

**Don MacLeod** *Managing Director*

## REVIEW OF OPERATIONS

### FINANCIAL RESULTS

In the financial year ended 31 March 2001, the group achieved turnover of R4.7 billion, operating profits of R575.8 million and headline earnings of R222.9 million. Compared to the pro forma results for the 12 month period to 31 March 2000, turnover increased by 23% with operating profits and headline earnings declining by 6% and 20% respectively. Earnings per share of 67.5 cents were 23% less than those achieved in the previous 12 months. The reduced earnings were the result of disappointing 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. The effective tax rate (excluding abnormal items) was 24.2% which was 4.3% higher than that applicable in the previous year. This rate is expected to be sustainable in future years. Attributable profit of R246.5 million includes profit on the sale of assets of R23.6 million. Net group borrowings of R1 483 million were R45 million above those at the end of the previous financial year, whilst financing costs increased by R26.2 million to R184.1 million. Borrowings are anticipated to reduce materially in the year ahead.

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%.

### OVERVIEW

The group's productive base continued to expand with record sugar production of 1.921 million tons being achieved in the 2000/01 season. The increase over last year was attributable to good growing conditions and improved factory performance in South Africa, increased production in the United States and Tanzania and a return to near-normal operating conditions in Mauritius following the previous year's drought. Group cane production of 4.610 million tons was marginally above the previous record of 4.558 million tons set in 1998/99, with good increases in production over last season achieved in South Africa, Malawi, Mauritius and Tanzania.

The acquisition of Zambia Sugar Plc and the disposal of Mon Tresor and Mon Desert Limited subsequent to the year-end were significant developments which further enhance the group's objective of being Africa's leading sugar producer and a low-cost global producer. The impact of these transactions will be to increase the group's production to almost 2.2 million tons of sugar and to reduce the group's long-term borrowings.

## REVIEW OF OPERATIONS *(continued)*



*Agricultural operations in Zambia are significantly enhanced by excellent growing conditions, including access to secure water supplies for irrigation from the Kafue River, which result in above average yields in excess of 100 tons of cane per hectare and sucrose content of more than 15%.*



*Zambia Sugar's milling operations are of material size with an average cane throughput of 400 tons per hour and the capacity to produce more than 200 000 tons of sugar per annum.*

Sugar and downstream products were sold into 83 countries during the year, further consolidating the group as a global supplier of high quality products.

The downstream plant at Sezela performed particularly well, achieving record production of 21 674 tons of furfural. Ethyl alcohol production at the Merebank plant made substantial progress in both product quality and quantity with the operation set to realise the full benefit of its recent expansion during the forthcoming year. During the last quarter of the financial year, global prices for downstream products improved significantly from their recent lows. The contribution from this sector of the business increased by 32% year on year.

At Monitor Sugar, the final phase of the molasses desugarisation project was completed with the commissioning of the molasses chemical softening plant. The benefit of the additional sugar obtained through this process will be realised in future years.

Following the flood in February 2000, which caused extensive damage to the newly planted cane fields, excellent progress has been made with the rehabilitation of the growers' agricultural estates at Maragra in Mozambique. As a result, the sugar factory, which was mothballed last year, will be recommissioned in the current year and is expected to crush approximately 100 000 tons of cane.

Last year saw an encouraging improvement in world prices for both sugar and downstream products. From a low of US\$150 per ton for raw sugar in April 2000, the world price rose to above US\$240 per ton in December 2000 but has recently fallen back to around US\$203. This, in combination with the strengthening of US Dollar against the Rand, is expected to have a positive impact on earnings in 2002.

During the year R304 million was spent on capital projects. Expansion capital amounted to R52 million of which the majority of the expenditure was incurred at Monitor with the completion of the molasses desugarisation project, and in Malawi on continuing improvements and expansion of the warehousing and packing facilities. At Monitor, capital was also incurred to meet environmental requirements.

The ongoing capital expenditure programme ensures that the group's factories are kept in a sound condition and that production quality meets world standards.

During the year, the group achieved first place in the industrial and manufacturing section of The South African Annual Report Awards organised by The Southern African Institute of Chartered Secretaries and Administrators and the JSE Securities Exchange, and finished ninth in the South African Global Company Awards co-ordinated by PricewaterhouseCoopers.



*The ongoing capital expenditure programme ensures that the group's factories are kept in a sound condition and that production quality meets world standards.*

*The sugar packing station at Gledbow has been further modified and upgraded in order to meet the specific requirements of the factory's industrial customers.*

## **MARKETS**

The group supplies sugar and downstream products to a considerable range of domestic, regional and export markets. Sales to domestic markets in Southern Africa and the United States contributed 62% to total revenue while exports to 83 countries contributed 38%. 64% of sugar production by volume and 83% by value was sold into stable domestic or premium-priced markets.

### **DOMESTIC MARKETS**

#### *Sugar*

The South African Customs Union (SACU) market is important for both the group's South African and Swaziland operations. In the 2000/01 season, South African industry sales into SACU showed growth of 5,7% over those of the previous season. Total sales into SACU amounted to 1.609 million tons of which 84% was refined and 16% was brown. South Africa supplied 1.269 million tons, Swaziland 262 000 tons, Zimbabwe 64 000 tons and others 14 000 tons.

The immediate outcome of the recently concluded Southern African Development Community (SADC) Sugar Co-operation Agreement will be to allow market access into SACU by each SADC net surplus producer on a non-reciprocal basis. This 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 into 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. The total access available to non-SACU members is estimated to be approximately 29 000 tons in the 2001/02 season.

The Sugar Corporation of Malawi Limited (Sucoma) is the sole supplier of sugar to the Malawi domestic market with 62% of production being sold to industrial and consumer markets during the year. In Swaziland, Ubombo has a 39% share of domestic sales of sugar marketed by the Swaziland Sugar Association on behalf of producers. Tanzania is a net importer of sugar and apart from a small proportion sold to preferential markets in Europe, all of Kilombero's production was sold locally. All sugar produced in Mauritius is exported to preferential markets and therefore, imports of approximately 40 000 tons were made to meet domestic demand. In the United States, Monitor Sugar supplied its entire production to the domestic market. Domestic sales by Maragra were limited, due to the mothballing of the factory following last year's flood, but Mozambique remains an expanding domestic market which, because of current local production limitations, is supplemented by imports.



*Exports of sugar and downstream products to 83 countries contributed 38% to total group revenue. Bulk loading facilities at the South African Sugar Terminals in Durban harbour are able to load at a rate of 1 000 tons of sugar per hour.*

### ***Downstream***

Whilst the group's range of downstream products is primarily aimed at export markets, the Merebank and Glendale distilleries remained material suppliers of ethyl alcohol to the South African liquor, pharmaceutical and industrial chemical industries. Relatively small volumes of furfural and its derivatives were also sold domestically. The by-products of the Monitor Sugar factory, which include beet pulp, betaine and concentrated molasses solids, were sold domestically, and in the case of beet pulp into Canada.

### **EXPORT MARKETS**

#### ***Sugar***

##### **Preferential markets**

The group has significant access to preferential markets in Europe and the United States which are supplied by producers with export quotas to these countries at a marked premium to the world free market price. The group's operations in Swaziland, Malawi, Mauritius and Tanzania exported almost 208 000 tons of sugar to these markets during the year. In addition, Illovo supplied approximately 10 000 tons of sugar to the United States as part of an export allocation held by the South African sugar industry.

##### **World markets**

More than 100 countries produce sugar, 72% of which is made from sugar cane grown primarily in the tropical and sub-tropical zones of the southern hemisphere and the balance from sugar beet which is grown in the temperate zones of the northern hemisphere. 73% of the world's sugar is consumed in the country of origin while the balance is traded on world markets. Because of the residual nature of the world market, the free market price is one of the most volatile of all commodity prices.

The five largest exporters (Brazil, EU, Australia, Thailand, and Cuba) supply approximately 70% of all world free market exports. South Africa is the 7th largest exporter.

Production problems in the 2001 season, primarily as the result of adverse weather conditions, occurred in Asia, Australia, Cuba and most notably Brazil. Accordingly, estimated world sugar production for the international sugar season ending September 2001, at 128 million tons, is expected to be 10 million tons less than in 1999/00 and two million tons below the current world consumption estimate of 130 million tons. This has had the effect of lifting the world price from



*Record furfural production of 21 674 tons was achieved at the Sezela downstream products factory. The plant's custom-built bagasse shed plays a key role in the steady supply of raw material to its reactors.*

about US\$150 per ton of raw sugar in April 2000 to above US\$240 in December 2000, with the current futures price for October 2001 at US\$183 per ton. These factors are expected to impact positively on group revenue in 2002.

The South African sugar industry is a major supplier to the world market and during the past year exported 1.490 million tons at a value of about R1.9 billion mainly to the Far and Middle East, Pakistan, Malaysia and North Africa. Bulk sugar exports are undertaken on behalf of producers by the South African Sugar Association with refined exports being the responsibility of producers themselves. Approximately 50% of Illovo's South African production was exported to the world market while around 30 000 tons of Ubombo's production was exported from Swaziland. Following the period of depressed world prices caused primarily by world oversupply, the change in the supply / demand balance resulted in increased prices during 2000. Although South African producers did not receive the full benefit of this improvement due to prior hedging of sugar exports, the average price received was 15% better in US Dollar terms than in the previous year.

The South African sugar industry hedges both sugar and currency. In respect of the 2001/02 season approximately 915 000 tons of sugar has been hedged at US\$196 per ton whilst US\$88 million in export proceeds have been covered at R8.07 / US\$1.00.

### **Downstream**

#### **World markets**

The group is a material player in each of the world markets in which it participates and during the past year made direct sales into 62 countries. Downstream production includes furfural, furfuryl alcohol, diacetyl, acetoin and 2,3-Pentanedione produced at the Sezela complex, and ethyl alcohol at Merebank and Glendale. Lactulose and dextran are also produced at the Merebank plant. Downstream products contributed R408 million to total revenue in 2001.

### **TECHNOLOGY**

Technical expertise in both agricultural production and sugar and downstream product manufacture is provided to all operations. The focus of this centralised function is the optimisation of returns from existing installed capacity. Key areas of attention this past year were improved factory performance and efficiencies, enhanced product quality and the achievement of lower costs of production. The group also benefited from research and development undertaken by the South African Sugar Milling Research Institute, of which Swaziland and Malawi are also members, the Mauritius Sugar Industry Research Institute and the South African Sugar Association Experiment Station. All of these organisations are funded by the member sugar industries. Contract development work specifically for the group is undertaken by special agreement with the South African Sugar Milling Research Institute.



*In South Africa, good rainfall resulted in the production of 1.144 million tons of cane from the company's own estates.*

### OPERATIONS

#### SOUTH AFRICA

##### *Agriculture*

The 2000/01 season was characterised by good rainfall which resulted in above average cane yields throughout the operations and production of 1.144 million tons of sugar cane was achieved. The above average rainfall did however reduce sucrose content marginally.

In an industry-wide initiative to improve global competitiveness, a new cane payment system, based on recoverable value (RV), was introduced in 2000/01 and attention within the company's agricultural operations was focused on increasing the quality of cane delivered to the factories. Whereas the previous growers' payment system was based on only the sucrose content of the cane, the RV system bases payments on the value of the various products contained within the cane. Key to the new system is the reduction of non-sucrose and fibre delivered to the mills. Early season cane ripening and a reduction in the period between harvesting and milling were successful in improving RV production.

Illovo continues to administer support and extension services to small-scale farmers who, during the 2000/01 season, supplied a record 1.281 million tons of cane, representing a 12% increase over the previous year. Awareness of the new cane payment system was promoted by the company amongst these growers and improved results are expected in the coming season. There are currently some 13 000 small-scale farmers who deliver cane to Illovo's South African mills.

Good progress has been made by the group in the preparation for the subdivision of additional company land into further medium-scale farms. Cane production by the 57 black medium-scale growers who have previously purchased cane farms from Illovo amounted to 262 000 tons last year.

##### *Sugar production*

Illovo's seven South African sugar mills crushed approximately 10.8 million tons of sugar cane which was supplied by both private growers and its own agricultural operations to produce 1.2 million tons of sugar. Illovo's share of the South African industry production amounted to 44.1%. The operations were adversely impacted by abnormally heavy rainfall at the commencement of the milling season but overall it was a successful season with the small increase in sugar production representing the second highest output ever achieved. There was a considerable improvement in performance at most mills in respect of time efficiencies and overall sugar recovery, further building on gains made during the previous year. The introduction of the RV system brought further benefit. Weekly crush records were established at factories throughout the season, with Umzimkulu and Umfolozi both achieving season cane throughput records.



*The completion of the Paris Dam to the west of Pongola has resulted in access to improved security of water supplies for both commercial and small-scale growers at that mill.*

### ***Downstream***

Stable operating conditions at the downstream plant at Sezela as well as the extended season length resulted in record production of furfural. The furfuryl alcohol and diacetyl plants performed well whilst the acetoin operation, which was commissioned in the previous season, experienced initial teething problems but has since settled down.

The Merebank ethyl alcohol operation made encouraging progress towards meeting the product quality and quantity objectives of the recent capacity expansion with the full benefit of the improvements expected during the 2001/02 season. The Glendale distillery again performed satisfactorily. Lactulose production suffered from lower than expected market demand during the early part of the season and final output was less than forecast.

### ***Marketing***

Illovo sells sugar, syrup, furfural and its derivatives, potable and denatured alcohols, lactulose and dextran into local and international markets. Illovo's domestic sugar sales amounted to about 572 000 tons of sugar, sold in both the direct consumption and industrial markets representing a volume improvement of 9% over the previous season.

From the commencement of the 2000/01 season, sugar millers became responsible for the export of all refined sugar and direct consumption raws. A joint-venture with other sugar millers was formed to manage this operation which exported approximately 315 000 tons of sugar during the season. Margins were assisted by strong white sugar premiums in the early part of the season.

Domestic market consumption of molasses has increased by 20% over the past two years to around 660 000 tons, largely as a result of initiatives undertaken to stimulate growth. There has been an encouraging increase in the world price of molasses.

Excess furfural and furfuryl alcohol inventories in China were finally depleted during the year which led to an improvement in global prices for these products in the last quarter of the financial year.

Demand for diacetyl has remained exceptionally strong, resulting in steadily improving prices throughout the season. Commercial sales of acetoin commenced during the 2000/01 season.

Trading conditions in global alcohol markets improved significantly. Demand, particularly in the export markets, has been strong in recent months with world alcohol prices recovering from the low levels experienced last year. The local potable market has shown satisfactory growth. Market share was maintained in the competitive industrial sector of the market.

Lactulose sales overall were disappointing during 2000/01 although offtake in the latter part of the year improved as a consequence of increased demand in the United States and United Kingdom markets.



*In response to encouraging European demand for speciality sugar produced in Malawi, a new one-ton Demerara bagging plant, employing the latest screening and weighing technologies, has been commissioned at the Nchalo factory.*

### **MALAWI**

The group's operations in Malawi are undertaken through The Sugar Corporation of Malawi Limited (Sucoma) which is the country's sole sugar producer and is listed on the Malawi Stock Exchange. Illovo holds 60% of the issued share capital with the balance being held by the government, and institutional and private investors.

#### ***Agriculture***

Combined cane production at the two estates at Nchalo and Dwangwa amounted to 1.638 million tons, representing an increase of 68 000 tons over the previous year. Excellent summer growing conditions were experienced prior to the commencement of the 2000/01 season and the subsequent dry winter contributed to increased sucrose content, as well as improved harvesting and cane haulage conditions. Unfortunately, the benefit of this was negated towards the end of the year when unseasonably wet weather disrupted both agricultural and milling operations.

A feature of the past year's agricultural operations was the focus on a "clean cane" programme aimed at reducing the amount of extraneous matter delivered with cane to the mills. This initiative resulted in positive benefits to both the growing and milling operations and will continue to be a focus in the 2001/02 season. The recently outsourced cane haulage operations performed well on both estates.

The performance of outgrowers was also much improved due to the combination of an increase in area under cane, better agricultural practices and good summer growing conditions. Production from outgrowers at Nchalo and Dwangwa amounted to a record 208 000 tons of cane, representing a 63% increase in production over the previous season.

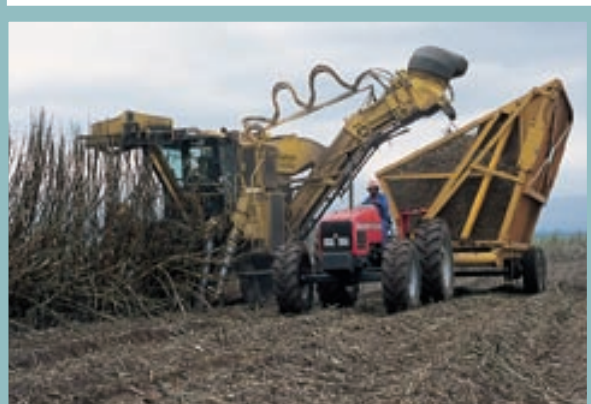
#### ***Sugar production***

The milling operations benefited from the dry weather conditions during the winter months and much improved factory performance was achieved. However, the wet weather towards the end of the milling season caused a marked reduction in cane quality and not all of the available cane was able to be crushed. Consequently, sugar production was restricted to 208 000 tons which, although representing an 11% improvement on the previous year's output, was disappointing in view of the recent major capital expansion projects undertaken at both factories.

The full benefit of the new colour removal system installed at Nchalo last year was realised with a marked improvement in refined sugar quality. The Demerara speciality sugar operation performed to expectation. The Dwangwa factory settled down well after its recent expansion and achieved a steady throughput with a much improved recovery of sugar from cane. Capital expenditure programmes at both mills were focused on continuing improvements and on augmenting the packaging and warehousing facilities.



*Mechanical harvesting trials conducted at Ubombo proved successful and have been extended into the current season.*



*An encouraging increase in sugar sales in Malawi was noted towards the end of the season in response to the introduction of a network of country-wide sugar distribution depots.*

Molasses from both operations is supplied to the Ethco Distillery at Dwangwa in which Sucoma is a minor shareholder. The distillery improved performance during the year.

### **Marketing**

In a major initiative to stimulate local sales throughout Malawi during 2000/01, Sucoma introduced a network of country-wide sugar distribution depots which sold sugar at a national delivered price. For most part of the year sugar sales were depressed in line with general economic conditions but an encouraging increase was noted towards the end of the season in response to the new depot system. Approximately 126 000 tons of sugar were sold to domestic consumer and industrial markets while the balance was sold to preferential markets in Europe and the United States, and into regional markets. Regional sales have benefited from the reduced tariffs flowing from the Common Market for Eastern and Southern Africa trade agreement (COMESA) with new markets developing in Kenya and Uganda.

## **SWAZILAND**

### **Overview**

The group has a 60% interest in Ubombo Sugar Limited with Tibiyo Taka Ngwane holding the remaining 40% on behalf of the Swazi nation. After a very good start to the year, Ubombo's overall performance was impacted by very wet conditions at the end of the season which significantly affected both agricultural and milling operations. During the season Ubombo received ISO 9002 accreditation for its refinery, storage and despatch operations.

### **Agriculture**

Cane production amounted to 832 000 tons which was 14 000 tons below the previous year's production. The first seven months of the season were characterised by above average cane yields and good sucrose content in cane. However, towards the end of the year, heavy rains resulted in a marked decline in sucrose yields as the season was extended beyond its normal length in an attempt to crush all available ripened cane.

Ubombo has launched a medium-scale farm development programme whereby approximately 600 hectares of irrigated cane land is being sold to 15 Swazi farmers with effect from the beginning of the 2001/02 season.

### **Sugar production**

The Ubombo factory crushed a total of 1.790 million tons of cane to produce 205 000 tons of sugar. Factory performance for most of the season was satisfactory. Good progress has been made in debottlenecking the plant in order to achieve average throughput of 375 tons of cane per hour in the 2001/02 season. The refinery operated well throughout last year and 85 000 tons of white sugar were produced.



*The Ubombo factory produced 205 000 tons of sugar in the 2000/01 season. Good progress has been made in debottlenecking the plant in order to achieve average throughput of 375 tons of cane per hour in the current season.*

### ***Marketing***

Ubombo's share of the Swaziland sugar industry production for the season was 39%. All sugar produced is marketed by the Swaziland Sugar Association with approximately 50% of production being sold into the South African Customs Union market with the balance being sold to preferential markets in Europe and the United States (33%) and into regional and world markets (17%).

## **MAURITIUS**

### ***Overview***

Following the sale of Illovo's interest in Mon Tresor and Mon Desert Limited with effect from April 2001, the group no longer has any agricultural, milling or other operations on the island.

### ***Agriculture***

Cane output was impacted by a slower than expected recovery from last year's drought, resulting in final production of approximately 546 000 tons. Cane yields were generally lower than forecast but this was partly offset by a higher sucrose content in the middle of the season.

### ***Sugar production***

Overall factory performance was good at all three mills with total sugar production amounting to 80 500 tons. The performance of the Mon Tresor factory improved significantly from last year with Britannia again achieving recovery of sugar from cane in excess of 90%.

### ***Downstream and hotels***

The power co-generation plant at Mon Tresor operated beyond expectation and increased exports of electricity were made to the national grid. Although the hotel operations contributed a significant proportion of the Mauritian profits, room occupancies during the last quarter were disappointing, which resulted in earnings from this section of the business remaining similar to those achieved in the previous year. Rooms were refurbished at the Merville Beach Hotel with a positive response from tour operators.

### ***Marketing***

All sugar produced by the Mauritius sugar industry is exported by the Mauritius Sugar Syndicate to preferential markets in Europe and the United States. The weakness of the Euro had a major negative impact on preferential market revenues



*At Monitor in the United States, the molasses chemical softening plant was commissioned during the year thereby completing the highly-automated molasses desugarisation project which is the most advanced of its kind in the world.*

and as a result, profitability of both the milling and agricultural operations was very disappointing. Illovo's share of island production was 14% for the year. Domestic requirements of approximately 40 000 tons were met by imports from the world market.

## **UNITED STATES**

### ***Overview***

The group has a 100% holding in Monitor Sugar Company which produces sugar from sugar beet, cultivated by private growers. The molasses chemical softening plant was commissioned during the year thereby completing the molasses desugarisation project. Monitor was significantly affected by low prices for its domestic sales and by extraordinarily high energy prices.

### ***Sugar***

The factory operated smoothly and a record 165 000 tons of sugar were produced, representing a 16% increase over the previous year. Sugar production from beets was an all time record of 134 500 tons with the balance being produced through molasses desugarisation. Production in 2001/01 was impacted by teething problems experienced in the molasses desugarisation plant and by the "Payment in Kind" (PIK) programme introduced by the US Department of Agriculture in an effort to restore domestic sugar prices in terms of which almost 2 000 acres of beets designated for delivery to Monitor Sugar were destroyed.

### ***Downstream***

Beet pulp produced in the sugar beet manufacturing process is sold domestically and into Canada. Betaine (used in the poultry, pig and aquaculture industries) and concentrated molasses solids (CMS) (sold to the animal feed industry) are both sold domestically.

### ***Marketing***

All sugar produced by Monitor is sold into the domestic markets of Michigan, Indiana, Ohio and Western New York with industrial requirements, constituting about 75% of total production sold in bulk, and consumer sales packaged under the Big Chief brand name.

Due to an oversupply position, United States domestic sugar prices last year were at their lowest level for 20-years. The Department of Agriculture (USDA) responded by purchasing sugar from manufacturers and instituted a "Payment in Kind" (PIK) programme whereby a small portion of planted sugar beet acreage was destroyed in exchange for certificates which



*A low-level bridge has been built over the Great Ruaha River at Kilombero in Tanzania which has significantly enhanced the performance of agricultural and milling operations by providing much increased flexibility of deliveries. It has also enabled the two factories and their estates to be combined into one integrated operation.*

were issued to producers, granting them ownership of sugar held by the government. In addition, sugar manufacturers forfeited sugar in record volumes under the sugar loan programme and the United States government now owns and holds in storage approximately 635 000 tons (700 000 short tons) of sugar. No scheme for disposal of this tonnage has yet been approved but the goal is for the sugar to be sold in such a manner as to avoid major disruption to the market.

The net result of these efforts was to reverse the decline in prices which have since partially recovered. The crisis, considered one of the worst experienced by the United States sugar industry, resulted in Imperial Sugar Corporation, the largest US sugar company, filing for "Chapter 11" bankruptcy protection whilst certain other factories have been closed. Other threats to the domestic market are the level of access to the United States market by Mexico under the North American Free Trade Agreement (NAFTA) and the Tariff Rate Quota circumvention scheme involving 'stuffed molasses' from Canada. The United States sugar industry is working on all of these fronts to achieve a return to normality in what has traditionally been a stable sugar market.

### **TANZANIA**

The group's operations in Tanzania comprise two sugar factories and two cane estates separated by the Great Ruaha River.

The agricultural and milling operations underwent a further year of refurbishment and good progress was made in upgrading capacity so as to achieve future forecast levels of production. A highlight of the season was the completion of the low-level bridge over the Great Ruaha River which has significantly enhanced the performance of agricultural and milling operations by providing much increased flexibility of deliveries as well as enabling the two factories and their estates to be combined into one integrated operation.

#### ***Agriculture***

Sucrose production on both estates has begun to show the benefits of improved agricultural practices. Total cane production amounted to 420 000 tons.

#### ***Sugar producti***

Factory performance at both mills improved markedly over the previous season. Approximately 555 000 tons of cane, from both Kilombero's agricultural operations and private growers, was crushed to produce 61 500 tons of sugar which was in line with the objective for the season. Kilombero's share of industry production is 45%.



*Excellent progress has been made at Maragra with the replanting of existing and the establishment of new cane fields following the flood in February last year. As a result, the factory will be recommissioned for a short milling season in August when approximately 100 000 tons of cane is expected to be milled.*

### **Marketing**

Local market sales and prices improved significantly during the year due to the strict application by government of measures to control illegal imports into Tanzania. Regulations were also introduced which restricted the importation of sugar to only local producers and certain industrial users. Tanzanian local production is unable to satisfy the domestic demand of 260 000 tons and during the year, 135 000 tons was imported. A small tonnage of 13 000 tons is exported into Europe for which preferential prices are received.

### **MOZAMBIQUE**

Excellent progress was made with the rehabilitation of the growers' agricultural estates at Maragra following the flood in February last year. The dyke, which was breached at several points during the flood, was reinstated to pre-flood levels and in the forthcoming season will be raised further. All other agricultural infrastructure was rehabilitated and favourable weather conditions led to excellent progress being made in replanting of the fields. The total area planted exceeded 2 200 hectares, which was 10% above that originally forecast. Consequently, the factory which was mothballed last year, will be recommissioned for a short milling season commencing in August 2001 during which approximately 100 000 tons of cane will be crushed and about 12 000 tons of sugar will be produced. The Maragra insurance claim in respect of asset damage and business interruption was successfully concluded during the season.

### **HUMAN RESOURCES**

Progress has been made in implementing strategies, aligned to the group's Strategic Intent, which focus on the primary objective of being a low-cost, world class organisation that is globally competitive. A prerequisite to the achievement of this is a working environment that lends itself to the continuous improvement of workplace efficiencies, that supports the recruitment and retention of highly effective employees and that fosters relationships free from discrimination.

In the past year, the key areas of human resource focus have been the setting of operational and performance targets in the workplace which create an environment for maximising efficiencies; the maintenance of collaborative industrial relations; performance management and technical training together with targeted manpower succession planning:

The maintenance and enhancement of sound employee relations remains an imperative for the group to achieve sustained growth into the future. This facilitated the smooth implementation of newly enacted labour legislation in many of the countries of operation during the course of the year. Trade union involvement is a normal part of the

## REVIEW OF OPERATIONS *(continued)*



*Wide-ranging managerial and technical training initiatives are in place throughout the group with the objective of enabling people to be competent in their areas of operation and to deliver superior performance. The group's business understanding programme was further extended during the year with its full implementation at Kilombero in Tanzania.*

industrial relations process. Unions represent 82% of permanent employees. Collective bargaining forums where wage rates and other substantive employment conditions are negotiated are well established. In Malawi, there was a wage negotiation linked strike that lasted six days. Overall, however, the number of mandays lost to industrial action across the group during the past year was minimal.

- Wide-ranging managerial and technical training initiatives are in place throughout the group. The objective is to enable people to be competent in their areas of operation and to deliver superior performance. Opportunities to leverage best practice from across the group's operations are pursued on an ongoing basis. Group apprenticeships and centrally co-ordinated engineer-in-training and management training programmes, presently involving some 200 trainees are in place, whilst varied technical training programmes ensure that on-the-job competencies are being honed towards achieving optimal operational efficiencies.
- The ongoing need to staff all operations with competent personnel both from an operational and a managerial perspective, together with the development and retention of technical and leadership talent, has placed a high focus on manpower succession planning and career path planning, especially within the group's identified key disciplines and positions. Recognition and reward systems that cater for enhanced performance are implemented wherever possible.

The group continues to take a pro-active stance against life-threatening pandemics and epidemics such as HIV/AIDS and malaria in order to reduce the impact these have both on employees and their dependants and on workplace productivity. In-house medical management of the HIV/AIDS pandemic is being carried out through high profile education and awareness programmes, effective treatment and prevention of sexually transmitted infections, use of peer counsellors in the process of preventative activities and education, voluntary counselling and testing, use of prophylactic antibiotics, effective screening for tuberculosis, and the promotion of a healthy lifestyle.

### *Complement*

The group's overall permanent manpower complement as at 31 March 2001 stood at 19 024, employed in the following categories: -

Agriculture	10 554
Manufacturing	7 825
Hotels, marketing and sales	645

In addition, approximately 16 000 seasonal employees on average were engaged in agricultural operations over the year.



*The Umzimkulu factory on the Kwazulu Natal south coast. The group's 15 other milling operations in Southern Africa crushed approximately 17 million tons of cane to produce 1.756 million tons of sugar. In addition, 165 000 tons of sugar was produced from sugar beet at Monitor in the United States.*

#### *Employment equity*

The group promotes equal opportunity and fair treatment in employment through the elimination of unfair discrimination. It encourages inclusiveness with regard to human resource practices, irrespective of race, gender, nationality and religious affiliation. Strong emphasis has been placed on the development and mentoring of future management personnel, whilst significant financial investment has been made in apprenticeships and trainees, particularly in the engineering disciplines.

In South Africa the company has embraced the transformation process as legislated by the recently introduced Employment Equity Act, and has had an ongoing affirmative action policy in place that has been formally monitored since 1994. Measures aimed at achieving a more equitable representation of designated groups, as defined by legislation, across all occupational categories and levels are in place. During the year a process of employee awareness and stakeholder consultation, coupled with the future assessment of business needs and manpower requirements, culminated in the development of a company Employment Equity Plan for South Africa. This plan was submitted as part of the company's Employment Equity Report to the Department of Manpower and is in compliance with the Act. The plan determines the basis for local entity consultative forums, representing the various stakeholders in the workplace, to implement agreed employment equity objectives.

The monitoring of progress continues to be undertaken at both group and local entity level. The group also participates annually in the University of Cape Town's Breakwater Monitor Survey, in order to compare its progress with other organisations in South Africa. In the past year the company has compared very favourably within its sector, in terms of this survey. The total number of employees from designated groups make up 90% of the company's complement in South Africa. However the Employment Equity Plan has shown under-representation in certain of the skilled and management categories. The company's performance in these areas over the reported period, in terms of recruitment and promotion, has been 59% and 76% respectively.

#### *Employee Benefits and Welfare*

The company offers a diverse range of benefits across its different operations that include:

- Employee share purchase schemes in those countries where the operating company is listed, enabling employees to acquire a stake in the business;
- Retirement funding schemes, where elected employee trustees representing the interests of members assist with the prudent management of various funds;



*The focus of social investment projects undertaken throughout the group is to ensure that they reach and benefit the maximum number of people and that there is community participation, both in terms of physical assistance and financial contribution. Education related projects continue to receive priority.*

- Access to health care provided through a network of group-run primary healthcare clinics or through the provision of medical insurance schemes;
- Educational assistance that is extended to the children of employees in various forms, ranging from the provision of schools to the allocation of bursaries, grants and loan funding;
- Where appropriate, the facilitation of employee home ownership has continued thereby allowing employees to have a stake in the community within which they are living and working. This involves the sale of company-owned houses as well as other efforts to assist home ownership including the provision of home subsidies. In South Africa, following township proclamation of five of the housing villages at the company's sugar mills, 463 houses have been transferred to employees whilst purchase commitments for a further 360 have been received.

### **SOCIAL INVESTMENT**

In alignment with the group's strategic objective of being welcomed in the communities in which it operates, Illovo has active corporate social investment programmes which are adapted to meet the development and upliftment needs within the countries in which the group has operations. The underlying philosophy of the programmes recognises Illovo's interdependence with the communities in which it operates and takes cognisance of the considerable need for development and meaningful upliftment programmes to promote and assist in the well-being of communities in general.

Social investment projects undertaken arise out of continued interaction with local communities and the development of an awareness of their respective needs. Prospective projects are motivated from within the company, involving a cross-section of employees who, in their evaluation, look to the development and upliftment potential of each project.

Their focus is to ensure that projects reach and benefit the maximum number of people and that there is community participation, both in terms of physical assistance and financial contribution. Another requirement is that each project becomes a meaningful and sustainable community asset.

Given the significant education requirements of the African countries in which the group operates, the majority of projects are education-related. To this extent, the group has participated widely in the upgrading and extension of schools, particularly in rural areas. Other community development projects have included the construction of community halls, assistance with the upgrading of hospital and medical facilities and community-orientated vocational training programmes. The group also provides ongoing financial support for tertiary educational institutions and schools, and financial and other support for community-based welfare and fund-raising organisations. It provides primary health care facilities to immediate communities where alternative medical services are not available.



*Strong features of the group's agricultural operations are their material size and their high proportion of access to secure water supplies for irrigation.*

In South Africa, Illovo also contributes to the South African Sugar Association's community development programme which operates in the northern region of the Eastern Cape, KwaZulu-Natal and Mpumalanga. During the past year, there was considerable attention focused on preventing the spread of cholera within KwaZulu-Natal, including the refurbishment of boreholes for the supply of potable water in the rural areas.

The group promotes job creation in the agri-business sector through its small and medium-sized farm development programmes and other related operations, and supports initiatives aimed at job creation and human capacity development.

#### **ENVIRONMENT**

The underlying philosophy of the group's environment policy is the adoption of protective strategies to manage and control the impact of Illovo's agricultural and manufacturing operations upon the environment, at the same time as safeguarding its extensive assets and human resources. Ongoing practice on cane estates in general includes the implementation of land use plans, the restoration of stream banks, the removal of alien vegetation, the adherence to industry cane burning guidelines and the adoption of conservation farming practices to ensure agricultural production on a sustainable basis with minimum impact on the environment and the community. At the manufacturing level, factory emissions are monitored in accordance with prevailing legal limits. During the past year the company achieved sixth place in the Survey of Environmental and Social Reporting in South Africa, as co-ordinated by KPMG and the University of Pretoria.

#### **RISK MANAGEMENT**

The group maintains a comprehensive set of policies and standards to cover all aspects of operational risk control, including risk control organisation, fire and safety, emergency planning, motor fleet management and security. In addition, the group promotes on-going commitment to risk management and control by encouraging participation in externally organised risk management and safety systems. The NOSA Five Star Integrated Safety, Occupational Health and Environmental Protection System is fully implemented at all of South Africa's operations and at the mills in Swaziland, Malawi and Tanzania.

Insurance cover on assets is based upon current replacement values. Consistent with the high standard of risk management, a substantial portion of risk is self-insured at costs well below market premiums. All risks are adequately covered, except where the premium cost is excessive in relation to the probability and extent of loss.