

REVIEW OF OPERATIONS



*Don MacLeod
Managing Director*

ILLOVO

FINANCIAL RESULTS

In the financial year ended 31 March 2002, the group achieved excellent growth with headline earnings increasing by R117.4 million to R340.3 million. Headline earnings per share rose by 52% to 102.8 cents. Group sugar production increased marginally and this, together with a strong performance from downstream operations, improved world prices and the weaker rand, contributed to these results.

Group turnover increased to R5.9 billion and operating profit rose by 30% to R755.9 million. An operating margin of 12.8% was achieved. Financing costs increased by R44.4 million to R228.5 million mainly due to the impact of the weaker rand on the consolidation of financing costs of offshore operations. Taxation rose by R25.3 million to R121.3 million due to the increased profit. The effective tax rate, excluding abnormal items, was 23.0% which was marginally below last year. Profit after taxation increased to R426.2 million.

Cash generation was good with net cash inflow of R371.3 million. Net group borrowings declined by R17.0 million to R1 465.9 million. The level of the borrowings was negatively impacted by the weaker rand in respect of local currency loans in the United States, Malawi and Zambia subsidiaries. Gearing has improved from 85.7% to 69.1%.

The contributions to operating profits by sugar manufacture were 64%, cane growing 22% and downstream 14%. The contributions to profit by country were South Africa 42%, Zambia 21%, Malawi 20%, Swaziland 10% and the United States 7%.

REVIEW OF OPERATIONS (continued)

Excellent progress was made in rehabilitating both the company's and growers' agricultural estates at Maragra in Mozambique, following the devastating floods of February 2000. The factory has been rehabilitated to design capacity and the raising of the dykes which protect the canelands was completed. Sugar production re-commenced in August 2001 and 15 000 tons of sugar was manufactured in a truncated milling season. Output is forecast to increase to approximately 60 000 tons in the coming season. Unfortunately, as a direct consequence of the floods, and because the funds expected to be received pursuant to the Rome Convention proposals for the restoration of identified agricultural operations affected by the floods have not been forthcoming, it has become necessary for the group to invest additional capital of its own into the project. It has been deemed prudent for the group to provide an amount of R186.7 million, as an extraordinary item, for the impairment of the investment.

OVERVIEW

The 2001/02 season was one in which substantial progress was made towards the group's goal of being a world-class, globally competitive sugar and downstream products operation. Factory operational performance improved and existing assets were deployed in a manner which achieved production growth without significant capital expansions. Zambia Sugar, acquired in April 2001, was fully integrated into the group.

These factors offset a season that was adversely affected by unfavourable weather conditions in South Africa, Swaziland and Malawi and by low sucrose in sugar beets processed by Monitor Sugar in the United States. Group cane production rose to a new record of 4.872 million tons whilst sugar production increased to 1.953 million tons, 32 000 tons above last year's record of 1.921 million tons.

The furfural and derivatives plant at Sezela in South Africa performed extremely well. Production of both diacetyl and acetoin rose significantly. The Merebank and Glendale distilleries had a good year with new production records achieved, whilst lactulose production at Merebank increased as a result of an improved share of the international market. Local and international downstream prices were good, with export returns further enhanced by the decline in the rand / US dollar exchange rate.

Good progress was made towards the commercialisation of furfural as an agricultural chemical for use in the control of nematode infection. During the year, approval was received from the South African Department of Agriculture for the product to be used in respect of the cultivation of groundnut and tomato crops, whilst the registration programme for extending its use to other agricultural produce and other countries is making good headway.

Zambia Sugar, which was acquired by the group in April 2001, was fully integrated into the group and performed well and ahead of expectations.



Further good progress was made with the rehabilitation and redevelopment programme at Kilombero in Tanzania, and the operation achieved record sugar production.

Significant progress was made during the past season in the prevention of illegal sugar trading activities in a number of countries in Southern Africa where the group has operations. This involved input from government and other officials at the highest level and is beginning to impact positively on domestic market conditions in the countries concerned. Continued focus in this area will be required on an ongoing basis as the local markets are vital for the long-term viability of these sugar industries.

The past season saw a marked decline in the world price of raw sugar, falling from around US10 cents per pound (c/lb) in May 2001 to futures prices of around US6 c/lb at the end of the financial year. Good weather conditions in Brazil and Thailand have resulted in expectations of a substantial production increase which has fuelled market concerns that world sugar production is likely to return to a position of over-supply. Illovo's sales into world and regional markets are impacted by the world price of sugar. However, hedging activities in respect of Illovo's South African world market exports and premiums achieved for regional sugar sales have resulted in prices attained during the past season being higher than in the previous year.

During the year, R312.4 million was spent on capital projects with the purpose of ensuring that operations are kept in a sound condition and that product quality is of the highest standard.

In South Africa, dematerialisation of the company's shares commenced on 13 August 2001 in accordance with STRATE, the electronic settlement and custody system adopted by the JSE Securities Exchange South Africa. Electronic trading of Illovo shares commenced on 3 September 2001 with electronic payment on 10 September and, at year-end, 97.9% of the company's shares in issue had been dematerialised. The percentage of shares traded during the year compared to the number of shares in issue was 40.9%.

The group achieved a merit award in the Industrial and Manufacturing section of The South African Annual Report Awards co-ordinated by The Southern African Institute of Chartered Secretaries and Administrators, and was highly placed in the Excellence in Financial Reporting awards organised by Ernst & Young for annual financial statements published during the 2001 calendar year.



Factory operational performance improved and existing assets were deployed in a manner which achieved production growth without significant capital expansions.



Excellent progress was made in rehabilitating both the company's and growers' agricultural estates at Maragra in Mozambique, following the floods of February 2000. Sugar production re-commenced in August 2001 and 15 000 tons of sugar was manufactured in a truncated milling season.

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 66% to total revenue whilst exports to 91 countries contributed the balance. 64% of sugar production by volume and 81% by value was sold into stable domestic or premium-priced export 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 2001/02 season, total sales into SACU amounted to 1.585 million tons, 81% being refined sugar and the balance brown. The sales were a disappointing 3% below last year. The South African sugar industry supplied 1.215 million tons, Swaziland 296 000 tons with the balance of 74 000 tons by Zimbabwe and other SADC sugar producing countries.

In Malawi, more than 45% of sugar production was sold into the domestic market by The Sugar Corporation of Malawi Limited (Sucoma) which is the country's sole sugar producer. Zambia Sugar produces 99% of all sugar made in the country, with domestic sales of more than 100 000 tons. Both Tanzania and Mozambique are net importers of sugar and aside from relatively small export tonnages sent to preferential export markets, all production from Kilombero and Maragra was sold domestically. In the United States, Monitor's entire sugar output was sold in the domestic market.

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, and lactulose, were also sold domestically. This includes furfural used as a nematocide, marketed under the trade name Crop Guard, local sales of which are expected to increase as commercialisation is achieved. The syrup plants in South Africa and Zambia produce a range of syrups almost exclusively for the domestic markets whilst at Monitor Sugar, beet pulp, betaine and concentrated molasses solids, were sold domestically.

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 African operations exported 164 000 tons to these markets during the 2001/02 season.



The downstream operations again performed well and production improvements were achieved in a number of areas. The contribution to profits from these operations is of increasing importance to the South African operations.



World markets

More than 100 countries produce sugar, 76% 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. 72% of the world's sugar is consumed in the country of origin whilst 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, being Brazil, the EU, Thailand, Australia and Cuba supply approximately 72% of all world free market exports. South Africa is the 6th largest exporter.

Sugar production estimates for the 2001/02 international sugar season have risen as the result of increased output in a number of countries and currently stand at approximately 135 million tons, exceeding world consumption by just under one million tons, as compared to a production deficit in the previous year. This is the main reason for the decline in the price.

The South African sugar industry is a major exporter to the world market. In 2001/02, the SA Sugar Association (SASA) exported approximately 868 000 tons of raw sugar on behalf of producers. Exports realised more than R2 billion. Exports amounting to around 300 000 tons of mostly refined sugar were undertaken by the producers themselves.

Approximately 40% of Illovo's South African sugar production was exported to the world market in bulk form. No other country of operation was directly exposed to this market during the past season. South Africa, Malawi, Swaziland and Zambia exported sugar to a number of regional markets where selling prices are based on the world market price. In all instances, however, premiums above this price are achieved as the result of various competitive advantages.

Downstream

The group is a material player in each of the world markets in which it participates. Annually, Illovo exports furfural, furfuryl alcohol, diacetyl, acetoin, 2,3-Pentanedione, ethyl alcohol and lactulose to more than 70 countries. In the financial year, downstream product sales contributed R549.0 million to group revenue.



Sales to domestic markets in Southern Africa and the United States contributed 66% to total revenue. In Malawi, the group is the country's sole sugar producer whilst in Zambia, 99% of all sugar produced is manufactured by Zambia Sugar.

Strategic facilities provided for the refining of raw sugar during offcrop periods when the sugar mills are closed, thereby extending the refining capacity of the group.

OPERATIONS

South Africa

Illovo is South Africa's largest sugar and downstream products company with five cane estates, seven sugar mills, four sugar refineries and three downstream plants strategically spread between Port Shepstone in the south of the KwaZulu-Natal province and Pongola in the north.

Agriculture

The agricultural operations performed well with final cane production for the 2001/02 season reaching 981 000 tons. The decline in production compared to last year was due to the sale of cane land as part of the medium-scale farm development programme and by very dry conditions over the winter period, followed by abnormally wet weather towards the end of the harvesting season.

There are more than 13 000 small-scale farmers from designated groups who cultivate and deliver their cane to Illovo mills and last season they supplied almost 1.2 million tons. Cane deliveries from medium-scale growers amounted to 270 000 tons. This included cane supplies from a further 11 farms, located on previously company-owned land near Umzinto on the south coast, which were sold during the season under Illovo's medium-scale farm development programme. Since its commencement in 1996, a total of 68 farms, comprising 6 700 hectares of land under cane, have been sold to farmers, the majority of whom are Black. The initiative has enjoyed many successes with several farmers purchasing additional farms to increase the size of their cane growing operations. The programme has also been the catalyst for the establishment of a range of small to medium-sized agri-businesses specialising in services required by these and other growers.

Sugar production

Total South African sugar production for the season was 2.388 million tons with Illovo's production share increasing from 44.1% in 2000/01 to 46.5%. Good performances were achieved by most of the factories with Pongola producing an all time record of 150 000 tons of sugar. Pongola, Noodsberg, Umfolozi and Umzimkulu, either equalled or bettered last year's good achievements in respect of sugar recovery. The abnormally wet conditions experienced towards the end of 2001 impacted negatively upon cane quality and affected cane supplies to the mills. Despite this, high levels of mechanical and operational efficiency were attained by almost all the factories. Capital expansion projects were undertaken at Eston and Pongola to increase both factories' capacity with effect from the commencement of the 2002/03 season. As part of the ongoing programme across the group, Umfolozi joined the rest of the South African operations by achieving ISO 9002/1994 accreditation for its refining and packing operations.

Downstream

The furfural plant at Sezela had another extremely successful year with a sound factory performance throughout the season. Furfural output was slightly less than produced last year due to a shorter milling season, whilst furfuryl alcohol production was similar to last year. The diacetyl and acetoin plants both achieved new production records.



The group promotes job creation in the agri-business sector through its successful small and medium-scale farm development programmes. During the season, a further 11 medium-scale farms were sold, bringing to 68 the total number of such farms sold in South Africa under this programme.

High levels of mechanical and operational efficiencies were attained by almost all the sugar factories in South Africa and 1.1 million tons of sugar were produced during the season.



The production of Crop Guard, using furfural as the principal source material, commenced during the season. Registration for its use as an agricultural application for the control of nematode infection in respect of groundnuts and tomatoes was approved by the South African Department of Agriculture. The registration programme for extending Crop Guard's use in other crops and in other countries is in progress.

The Merebank ethyl alcohol plant had a successful year in which significant advancements were made in respect of both product quality and quantity. Production increased by 18% to a new record level. The Glendale distillery continued to perform most satisfactorily and also finished the season with a new production record. Lactulose production at Merebank was increased as a result of an improved share of the international market.

Marketing

Illovo sells sugar, furfural and its derivatives, potable and denatured alcohols, lactulose and syrup into local and international markets. Revenue earned by Illovo from domestic sales constituted 65% of total revenue from sugar sales. Sugar market conditions during the season were characterised by steadily increasing levels of competition. Illovo's share of the industrial market has grown as it has established itself as a major supplier to the mineral waters, sweets, dairy and canners' sectors. During the season, the sales representation and merchandising functions for sugar were outsourced to a specialist marketing and distribution company to enhance Illovo's presence in the trade market.

The export of refined sugar and direct consumption raws is undertaken on behalf of South African producers by Southern Cross Sugar Exports (Pty) Limited which achieved an excellent level of performance in its second year of operation. A feature of the year's trading was the significant improvement in refined sugar premiums, with the currency situation further boosting export revenue.

Illovo's raw sugar exports to the world market, undertaken by the South African sugar industry, amounted to 428 000 tons. Although world prices declined during the season, hedging activities undertaken by SASA resulted in the average price realised by the industry for world market exports rising by about US1.2 c/lb compared to the previous year. The revenue received for exports was also assisted by the Rand / US dollar exchange rate. In the current season, SASA has priced 950 000 tons of sugar at an average price of US6.0 c/lb and forward cover has been taken on proceeds amounting to US\$35 million at R11.85 / US\$. Proceeds from Illovo's refined sugar exports have also been covered forward at favourable rates.

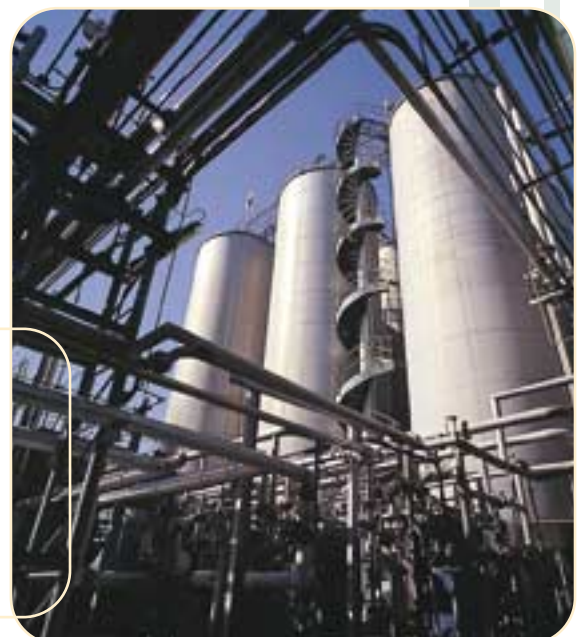
Demand for molasses in the domestic market has continued to grow whilst international export prices rose by 18% over the previous season. This, together with the devaluation of the rand, has resulted in significantly increased revenues from molasses sales.

The contribution from the downstream production plants at Sezela, Merebank and Glendale continues to improve. Good prices were achieved for furfural and furfuryl alcohol during most of the season but have declined from their high levels in the early part of 2002 due to increasing Chinese output. Prices and demand for diacetyl, acetoin, 2,3-Pentanedione, ethyl alcohol and lactulose remained strong.



Pongola produced an all-time record of 150 000 tons of sugar.

Significant advancements were made in the production of ethyl alcohol at Merebank, in respect of both product quality and quantity. Production increased by 18% to a new record level.



REVIEW OF OPERATIONS (continued)

Malawi

Illovo's shareholding in The Sugar Corporation of Malawi Limited (Sucoma) increased to 60.98% as a result of the group taking up its portion of last year's scrip dividend. The balance of the issued share capital is held by Admarc Investments Holding Company Limited, a Malawian company, and institutional and private investors. Sucoma is the country's only sugar producer and is listed on the Malawi Stock Exchange.

Agriculture

Sucoma's agricultural operations at Nchalo and Dwangwa combined to produce 1.661 million tons of cane which was a slight increase above the previous season. The crop was affected by poor cane yields and low sucrose content, primarily as the result of the below normal sunshine hours and by extremely wet conditions towards the end of 2000.

Sugar production

The total sugar produced at both factories amounted to 215 000 tons which was a 4% increase over last year but was below expectations due to lower than anticipated cane supplies. Factory performance at Dwangwa was excellent with high levels of mechanical and operating efficiency achieved whilst Nchalo had a satisfactory season. Both refineries performed well.

Downstream production

Sucoma is a minority shareholder in the Ethco Distillery that is situated adjacent to the Dwangwa factory. Molasses is supplied by both Dwangwa and Nchalo for the plant's ethyl alcohol production operations.

Marketing

Sugar sales to the domestic market amounted to about 100 000 tons of sugar. Sales were negatively affected by increased levels of illegally imported sugar from Zimbabwe and by the fraudulent re-routing of export sugar into the local market. Sucoma is working with government, police, customs and other authorities to halt the flow of illegal imports into Malawi, with some degree of success apparent towards the end of the 2001/02 season. Consequently, domestic market sales have recovered slightly and a better performance is expected in the current 2002/03 season.

Sucoma has significant access to preferential markets in the United States and Europe and during the season exported 57 000 tons of sugar to these markets. Included in these exports were speciality sugars. Sugar was also sold into several regional markets, particularly those countries which are part of the Common Market for Eastern and Southern Africa (COMESA) trade agreement.



Sucoma sold 100 000 tons of sugar to the domestic market in Malawi.



Sucoma's agricultural operations at Nchalo and Dwangwa combined to produce almost 1.7 million tons of cane.

Swaziland

Overview

The group has a 60% shareholding in Ubombo Sugar Limited with the remainder of the issued share capital held by Tibiyo Taka Ngwane on behalf of the Swazi nation.

Agriculture

Ubombo's agricultural operations produced 673 000 tons of sugar cane in a season which was characterised throughout the local sugar industry by unfavourable weather conditions. Heavy rainfall and the low number of sunshine hours had a negative impact upon the crop, both in terms of cane yields and quality. The season saw the commencement of Ubombo's medium-scale farm development programme with the sale of 15 farms to local growers. Long-term cane supply agreements have been concluded for the benefit of both the growers and Ubombo.

Sugar production

The Ubombo factory produced 179 000 tons of sugar. This represented a 13% reduction in production compared to last year caused primarily by reduced cane supplies as a result of the unfavourable weather conditions which also affected the entire Swaziland sugar industry. During the year, ISO 9001/2000 accreditation was attained for the entire factory operation.

Marketing

All sugar produced is marketed by the Swaziland Sugar Association with approximately 59% of production being sold into the SACU market and the balance being sold to preferential markets in Europe and the United States, and into regional markets. There were no sales of sugar on to the world market due to the lower production levels experienced throughout the industry.



The season saw the commencement of Ubombo's medium-scale farm development programme with the sale of 15 farms to local growers.



During the year, ISO 9001/2000 accreditation was attained for the entire Ubombo factory operation.

Zambia

Overview

In April 2001, the Illovo group acquired a majority stake in Zambia Sugar Plc which is listed on the Lusaka Stock Exchange. The group holds 89.13% of the issued share capital with the remaining shares held by private and institutional investors. Zambia Sugar is the country's principal sugar producer with a 99% share of production. Sugar sold in the domestic market is fortified with Vitamin A in terms of government regulation.

Agriculture

Good growing conditions resulted in excellent cane yields and sucrose content in cane of more than 15%. The company's own agricultural operations delivered 1.088 million tons of cane to the factory for processing.

Sugar production

The factory produced 199 000 tons of sugar for the season. Factory performance, assisted by steady cane supply and good cane quality, was generally excellent throughout the season with high standards of mechanical and operating efficiencies being achieved.

Downstream

Zambia Sugar produces a range of syrups and speciality sugars for the domestic market.

Marketing

The company sold 103 000 tons of sugar into the domestic market, of which 70% was household sugar and the remainder refined. Market conditions were characterised by the prevalence of significant amounts of unfortified Zimbabwean sugar for sale in the market place. Good progress was made, however, with the authorities in the latter part of the season with the confiscation of this sugar as well as the improvement of measures to prevent illegal imports. Consequently, towards the end of the season domestic sales increased.

Zambia Sugar took advantage of its access to the Special Protocol Sugars (SPS) and EBA quota arrangements with the balance of production sold into regional markets.



Good growing conditions resulted in excellent cane yields and sucrose content in cane of more than 15%.

Factory performance, assisted by steady cane supply and good cane quality, was generally excellent throughout the season.

United States

Overview

Monitor Sugar Company is located in Bay City, Michigan, and produces refined sugar from sugar beets supplied by independent farmers, as well as several co-products and downstream products. Illovo has a 100% holding in Monitor Sugar.

Sugar production

The 2001/02 beet slicing campaign ended in March 2002 and total production, including that produced by the molasses desugarisation plant, amounted to 162 000 tons of sugar. The total number of beets sliced and sugar produced from beets constituted records although sugar production was marginally down on last year due to less molasses being available for desugarisation. Fuel consumption was the lowest on record and gas prices declined from previous very high levels.

Downstream

The co-products of the sugar beet manufacturing process are beet pulp and molasses, whilst concentrated molasses solids and betaine are produced downstream of the molasses desugarisation plant.

Marketing

Monitor Sugar produces refined sugar mainly for industrial users whilst the balance of about 25% is sold to consumer markets under the "Big Chief" brand name and various house brands.

Sugar market conditions in the United States have returned to near-normal levels following the closure of several sugar plants and the implementation of various government-initiated measures to reduce both domestic sugar production and the high level of stocks. This included the introduction of a second "Payment In Kind" (PIK) programme that compensated producers for reducing their production. The price recovery was also assisted by a court decision preventing sugar-enriched molasses from being imported into the United States.

A new Farm Security and Investment Act (Farm Bill) has been approved in the United States. Whilst the new regulations on sugar policy are similar to that already in effect, a new provision has been introduced allowing for marketing allocations to be applied to local producers relative to historical production performance.

Sales of beet pulp and concentrated molasses solids were good whilst the development of betaine markets continued to show progress.



Approximately 1.3 million tons of beets were delivered by private growers to Monitor Sugar's extensive "piling" grounds adjacent to the factory.

Tanzania

Overview

Kilombero's two sugar factories and agricultural estates have been the focus of a wide-ranging rehabilitation programme which has seen sugar production increase from less than 30 000 tons in 1998 to a record of more than 72 000 tons in the 2001/02 season.

Agriculture

Kilombero's agricultural operations recorded an extremely successful year, producing 430 000 tons of cane. During the season, sugar cane was planted on about 3 000 hectares of land, 1 000 hectares of which was new area under cane.

Sugar production

Both factories performed extremely well, benefiting from increased levels of sucrose in cane, better cane quality, efficient cane haulage operations and excellent factory efficiencies throughout the milling season. Total sugar production amounted to a record 72 499 tons, 6 000 tons more than has ever been produced by Kilombero in one season. Factory efficiencies were much improved.

Marketing

Domestic sales were encouraging following the implementation of government-supported control measures to prevent illegal imports from entering Tanzania. Whilst the majority of sugar was sold into the domestic market, sugar was also sold to preferential markets in Europe.

In 2001, the Tanzanian Sugar Industry Act was passed providing for the establishment of the Tanzania Sugar Industry Board which has amongst its objectives, the achievement of greater order in the local industry as well as co-ordination of imports. Better market conditions are therefore expected over the longer term



A record of more than 72 000 tons of sugar was produced by Kilombero, 6 000 tons above that ever produced by the operation.

Mozambique

Overview

During the year, Maragra Açúcar acquired 3 300 hectares of agricultural land previously farmed by Maragra Comercial. The remaining portion of the estate is farmed by independent growers.

The entire cane growing estate and agricultural infrastructure, which were severely damaged by the floods of February 2000, have been almost completely rehabilitated. Last season, the factory re-commenced operations in a shortened milling season.

Agriculture

Excellent progress was made with the replanting of cane and 39 000 tons was supplied to the mill by the company's estate. During the year, work to complete the raising of the dykes protecting the canefields on either side of the Incomati River was completed, successfully withstanding heavy rains in December 2001, which were more than twice the long-term mean for the month.

Sugar production

Crushing commenced in August 2001 and 15 000 tons of sugar were produced. Factory performance was satisfactory. A full crushing season commencing in May 2002 is planned.

Marketing

Total sugar production in Mozambique in 2001/02 amounted to 67 000 tons supplied primarily to the domestic market. Mozambique exported 12 500 tons of sugar to the United States at preferential rates, and 8 000 tons of sugar to Europe in terms of the new EBA quota.

Domestic sales of sugar in Mozambique have been hampered by the high level of illegal imports entering the country, mainly from Zimbabwe. Maragra, together with members of the country's other sugar producers, represented under the Mozambique Sugar Producers' Association, have had successful discussions with the government which has consequently introduced stricter controls at border posts with the apprehension and prosecution of offenders. These actions have brought about an improvement in local market sales and better prices are now being achieved.



The agricultural estates at Maragra have been almost completely rehabilitated.

TECHNOLOGY, RESEARCH AND DEVELOPMENT

The group has well-established in-house resources to provide technical expertise in both agricultural production and sugar and downstream product manufacture to all operations, in order to optimise the return from existing installed capacity. Good progress was achieved during the year with notable improvements in mechanical and operational efficiencies at many of the group's plants, together with enhanced product quality and the achievement of lower costs of production. In respect of sugar, the group also benefits on an ongoing basis from research and development undertaken by the South African Sugar Milling Research Institute, of which Swaziland and Malawi are also members, and the South African Sugar Association Experiment Station. 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.

Illovo also has a dedicated team which pursues opportunities for the development and commercialisation of further downstream products and new applications, such as the use of furfural as a nematicide. In addition to its own resources, there is ongoing collaboration with both local and international research organisations and contract work is outsourced when appropriate.

HUMAN RESOURCES

Human resource management and operational strategy are determined by the business needs of the group's operating entities across seven different countries, with strategic direction from the corporate office. These strategies appropriately embrace the macro-environment prevailing in each country and alignment is achieved through the group's Strategic Intent.

The implementation and realisation of such strategies is a workplace culture that embodies focused, well-trained employees who are able to realise their full potential and 'make a difference' in their areas of operation. Key areas of human resource activity in the past year were technical training and performance management; business understanding; employee relations; the creation of a more demographic employment mix; manpower succession planning and the setting of operational and performance targets, ensuring that the entire value chain within the operations is optimised. Group co-ordinated management / leadership development and management trainee programmes were undertaken, enhancing the potential source of future management personnel whilst lending support to employment equity initiatives in many countries.



Illovo has introduced a Group Leadership Development Programme run in conjunction with the Leadership Centre of the University of Natal, for senior managers across the group.

Training and employee development activities based on an assessment of current and future business needs are a key priority for building competitiveness. The group has invested approximately R12 million in this area over the past year. Employee development initiatives include:

- the building of employees' understanding of the prevailing business context, creating an environment where employees want to give of their best effort, and where teamwork and a work ethic of continuous improvement prevails;
- technical training programmes that ensure staff are competent in their areas of operation and skilled to deliver superior performance;
- the continued development, refinement and implementation of performance management systems that are linked to personal development and career succession planning;
- the Illovo Group Leadership Development Programme run in conjunction with the Leadership Centre of the University of Natal, for senior managers across the group. The programme is academically accredited with the University and offers a general business school-type curriculum, balanced with strong company-based functional content.

Manpower succession and the retention of talent requires that the organisation is not only competitive within the skills market but that employees are continually challenged and stimulated by their contribution to the business. To complement this, remuneration packages are merit-based and market competitive, whilst performance-related bonuses, share options and share purchase schemes are in place as incentives.

The maintenance and enhancement of employee relations remains an imperative towards achieving sustained growth into future. Trade union representation extends to some 80% of the group's permanent employees. Collective bargaining forums are in place in all countries of operation where wage rates and other substantive conditions are negotiated and established. Wage settlements were concluded across the group during the year without any negative impact on production.

Employment Equity

To achieve and maintain equity in the workplace the group promotes equal opportunity and fair treatment in employment through the elimination of unfair discrimination. Strong emphasis has been placed on the development and mentoring of future management personnel across the group, with significant financial investment being made in apprenticeships and trainees, particularly in the engineering and accounting disciplines. Some 165 trainees benefited from these programmes during the course of the year with 91% of learners in South Africa selected from designated groups.

In South Africa, the company has embraced the legislated transformation process that entails the implementation of affirmative action measures aimed at redressing any disadvantages in employment experienced by designated groups. To this end, the company's Employment Equity Plan incorporates affirmative action policies that have been in place and formally monitored since 1994.

During the year, a report was submitted to the Department of Labour outlining the group's progress with respect to the Employment Equity Plan in South Africa. The report showed that good progress has been made, with 89% of internal promotions and 80% of external recruitments being sourced from designated groups. Focus continues to be given to designated appointments in the more senior levels of management where there is shown to be an under-representation. This is due largely to a lack of suitably qualified and experienced engineering personnel in the employment market, coupled with a relatively low staff turnover in these and other areas of senior management. The company's in house Engineer-in-Training programme is designed to supplement the shortage of skills in the employment market.

Monitoring of progress is undertaken at both group and local entity level. The University of Cape Town's Breakwater Monitor Survey continues to be utilised to measure the company's advancement relative to other large employers in South Africa. The survey shows that when compared with the secondary agriculture sector for

REVIEW OF OPERATIONS (continued)

training and education authority (SETASA), under which demarcation the company falls, the designated representation is ahead of comparable industries in that sector at most levels.

Complement

The group's overall permanent manpower complement as at 31 March 2002 stood at 17 782, a decrease of 1 242 compared to the previous year, employed in the following categories:

Agriculture	8 970
Manufacturing	8 121
Marketing and sales	691

The significant reduction in the complement arose from the sale of the group's Mauritian operations and the purchase of Zambia Sugar Plc during the reporting period. In addition, at peak periods during the year, approximately 26 000 seasonal employees were engaged in agricultural operations.

Managed health care

Access to health care is provided to all employees either through the network of group-run primary health care clinics and hospitals or through the provision of medical insurance schemes.

The group continues to take a pro-active stance against life-threatening epidemics such as HIV/AIDS and malaria. The diseases are being actively managed, largely on a preventative basis, to negate their impact on the business and the employees themselves.

Programmes such as the researched in-house HIV/AIDS 'Wellness Programme' have been implemented at all the company's clinics and hospitals. The programme involves high profile education and awareness campaigns, 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.

In respect of malaria, heightened mosquito control spray programmes continue to be carried out in areas most affected. This, together with improved laboratory testing facilities to enable early detection, is having an encouraging impact, with a noticeable decline compared to last year in the number of positive cases reported to the group's health care facilities.

Employee benefits and welfare

The group offers a diverse range of benefits as well as being actively involved in the upliftment of its immediate communities:

- Employee share purchase schemes in 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;
- 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 loan subsidies. In South Africa, following township proclamation of five of the housing villages at the company's sugar mills, 712 houses have been transferred to employees, whilst purchase commitments for a further 147 have been received. This represents 78% of the houses made available for sale.

CORPORATE GOVERNANCE

The company subscribes to The Code of Corporate Practices and Conduct contained in the King Report on Corporate Governance (1994) and believes that in all material respects it complied with the principles of the Code throughout the year under review. The recommendations contained in the recently published King Report on Corporate Governance for South Africa 2002 are presently under consideration for adoption as may be determined appropriate.

THE BOARD AND BOARD COMMITTEES

The company has a unitary board of directors that is balanced between executive and non-executive/independent directors. Non-executive directors are chosen for their business acumen and skills pertinent to the business of the group and meet the criteria of the King Report. The board of directors is ultimately responsible for ensuring that the business is a thriving concern, and to this end effectively controls the group and its management and is involved in all decisions that are material for this purpose.

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

The board of directors has five regular meetings a year. In addition, there is provision in the company's Articles of Association for decisions taken between meetings to be confirmed by way of directors' resolutions.

In respect of the five meetings held during the year ended 31 March 2002, there was full attendance by all the directors currently in office, save, as a result of other prior business commitments, Dr A B Ravnö and Mr M J Shaw excused themselves from one and two meetings respectively.

Audit Committee

The company has an Audit Committee which comprises a majority of non-executive directors, one of whom is the chairman of the Committee. Both the independent and internal auditors have unrestricted access to this Committee, whose main task is to ensure the maintenance of and, where necessary, review of the effectiveness of internal control in the group in the light of findings by the independent or internal auditors.

Other areas covered include the review of important accounting issues, pending litigation, specific disclosures in the financial statements and a review of the major audit recommendations.

The Committee has adopted formal terms of reference and for the year ended 31 March 2002 satisfied its responsibilities in compliance with such terms of reference.

The Committee has three regular meetings a year, and in the past year there was full attendance by its members at all three meetings.

Remuneration / Nomination Committee

The company's Remuneration / Nomination Committee comprises exclusively non-executive directors, and is responsible for the assessment and approval of a broad remuneration strategy for the group. Formal terms of reference have been approved by the board of directors. The remuneration philosophy of the group is to ensure that employees are rewarded for their contribution to the group's operating and financial performance at levels which take account of industry, market and country benchmarks.

The Committee is responsible for the development and determination of the company's general policy on executive and senior management remuneration; the positioning of senior executive pay levels relative to local and international industry benchmarks; the determination of the remuneration packages of the company's executive directors; and making recommendations to the board on the fees and remuneration payable to the company's non-executive directors. The Committee plays an integral part in succession planning relative to senior executives. The Committee is apprised of any movements in the beneficial shareholdings of all directors of the company.

The Committee also gives consideration to the composition of the board and makes appropriate recommendations in this regard to the board.

The Committee meets at least twice a year. During the year under review four meetings were held at which there was full attendance by all current members.

Executive Committee

The executive directors meet on a weekly basis to review operational performance, capital programmes and other relevant issues. In addition, consideration is given to major investment and capital expenditure proposals as well as issues of strategic importance to the group, for recommendation to the board of directors. Furthermore, the daily involvement of the executive directors with operational executives ensures the interactive nature of the overall management reporting structure.

MANAGEMENT REPORTING

The group has established comprehensive management reporting disciplines which include the preparation of annual strategic plans and budgets by all operating entities. Results and the financial status of operating entities are reported monthly against approved budgets and compared to the prior year. Profit and cash flow projections are reviewed regularly whilst working capital and borrowing levels are monitored on an ongoing basis.

FINANCIAL STATEMENTS

The company's directors are responsible for preparing the financial statements and other information presented in reports to shareholders in a manner that fairly presents the state of affairs and results of the group's business operations. The independent auditors are responsible for carrying out an independent examination of the financial statements in accordance with Statements of South African Auditing Standards and reporting their findings.

The annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice. They are based on appropriate accounting policies which have been consistently applied, except when otherwise stated in which case full disclosure is made, and are supported by reasonable and prudent judgements and estimates.

The directors have no reason to believe that the business will not be a going concern in the year ahead. The auditors concur with the opinion of the directors.

Where the closure or discontinuation of an operation is anticipated, provision is made to reduce the carrying cost of the relevant assets to net realisable value if this is below cost. Provision is also made for any future operating losses incurred from the date of discontinuance to the anticipated disposal date of such assets.

INTERNAL CONTROL

The group maintains internal controls and systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability for its assets. Such controls and systems are based on established policies and procedures and are implemented by trained personnel with an appropriate segregation of duties. The effectiveness of these internal controls and systems is monitored in a number of ways, as set out below, dependent upon the particular circumstances :

- the aid of internal control checklists;
- the establishment of defalcation reporting procedures;
- the functions of internal audit departments; and
- adherence to performance standards.

The independent auditors, through the audit work they perform, confirm that the abovementioned monitoring procedures are being effectively applied.

Nothing has come to the attention of the directors or the independent auditors to indicate that any material breakdown in the functioning of the abovementioned internal controls and systems has occurred during the year under review.

ETHICS

Directors and employees maintain the highest ethical standards ensuring that business practices are conducted in a manner which, in all reasonable circumstances, is beyond reproach. In any instance where ethical standards are called into question, the circumstances are investigated and resolved by the appropriate executive. A "Crimeline" facility, inviting people from within and outside the company to report any wrongdoings is operated by independent forensic accountants.

INSIDER TRADING

Directors and officers of the group who have access to unpublished price-sensitive information in respect of any of the group's listed companies are prohibited from dealing in the shares of such companies during defined restricted periods, including those periods immediately prior to the announcement of interim and final financial results. This prohibition does not apply to the exercising of options in terms of the company's share option scheme.

RISK MANAGEMENT

The focus of risk management in Illovo is on identifying, assessing, mitigating, managing and monitoring all known forms of risk across the group. Management is involved in a continuous process of developing and enhancing its comprehensive systems for risk identification and management. The risks to the business encompass such areas as the weather, world product prices, exchange rates, political and economic factors, legislation and national regulations, interest rates, people skills, and general operational and financial risks.

The major risks are the subject of the ongoing attention of the board of directors and are given particular consideration in the annual strategic plan which is approved by the board.

The management of financial risk is covered under note 30 to the financial statements on page 81.



The group promotes on-going commitment to risk management and control by participating in externally organised risk management and safety systems. The Umfolozi sugar mill joined the rest of the South African operations by achieving ISO 9002/1994 accreditation for its refining and packing operations.

The management of operational risk is a line function, conducted in compliance with a comprehensive set of group policies and standards to cover all aspects of operational risk control. Performance is measured on a regular basis by means of both self-assessments and audits by independent consultants. In addition, the group promotes on-going commitment to risk management and control by participating in externally organised risk management and safety systems. The NOSA Integrated Five Star System covering safety, health and environmental management is fully implemented at all of South Africa's operations and at the mills in Swaziland, Malawi and Tanzania, and is in the process of being implemented in the remaining Africa operations. Five factories in South Africa have achieved 5-star gradings. The integration of the NOSA system with ISO 9001/2000 has also been initiated with the aim of achieving a single safety, health, environmental and quality system (SHEQ).

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.

ENVIRONMENT

The underlying philosophy of the group's environmental 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. Agricultural operations are guided by the adoption of conservation farming practices to ensure agricultural production on a sustainable basis with minimum impact on the environment and the community. Practices included the implementation of land use plans and adherence to industry environmental guidelines, including those pertaining to cane burning. At the manufacturing level, factory emissions are monitored in accordance with prevailing legal limits.

SOCIAL INVESTMENT

The group operates in diverse environments where, particularly in the African countries of operation, the development needs of the communities from which it draws its employment are significant.

Recognising Illovo's interdependence with these communities, the group has active social investment programmes in each country of operation which are structured to address the specific needs of such communities.

Prospective community projects are considered on the basis that they are motivated by members of the local communities and employee-appointed company representatives. To gain company support, projects must be shown to be meaningful and sustainable, to reach and benefit as many people as possible, and to have on-going community participation.

The group operates 28 clinics and 4 hospitals, providing primary and other health care to employees, members of their families and where no other facilities are available, to members of the immediate communities.



Given the significant education requirements of the African countries in which the group operates, the majority of projects undertaken are education-related. The group participates widely in the upgrading and extension of schools in order to assist in improving education delivery. In the past year, the company has embarked on a three-year project with the Sugar Industry Trust Fund for Education for the implementation of the Education Quality Improvement Partnership (EQUIP) programme at 14 rural schools on the south coast of KwaZulu-Natal.

The group also provides ongoing financial support for tertiary educational institutions, and financial and other support for community-based welfare and fund-raising organisations. In addition, it provides primary health care facilities to immediate communities where alternative medical services are not available.

In South Africa, Illovo also contributes to the SA Sugar Association's community development programme which operates in the northern region of the Eastern Cape, KwaZulu-Natal and Mpumalanga.

The group promotes job creation for members of designated groups in the agri-business sector through its successful small and medium-scale farm development programmes and related operations, and supports other initiatives aimed at job creation and human capacity development.

EMPLOYMENT EQUITY

The company's strategies, policies, actions and achievements in respect of employment equity are covered in the Review of Operations on pages 27 to 28.



The group participates widely in the upgrading and extension of schools in order to assist in improving education delivery.