000	26	1.21	8 432 820	1.18
500 001	–	and over	40	1.86	691 545 492	96.93
			2 150	100.00	713 444 391	100.00
Banks and nominees			56	2.60	14 103 243	1.97
Holding company and non-residents			60	2.79	545 541 103	76.47
Individuals			1 901	88.42	30 619 036	4.29
Insurance, investment and trust companies			51	2.37	25 463 636	3.57
Other corporate bodies			47	2.19	20 884 369	2.93
Pension and provident funds			35	1.63	76 833 004	10.77
			2 150	100.00	713 444 391	100.00

Shareholders holding 1% or more of the total equity

SUCOMA Holdings Limited	542 084 186	75.98
Old Mutual Life Assurance Company (Malawi) Limited	59 073 471	8.28
Ramesh Haridas Savjani	14 821 735	2.08
Press Trust	11 665 750	1.64
First Merchant Bank Limited	9 378 616	1.31

SHAREHOLDERS' DIARY

Financial / Statutory

Financial year-end	August
Annual general meeting	February

Reports and profit statements

Profit announcement for the year	November
Annual report and financial statements	February
Interim report	February

Change of 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 company's ultimate shareholder, 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 prior period comparatives for the five month period ended 31 August 2017.

NOTICE OF MEETING

Notice is hereby given that the 54th annual general meeting of members of the company will be held at Ryalls Hotel, Blantyre, on Wednesday, 27 February 2019 at 14h30 to transact the following business:

1. Financial statements

   To receive and adopt the annual financial statements for the year ended 31 August 2018.

2. Election of Directors

   To confirm the appointment of N Saayman (Dr) and R Savjani as non-executive directors to fill casual vacancies.

   Dr N Saayman – Brief profile

   Dr Saayman BEng(Chem)(cum laude), PhD (Chem Eng), MBL. Dr Saayman was appointed as a director of Illovo Malawi in September 2018. Before joining Illovo he served in various capacities in the Sasol Group, the last position being Senior Vice-President – Group Planning and Optimisation. Dr Saayman's career has spanned many years in the petro-chemical industry ranging from research and development, engineering design, project execution, operations management, strategy and transformational initiatives and others.

   R Savjani – Brief profile

   Mr Savjani BSc(Hons) Econ, ACMA, CGMA. Mr Savjani holds a First Class Honours degree in Economics from the University of Warwick. He trained in finance and corporate finance at Deloitte in London where he also commenced his accountancy qualification, which he completed soon thereafter. He subsequently held a number of roles in the private equity industry in London and also assisted with the establishment of a financial services business headquartered in Dubai, where he currently also serves as a director. He is currently a consultant for financial services companies in the region.

   To confirm the appointment of E M Namboya as executive director.

   E M Namboya – Brief profile

   Mr Namboya BAcc, FCCA, CA(Mw). Mr Namboya joined Illovo Malawi as Financial Controller in May 2014. Mr Namboya started his professional career at Deloitte Malawi where he worked for over ten years and rose to the position of Senior Audit Manager responsible for audit, training and technical matters. He joined Press Corporation plc in 2010 where he served as Group Financial Accountant for a period of two years and was later appointed as Chief Finance Officer in 2012 for Malawi Telecommunications Limited, a subsidiary of Press Corporation. He currently also serves as a member of the board of trustees for Saint Andrews International High School and non-executive board member of NBM Pension Administration Limited.

   To re-elect M H Abdool-Samad, G B Dalgleish and P A Madinga who retire by rotation in terms of the articles of association, and who, being eligible and on recommendation of the Nomination/Remuneration Committee, have offered themselves for re-election.

   To confirm A R Mpungwe, who has served on the board in excess of six years, as an independent non-executive director.

3. Ordinary business

To consider and, if deemed fit, to pass with or without modification the following ordinary resolutions:

3.1 That unless otherwise determined by the company in general meeting, each director shall be entitled to remuneration for his/her services as such at the rate of K 3 150 000 per annum and that the remuneration herein determined shall be payable by the company every four months in arrears with effect from 1 September 2018.

3.2 That non-executive directors should receive a sitting allowance of K 150 000 for each committee and/or board meeting attended in addition to the amount above.

3.3 That Ernst & Young be re-appointed as auditors for the August 2019 financial year and that the directors be authorised to fix their remuneration.

3.4 That no dividend as recommended by directors be declared.

4. Special business

To consider and, if deemed fit, to pass with or without modification the following special resolution:

4.1 Adoption of new Articles of Association in compliance with the Companies Act 2013.

The current Memorandum of Association and Articles of Association (MEMARTS) were adopted under the Companies Act 1984, which has since been repealed by the new Companies Act 2013 (The 2013 Act). In order to comply with the 2013 Act, the board of directors adopted a new set of MEMARTS. The board recommends to the shareholders the adoption of the new MEMARTS.

5. Other business

To transact such other business as may be transacted at an annual general meeting of members.

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, speak and vote in his/her stead. The proxy need not be a member of the company. Proxy forms should be forwarded to reach the company's registered office or the office of the transfer secretaries not later than 16h00 on Monday, 25 February 2019.

By order of the board

Maureen Kachingwe
Company Secretary
Registered Offices: Churchill Road, Limbe, Malawi

NOTES

FORM OF PROXY FOR THE 54TH ANNUAL GENERAL MEETING

I/We ____

(Name/s in block letters)

of ____

(Address)

Number of votes

being the shareholder/member of the abovenamed company and entitled to [ ]

(1 share = 1 vote)

do hereby appoint

1. ____________________ of ____________________ or failing him/her;

2. ____________________ of ____________________ or failing him/her;

3. the chairman of the meeting as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the annual general meeting of the company to be held at Ryalls Hotel, Blantyre, Malawi on Wednesday, 27 February 2019 at 14h30 and at any adjournment thereof as follows:

Agenda Item		Mark with X where applicable		
		In favour	Against	Abstain
1.	Adoption of 2018 annual financial statements.			
2.	Election of directors.			
3.1	Determination of directors' remuneration.			
3.2	Fixing directors' sitting allowance.			
3.3	Re-appointment of Ernst & Young as auditors.			
3.4	Declaration of dividend.			
4.1	Special business: To amend the memorandum and articles of association of the company to comply with the Companies Act 2013.			

Signed at ____________________ on this ____________ day of ____________________ 2018

Signature ____

Assisted by me (where applicable) (see note 3) ______________________________

Full name/s of signatory/ies if signing in a representative capacity (see note 4) ____________________

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the company.
2. If this proxy form is returned without any indication as to how the proxy should vote, the proxy will be entitled to vote or abstain from voting as he/she thinks fit.
3. A minor must be assisted by his/her guardian.
4. The authority of a person signing a proxy in a representative capacity must be attached to the proxy unless the company has already recorded that authority.
5. In order to be effective, proxy forms must reach the registered office of the company (Illovo Sugar (Malawi) plc, Illovo House, Churchill Road, Private Bag 580, Limbe, Malawi) or the transfer secretaries (Standard Bank Limited Transfer Secretaries, Transactional Products and Services, Kaomba Centre, corner Sir Glyn Jones Road & Victoria Avenue, P O Box 1111, Blantyre, Malawi) by no later than 16h00 on Monday, 25 February 2019.
6. The delivery of the duly completed proxy form shall not preclude any member or his/her duly authorised representative from attending the meeting, speaking and voting instead of such duly appointed proxy.
7. If two or more proxies attend the meeting, then that person attending the meeting whose name appears first on the proxy form, or whose name is not deleted, shall be regarded as the appointed proxy.

SUGAR ILLOVO MALAWI

AN **ILLOVO SUGAR AFRICA** COMPANY