Robbie Williams

2001

CHAIRMAN'S STATEMENT

The past year has seen the group achieve record sugar and furfural production. Further progress was made in enhancing the company's position as a leading global, low-cost sugar producer through its acquisition of Zambia Sugar and the disposal of its Mauritian sugar interests with effect from April 2001. Headline earnings for the year declined by 20% to R222.9 million.

The major factors affecting the results were lower than expected production in Malawi and Swaziland caused by adverse weather conditions in the latter part of the season, significantly depressed sugar prices and high energy costs in the United States, the impact of the weaker Euro on preferential market sales especially in Mauritius, and increased finance costs. Earnings per share were 67.5 cents which is a reduction of 23% compared to last year.

The contribution to operating profits by sugar manufacture was 59%, cane growing 23%, and downstream and other operations 18%, whilst the contributions by country, excluding Tanzania and Mozambique which are presently treated as investments, were South Africa 39%, Malawi 31%, Swaziland 19%, Mauritius 8% and the United States 3%.

Zambia Sugar Plc, in which the company has acquired an 89.1% shareholding for approximately US$20 million, is listed on the Lusaka Stock Exchange and last year produced 1.2 million tons of cane from its own agricultural operations and 209 000 tons of sugar. It is the country’s major producer supplying most of the domestic demand of approximately 110 000 tons of sugar under the Whitespoon label, as well as exporting to regional markets and to Europe. The company benefited from a Special Preferential Sugar (SPS) allocation to supply 14 000 tons of sugar into Europe whilst, in terms of the recently agreed SADC Sugar Protocol, it is expected to supply 10 000 tons of sugar into South Africa.

The acquisition is a strategic fit for the group as Zambia Sugar is one of the world's lowest-cost sugar producers with excellent agricultural conditions, access to secure water supplies from the Kafue River for irrigation, and good factory operations. It further provides the group with the opportunity of being involved in an operation where it can add additional value.

The sale by the group of its 80.25% shareholding in Mon Tresor and Mon Desert Limited involved the disposal of a relatively high cost sugar producer, with limited expansion potential, which was heavily reliant on sales at preferential prices into Europe and the United States. In addition the company was dependant for a significant part of its earnings on its hotel operations which were non-core to Illovo. The sale proceeds have been used to reduce the group's long term borrowings and to finance the acquisition of Zambia Sugar.

The acquisition of Zambia Sugar is a strategic fit for the group as it is one of the world's lowest-cost sugar producers with good factory operations.

The European Union has approved a proposal under which all imports, other than armaments, are to be allowed into the EU duty free from the world's 48 Least Developed Countries (LDC's). However, in respect of sugar, rice and bananas it was agreed that there would be delays to full liberalisation. In the case of sugar, this would only be achieved by July 2009. Until Common Customs Tariff duties are entirely suspended a global tariff quota would be introduced. The initial tariff quota for sugar, commencing in July 2001, will be 74 185 tons thereafter increasing by 15% per annum. For imports over the tariff quota, duties will be reduced by 20% in July 2006, 50% in July 2007 and by 80% in July 2008. The basis of allocation of the tariff quota has yet to be announced. The ACP (African, Caribbean and Pacific) / EC Sugar Protocol is not expected to be impacted by the tariff quota tonnage but the SPS allocations could be reduced to provide for the new dispensation. The company's operations in Malawi, Tanzania, Mozambique and Zambia are expected to benefit from this new dispensation but Swaziland could be at risk of a reduction of its relatively small SPS allocation depending on whether or on what basis export allocations into Europe under the SPS are adjusted. Current discussions on the extension of the European Union sugar regime are of importance to the group's African operations. It is anticipated that the current provisions will be extended for between two and five years while the European agricultural policies are reviewed.

Another significant development during the year was the signing of the Southern African Development Community (SADC) Protocol on Trade which includes a special Sugar Co-operation Agreement. This agreement recognises that the world sugar market is highly distorted and that the world price for sugar is a 'dumped' or subsidised price. The protocol states that this results in the continuing need for most sugar producing countries to impose tariffs and non-tariff barriers against the free importation of sugar in order to protect their domestic industries. It further provides that for as long as the distortion continues "sugar will be a product requiring special dispensation within the framework of this protocol so that no sugar industry within the region will suffer". The long term objective of the agreement is to establish full liberalisation on trade in the sugar sector in the SADC region after the year 2012. The liberalisation will be on a reciprocal basis and will also involve the removal of non-tariff barriers. Over this period, the agreement also seeks to promote production and consumption of sugar and sugar-containing products according to fair trading conditions and to provide temporary measures to insulate member states from the destabilising effects of the distorted world market. Until full liberalisation occurs and with effect from 1 April 2001, market access on a non-reciprocal basis into the South African Customs Union (SACU) will be granted. This will be available to each SADC net surplus producer, including South Africa and Swaziland, and will be based on actual SACU market growth which, in the first year, is deemed to be 45 000 tons of sugar. In addition, duty free access to the SACU sugar market for 20 000 tons of sugar per annum will be available to the non-SACU, SADC surplus sugar producing member states.

A Federation of SADC Sugar Producers was also established during the past year and will act to promote the common interests of sugar industries within SADC, in close co-operation with the Technical Committee on Sugar which was formed in accordance with the Sugar Co-operation Agreement.

The South African Sugar Act is currently the subject of a review by Government, and the sugar industry has made a submission to the Department of Trade and Industry in this regard. The aim of the review is to foster a more competitive environment in the local market (within the agreed framework for the optimal development of the sugar sector in both SACU and SADC) and to establish a positive legal position providing for limited government intervention rather than supporting an enabling position which sanctions regulation by the industry itself. The industry submission presupposes the continued existence of an import tariff to protect the industry but anticipates more competition in the domestic sugar and molasses market arrangements. The new Act is expected to come into effect from the 2002/03 season.

Directors

At a Board level, I would like to welcome Mr Ami Mpungwe who was appointed as a non-executive director in February 2001. Mr Mpungwe, the immediate past Tanzanian High Commissioner to South Africa, has extensive experience in Southern Africa and his advice will be of considerable value to the group. In addition, I am pleased to advise that Mr Martin Shaw, who recently retired as Chairman of Deloitte and Touche, has accepted an invitation to join the Board and his appointment will take effect from the beginning of June 2001. His wealth of business experience will be of particular benefit to the group.

I would also like to record our thanks and appreciation to Mr Georges Leung Shing, the managing director of Mon Tresor and Mon Desert Limited. Mr Leung Shing resigned his position following the sale of Illovo's interest in Mauritius. His contribution, together with that of his management and staff, is much appreciated.

Prospects

Normal growing conditions together with the acquisition of Zambia Sugar have boosted cane production forecasts for the 2001/02 season by 800 000 tons to approximately 5.4 million tons. This combined with focused maintenance programmes and improvements in sugar recoveries is expected to increase sugar production by around 250 000 tons to almost 2.2 million tons. Downstream production of diacetyl, acetoin, syrup and ethyl alcohol are all expected to reflect increased levels of output whilst furfural is expected to be marginally down due to a shorter crushing season at Sezela.

Improved prices for world sugar and downstream products and the weaker Rand, together with the increased levels of production, are expected to result in growth in headline earnings of around 40% being achieved in 2002.

Staff

On behalf of the Board, I would like to thank all the people of Illovo for their efforts and contributions during the past year, which has been a difficult one for the group. The year ahead has many opportunities and challenges as we continue to focus on being a successful, global low-cost sugar and downstream products producer.

R A Williams Durban
Chairman 21 May 2001