

ILLOVO SUGAR (MALAWI) LIMITED



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

EXTRACTS FROM THE AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2016

FINANCIAL PERFORMANCE	GROUP	GROUP	COMPANY	COMPANY	GROUP	GROUP	COMPANY	COMPANY
	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited
	31 Mar 2016	31 Mar 2015	31 Mar 2016	31 Mar 2015	31 Mar 2016	31 Mar 2015	31 Mar 2016	31 Mar 2015

Summarised statement of profit or loss and other comprehensive income

	K'm	K'm	K'm	K'm
Revenue	99 925	92 508	55 094	52 286
Operating profit	18 248	23 429	7 367	11 412
Dividend income	40	52	-	5 000
Net finance cost	(10 146)	(3 931)	(7 791)	(2 460)
Profit/(loss) before taxation	8 142	19 550	(424)	13 952
Taxation	(2 632)	(6 019)	(15)	(2 813)
Net profit/(loss) for the year	5 510	13 531	(439)	11 139
Other comprehensive income	(438)	479	(438)	479
Total comprehensive income	5 072	14 010	(877)	11 618
Adjusted for:				
Other comprehensive income	438	(479)	438	(479)
Headline earnings	5 510	13 531	(439)	11 139
Number of shares in issue ('000)	713 444	713 444		
Weighted average number of shares on which net profit per share is based ('000)	713 444	713 444		
Net profit per share (tambala)	772	1 897		
Headline earnings per share (tambala)	772	1 897		
Dividend per share (tambala)	-	750		

Quality of earnings statement

Operating profit	18 248	23 429
Adjust for:		
Change in fair value of cane roots & growing cane	(10 359)	(9 737)
Operating profit less fair value changes	7 889	13 692

Business segmental analysis

	GROUP	GROUP
	Audited	Audited
	31 Mar 2016	31 Mar 2015
<b>Revenue</b>		
Sugar production	58 782	53 543
Cane growing	41 143	38 965
	99 925	92 508
<b>Operating profit</b>		
Sugar production	14 122	15 237
Cane growing	4 126	8 192
	18 248	23 429

Summarised statement of financial position

	GROUP	GROUP	COMPANY	COMPANY
	Audited	Audited	Audited	Audited
	31 Mar 2016	31 Mar 2015	31 Mar 2016	31 Mar 2015
<b>ASSETS</b>				
Property, plant & equipment	24 951	22 945	17 736	17 067
Cane roots	32 302	25 827	22 760	17 967
Investment	-	-	324	324
Non-current assets	57 253	48 772	40 820	35 358
Current assets	67 244	52 375	47 739	36 227
<b>Total Assets</b>	124 497	101 147	88 559	71 585
<b>EQUITY AND LIABILITIES</b>				
Capital and reserves	46 906	41 834	22 993	23 870
Deferred taxation	23 351	20 867	13 629	13 762
Long-term borrowings	19 444	-	19 444	-
Current liabilities	34 796	38 446	32 493	33 953
<b>Total Equity and Liabilities</b>	124 497	101 147	88 559	71 585
Depreciation	1 168	902	810	639
Capital expenditure	3 229	6 169	1 535	4 711

Summarised statement of cash flows

	K'm	K'm	K'm	K'm
<b>Cash generated from operations before working capital changes</b>	8 981	14 490	906	6 134
Working capital requirements	(29 217)	7 857	(26 883)	5 619
Finance costs, taxation & dividends paid	(10 951)	(8 856)	(6 825)	(4 670)
<b>Net cash (outflow)/inflow from operating activities</b>	(31 187)	13 491	(32 802)	7 083
Cash flow from investing activities	(3 059)	(6 013)	(1 444)	395
<b>Net cash (outflows)/inflows before financing activities</b>	(34 246)	7 478	(34 246)	7 478
Cash flow from financing activities	29 713	-	29 713	-
<b>(Decrease)/ increase in cash and cash equivalents</b>	(4 533)	7 478	(4 533)	7 478

Summarised statement of changes in equity

	K'm	K'm	K'm	K'm
<b>Share capital &amp; premium</b>				
Balance at beginning/end of the year	782	782	782	782
<b>Retained earnings</b>				
Balance at beginning of the year	41 052	40 241	23 088	24 669
Net profit/(loss) for the year	5 510	13 531	(439)	11 139
Non-distributable reserve	(438)	479	(438)	479
Dividends declared	-	(13 199)	-	(13 199)
Balance at end of year	46 124	41 052	22 211	23 088
<b>Capital and reserves</b>	46 906	41 834	22 993	23 870

OVERVIEW

Overall profit from operations for the year declined by 22% (42% excluding fair value gains on biological assets) compared with the previous year, with overall headline earnings on a year on year basis declining 59%.

Adverse weather conditions at the commencement of the 2015/16 season resulted in inconsistent supply of both water and electricity for irrigation purposes. This impacted negatively on crop yields and contributed to widespread pest infestations of the stressed crop. Plant operational performance at Nchalo was below expectation for the season, although generally improved on the prior crushing season. Dwangwa, on the other hand, had a generally satisfactory plant performance at similar levels to the prior year. Final sugar production for the year totaled 269 000 tons sugar which reflected an overall 5% decrease season on season.

Overall sugar sales into the local and export markets amounted to 255 000 tons – a decrease of 7% over the previous year's total of 273 000 tons sugar. Domestic market sales were significantly down by 40 000 tons sugar on a year on year basis mainly as a result of local unfavourable economic conditions and, for some time, the illegal entry of foreign sugar into the Malawi market. The prompt intervention from both Malawi Revenue Authority and Ministry of Industry and Trade helped to eventually stem this illegal importation of sugar. Efforts by the commercial teams to switch product from the lower priced EU bulk raw sugar markets to the better priced regional markets delivered improved revenues to the business.

Generally the economic conditions remained challenging with significant exchange and interest rate movements. The business embarked upon deploying further continuous improvement initiatives with a structural review of the cost base of the business to counter some of the negative financial impacts.

PROSPECTS

With a return to more normal weather patterns, changes to the cane land fallow programme at both Estates and expected yield improvements at Nchalo, the crop is expected to be marginally up on the current year to slightly over 2.2 million tons of cane for the 2016/17 season. This expected increase is despite further declining cane yields from Outgrower operations at both Dwangwa and Nchalo.

In terms of operational parameters the Company is confident that both Dwangwa and Nchalo factories will reflect improved performances in the season ahead. These expected improvements together with the slightly increased cane crop should result in an overall increase in sugar make by 2% to 274 000 tons of sugar for the new season.

Local domestic market sugar sales are expected to recover on a year on year basis with net exports remaining relatively flat but with a continuing movement away from the lower priced EU bulk raw market to an anticipated better priced regional market. The Company will take full advantage of every opportunity to grow sugar sales in the better priced EU and USA special markets.

Inflation rates, together with exchange and interest rate movements, will continue to have a marked effect on profitability. Cost control initiatives embarked upon by the Company will continue in the new year and is expected to fundamentally change the structural cost base of the business and deliver value in improving operating margins.

DIVIDENDS

Due to the adverse trading conditions and related cash flow constraints of the group no interim dividends were payable for the year ended 31 March 2016 (2015: 750 tambala per share).

The Directors will also propose at the forthcoming annual general meeting of Members, to be held on 19 August 2016, that no final dividend be payable for the year due to the current high debt levels exacerbated by the high interest rate environment.

By order of the Board  
Malawi Sugar Limited  
Secretaries  
5 May 2016

AUDITORS REPORT TO THE MEMBERS OF ILLOVO SUGAR (MALAWI) LIMITED

The accompanying summarised consolidated financial statements, which comprise the summarised statements of financial position as at 31 March 2016 and the summarised statements of comprehensive income, the summarised statements of changes in equity and the summarised statements of cash flows for the year then ended, are derived from the audited financial statement of Illovo Sugar (Malawi) Limited for the year ended 31 March 2016. We expressed an unmodified opinion on those financial statements in our report dated 5 May 2016. Those financial statements, and the summarised financial statements, do not reflect the effect of events that occurred subsequent to the date of our report on those financial statements.

The summarised consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the Companies Act, 1984, as applicable to annual financial statements. Reading the summarised consolidated financial statements, therefore, is not a substitute for reading the audited financial statement of Illovo Sugar (Malawi) Limited.

Directors' Responsibility for the Summarised Consolidated Financial Statements

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

**Auditor's Responsibility**  
Our responsibility is to express an opinion on the summarised financial statements based on our procedures which were conducted in accordance with International Standard on Auditing 810, *Engagements to Report on Summary Financial Statements*.

Opinion

In our opinion, the summarised consolidated financial statements derived from the audited financial statements of Illovo Sugar (Malawi) Limited for the year ended 31 March 2016 are consistent, in all material respects, with those financial statements, in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards and the Companies Act, 1984.

Deloitte  
Chartered Accountants  
5 May 2016  
Blantyre  
Malawi