



ANNUAL REPORT

2003

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Company Registration No. 1906/000622/06

## STRATEGIC INTENT

To:

- be the leading sugar and downstream products operation in Africa, an increasing global player and a world-class organisation.
- be the lowest-cost producer in every country in which it operates and among the lowest-cost producers in the world.
- optimise the return on every stick of cane and every beet by adding value to its core commodity products - fibre, pulp, sugar and molasses. It will focus on its core business and develop material niche operations which add value.
- be the market leader, meeting and proactively anticipating customer needs.
- increase profits in real terms on an ongoing basis and maximise the return on capital employed through cost leadership, the use of innovative technology and the participation of all of its employees.
- be a moral performance focused organisation that people are proud to work for, where they are challenged to 'go the extra mile', feel they can make a difference and know that good performance is recognised.
- be welcomed in the communities in which it operates because of what it does, how well it does it and be accepted as a progressive company by all communities. This involves aligning strategies to meet changing circumstances in the various countries in which the group operates.

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	Year ended 31 March		% Change
	2003	2002	
<b>Results (Rm)</b>			
Revenue	<b>7 025.0</b>	6 001.0	17
Profit from operations	<b>1 086.4</b>	763.5	42
Profit after taxation	<b>573.5</b>	433.6	32
Headline earnings	<b>454.6</b>	340.3	34
<b>Share performance (cents per share)</b>			
Headline earnings	<b>136.8</b>	102.8	33
Dividend (interim - paid; final - declared)	<b>68.0</b>	51.0	33
Year end market price	<b>687</b>	825	
<b>Balance sheet and cash flow (Rm)</b>			
Total assets	<b>5 665.0</b>	5 540.6	
Shareholders' funds	<b>1 469.4</b>	1 786.3	
Net borrowings	<b>1 777.2</b>	1 459.5	
Cash generated from operations	<b>1 172.9</b>	743.4	
<b>Financial ratios</b>			
Net worth per share (cents)	<b>441.4</b>	538.5	
Return on net assets (%)	<b>26.4</b>	19.0	
Gearing (%)	<b>94.4</b>	68.0	
Dividend cover (times)	<b>2.0</b>	2.0	
Interest cover (times)	<b>4.4</b>	3.3	
Price : headline earnings ratio	<b>5.0</b>	8.0	

Record  
production  
levels

Strong  
cash  
generation

Operating profit  
exceeds  
R1 billion

33% increase in  
headline earnings  
per share

Illovo Sugar is listed on the JSE Securities Exchange South Africa and is a leading, global, low-cost sugar producer and a significant manufacturer of high-value downstream products. The group has extensive agricultural and manufacturing operations in six African countries and also operates a beet sugar manufacturing plant in the United States. Downstream products include furfural, furfuryl alcohol, Crop Guard, diacetyl, acetoin, 2.3-Pentanedione, ethyl alcohol, lactulose and syrup.

Approximately 5.8 million tons of sugar cane is produced on agricultural estates in South Africa, Malawi, Zambia, Swaziland, Tanzania and Mozambique. Sugar cane cultivation in Africa benefits from good growing conditions and is further enhanced by full-scale irrigation applied to the majority of the crop, resulting in above-average cane yields and high sucrose content. Group sugar production of approximately 2.3 million tons derives from South Africa at 1.3 million tons, Malawi 260 000 tons, Zambia 230 000 tons, Swaziland 215 000 tons, Tanzania 95 000 tons, Mozambique 50 000 tons and the United States 170 000 tons.

Independent international surveys consistently indicate that cane sugar production costs in Malawi, Zambia, South Africa and Swaziland are amongst the lowest in the world, whilst the production costs of Monitor Sugar, which produces sugar from beet, are also amongst the lowest in the United States.

The group is a major supplier of sugar to Southern African consumer and industrial markets particularly in South Africa, Malawi, Zambia, Swaziland, Tanzania and Mozambique. In Malawi, Illovo is the country's sole sugar producer whilst in Zambia and South Africa, the group manufactures 99% and 47% respectively of all locally produced sugar. Illovo has significant access to preferential markets in Europe and the United States while Southern African operations outside South Africa also have access to the South African Customs Union market in terms of the Southern African Development Community (SADC) Sugar Protocol on Trade. Sugar in consumer packs is also supplied into other regional markets within Africa. The group, through the South African, Swaziland and Mozambique industries, also exports sugar into the world free market. Sugar produced at Monitor in the United States is sold in the local US market.

The majority of downstream products are sold internationally into high-value, niche markets. Furfural and its derivatives, including Crop Guard, are made at the Sezela mill complex on the south coast of KwaZulu-Natal whilst high quality ethyl alcohol, from which various grades of alcohol are made, is produced at the Merebank plant near Durban and at the Glendale distillery on the north coast. Lactulose is manufactured at Merebank whilst syrup and speciality sugars are produced in South Africa and Zambia. In Malawi, speciality sugars are produced primarily for preferential markets in Europe. Betaine is produced at the Monitor Sugar plant in the United States.

The Illovo group, throughout its African operations, provides considerable support for Black small-scale farmers in order to promote agricultural and economic development. The group also continues to focus attention on medium-scale farmers, the majority of whom are Black, and there are various programmes to assist local entrepreneurs to purchase their own farms and to build up their cane growing operations. Total cane supplies

from both small and medium-scale growers amounts to more than two million tons annually. In addition, the group has a procurement policy which promotes and supports the development of small to medium-sized businesses to supply goods and services to these growers and to the group. Social investment programmes are undertaken in every country of operation, having been adapted to local conditions and requirements.



*The Merebank distillery performed very well both in terms of quantity, with a new ethyl alcohol production record established, and quality.*

## Primary objective

- To enhance the wealth of stakeholders by optimising the long-term returns and growth of the business.
- To be a world-class organisation and amongst the most efficient and lowest-cost producers in the world.

## Growth

- To expand the group's sugar and cane production.
- To consolidate and improve the profitability of downstream products and further develop new applications where appropriate.
- To seek new opportunities for sugar and downstream products nationally and internationally.

## Profitability

- To achieve a competitive rate of return on shareholders' funds and increase profits on an ongoing basis in real terms.
- To maintain a dividend cover of between two and three times.

## Asset management

- To manage investments in fixed assets and working capital so as to achieve the most efficient usage of funds employed with the objective of achieving gearing of not more than 40% and an interest cover of not less than five times.

## Product development

- To be proactive in identifying the needs of our customers.
- To consistently deliver quality products and services to our customers.

## Human resources

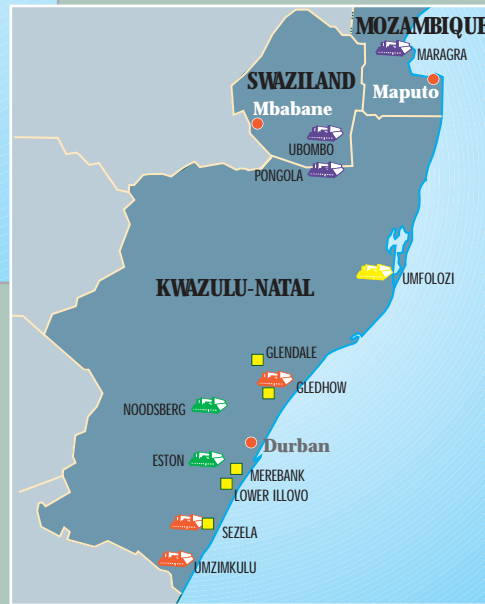
- To promote the ongoing development of all our employees in order that they reach their maximum level of competence and participate fully in achieving the group's primary objective.
- To offer equal opportunity to all employees.

## Corporate governance

- To ensure that the company is managed in an efficient, accountable, responsible and moral manner.
- To be socially responsible, and maintain and develop appropriate ethical, environmental and risk management standards as an integral part of the business.

# GROUP LOCATIONS

GROUP LOCATIONS



4



**SUGAR MILLS AND CANE SUPPLY REGIONS**

- Irrigated
- Irrigated / rainfed
- Rainfed / coastal
- Rainfed / inland
- Beet factory
- Downstream plants



**SOUTH AFRICA**  
Operations 100%



**MALAWI**  
Sucoma 76%



**ZAMBIA**  
Zambia Sugar 90%



**SWAZILAND**  
Ubombo Sugar 60%



**TANZANIA**  
Kilombero Sugar 55%



**MOZAMBIQUE**  
Maragra Açúcar 76%



**UNITED STATES**  
Monitor Sugar 100%

OPERATIONS

	Operation	Cane growing	Sugar manufacturing	Sugar refining	Sugar packaging	Downstream production
<b>South Africa</b>	Pongola		■	■	■	
	Umfolozi		■	■	■	
	Gledhow	■	■	■	■	■
	Noodsberg	■	■	■	■	
	Eston	■	■			■
	Sezela	■	■			■
	Umzimkulu	■	■		■	
	Merebank					■
	Glendale					■
<b>Malawi</b>	Nchalo	■	■	■	■	■
	Dwangwa	■	■	■	■	
<b>Zambia</b>	Nakambala	■	■	■	■	
<b>Swaziland</b>	Ubombo	■	■	■	■	
<b>Tanzania</b>	Kilombero	■	■		■	
<b>Mozambique</b>	Maragra	■	■		■	
<b>United States</b>	Monitor		■	■	■	■

EXECUTIVE DIRECTORS



*Don MacLeod*  
Managing Director



*Mike Buchanan*



*Graham Clark*



*Nigel Hawley*



*Bob Hetzler*



*Mandla Hlatshwayo*



*Gordon Knox*



*John Russell*



*Barry Stuart*

Name	Qualifications	Joined the Sugar industry	Appointed to the Board	Position
<b>D G MacLeod</b> * ◊ (56)	<i>B.Com., A.M.P.(Oxon)</i>	1971	1983	Managing Director
<b>W M A Buchanan</b> (53)	<i>B.Tech.(Mkt.), S.E.P.(Stanford), C.M.(S.A.)</i>	1981	1996	Marketing Director
<b>G J Clark</b> , ◊ (Australian) (47)	<i>B.Acct.(Hons.), A.C.A.</i>	1980	1997	Operations Director - Africa
<b>N M Hawley</b> (46)	<i>B.Com.(Hons.)</i>	1978	1998	Human Resources Director
<b>R L Hetzler</b> (USA) (58)	<i>B.A.(Indiana), J.D.(Michigan)</i>	1984	1992	President - Monitor Sugar
<b>M I Hlatshwayo</b> (Swazi) (45)	<i>B.A.(Law)</i>	1987	2003	Corporate Affairs Director
<b>G D Knox</b> ◊ (British) (54)	<i>B.Com.</i>	1973	1996	Administration Director
<b>J T Russell</b> ◊ (54)	<i>A.C.M.A.</i>	1978	1993	Financial Director
<b>B M Stuart</b> ◊ (55)	<i>B.Com., Dip. Sugar Tech., S.E.P.(Stanford)</i>	1968	1994	Operations Director - South Africa

\* Member of Audit Committee # Member of Remuneration / Nomination Committee ◊ Member of Risk Management Committee

## NON-EXECUTIVE AND INDEPENDENT DIRECTORS



*Robbie Williams*  
Chairman



*Brian Connellan*



*Robin Hamilton*



*Len Konar*



*Phinda Madi*



*Ami Mpungwe*



*Tony Norton*



*Martin Shaw*

Name	Qualifications	Appointed to the Board	Position
<b>R A Williams</b> * # (62) <i>Non-executive Chairman</i>	B.A., LL.B.	1985	Chairman of Tiger Brands Limited. Director of companies
<b>B P Connellan</b> (62)	C.A.(S.A.)	1993	Director of companies
<b>R D Hamilton</b> (65)	B.Sc., B.Com.	1989	Director of companies
<b>D Konar (Dr)</b> * (49) <i>Chairman of Audit Committee</i>	C.A.(S.A.), M.A.S.(Illinois), D.Com.	1995	Director of companies
<b>P M Madi</b> (39)	B.Proc., E.D.P.	2002	Director of companies
<b>A R Mpungwe</b> (Tanzanian) (52)	B.A.(Hons.)	2001	Director of companies
<b>R A Norton</b> * # (64) <i>Chairman of Remuneration / Nomination Committee</i>	M.A. (Oxon)	1997	Director of companies
<b>M J Shaw</b> # ◦ (64) <i>Chairman of Risk Management Committee</i>	C.A.(S.A.), S.E.P.(Stanford)	2001	Director of companies

Name	Qualifications	Joined the group	Operational responsibility
<b>GROUP</b>			
P Canter (Dr) (56)	M.B.Ch.B, D.T.M. & H.	1990	Medical services
D G Coates (52)	H.N.Dip. Mech. Eng., G.C.O.C.	1983	Technical services
D E Howells (39)	C.A.(S.A.)	1995	Finance
D A Rowbotham (58)	C.A.(S.A.)	1987	Internal audit
D A Schaller (39)	B.Com., A.C.M.A.	1999	Information technology
<b>SOUTH AFRICA OPERATIONS</b>			
<b>Corporate Services</b>			
H R Hackmann (44)	B.Com.	2000	Industry affairs
G E Hoppe (52)	H.E.D., Dip. Mkt. Mgt. (I.M.M.)	1987	Sugar marketing
A Koen (58)	Cert.Eng., E.M.P. (Berkeley)	1982	Operations
C H Kyle (53)	B.Com., H.D.P.M.	1998	Human resources
A D Nourse (62)	C.A.(S.A.), A.M.P. (Harvard)	1998	Finance
M A Walsh (55)	B.Com., C.A.(S.A.)	1988	Administration / projects
<b>Sugar and downstream production</b>			
B R Cornish (49)	B.Com., H.N.Dip.Mech.Eng.	1983	Eston
M T Crossman (57)	B.Sc.Eng., M.B.L.	1992	Pongola
St J T Field (57)	Dip. Sugar Tech., B.Sc. Mech. Eng.	1986	Umfolozi
S D Langton (42)	Pr.Eng., B.Sc.Eng.	1996	Sezela
G F Mann (48)	Dip.Sugar Tech.	1979	Noodsberg
S S Munsamy (47)	B.Tech.(Mgt), P.M.D.	1982	Umzimkulu
S Rau (51)	B.Sc.Agric.	1981	Gledhow
L W Riddle (43)	B.Com., C.A.(S.A.)	1986	Merebank
<b>AFRICA OPERATIONS</b>			
<b>Corporate Services</b>			
P G Braithwaite (60)	Pr.Eng., B.Sc.Agric.Eng.	1980	Agriculture
J P M De Robillard (56)	Dip.Sugar Tech.	1974	Factories
I G Parrott (36)	B.Com., C.I.A.	1997	Finance
C J Van Den Berg (53)	B.A.(Law)	1974	Human resources
<b>Malawi</b>			
B M Stewardson (54)	B.Sc., P.C.M.A.	1986	Managing director
D H Carter-Brown (53)	B.Sc.Agric.Eng.	1978	Dwangwa
R J de Allende (44)	B.A.	1999	Marketing
A J Fuggle (59)	B.A.(Unisa), M.D.P.	2002	Human resources
J E Horn (40)	C.A.(S.A.), A.C.M.A.	1999	Finance
T C Wormald (57)	Dip.Sugar Tech.	1968	Nchalo
<b>Zambia</b>			
J M Moulton (54)	B.Sc.Eng., Nat.Dip.Tech.	1995	Managing director
C M Bennie (53)	B.Com., C.A.(S.A.)	1987	Commercial
J A Blumberg (43)	B.Compt, M.B.L.	1996	Finance
G Geldard (56)		2001	Agriculture
D Kabunda (40)	B.A.Pub.Admin., M.B.A.	1986	Human resources
R M L Katowa (42)	B.A., M.B.A.	1997	Marketing
P J Van Greunen (38)	H.N.D.Mech.Eng., G.C.O.C.	1983	Factory

Name	Qualifications	Joined the group	Operational responsibility
<b>Swaziland</b>			
E I Williams (56)	Cert.Eng., S.M.S.A.I.E.E.	1984	Managing director
S Cloete (48)	G.C.O.C.	1980	Factory
D W H Cousens (54)	M.Sc.Eng., M.B.L.	1988	Agriculture
J Mashwame (40)	B.Sc.Agric.	1993	Human resources
K Rowney (55)	B.Com.	1992	Finance
<b>Tanzania</b>			
D Haworth (54)	B.Sc.(Hons)	1999	Managing director
S Coster (56)	B.Sc.Agric.	1996	Agriculture
J F K Nkandala (52)	B.Sc.Eng., M.B.A.	1999	Factories
V R Suchak (27)	C.I.M.A., A.C.C.A.	2000	Finance
J H Verster (58)	B.A.(Hons), L.R.Dip.(Advanced)	1978	Human resources
<b>Mozambique</b>			
A F Currie (50)	B.Com., Dip.Sugar Tech.	1998	General manager
M Cotter (47)	R.C.E., G.C.O.C.	1989	Factory
L A Elkington (53)	B.Compt.	1984	Finance
R Giblot-Ducray (46)	Cert.Labour, Cert.Sugar Cane Agric.	2002	Agriculture
P Streng (53)	B.A.(Law), F.I.P.M.	2001	Human resources
<b>UNITED STATES</b>			
J T Coleman (55)	M.B.A.Mkt., B.A.History	1995	Marketing
D A Keyser (46)	M.B.A., C.P.A.	1983	Finance
K K Martin (41)	B.A.Acc., C.P.A.	1988	Treasury
P D Pfenninger (48)	B.S.Bio.	1981	Agriculture
C D Rhoten (55)	B.S.Biochem.	1996	Factory

## CORPORATE INFORMATION

**Secretary:** G D Knox  
 Business address and registered office: Illovo Sugar Park,  
 1 Montgomery Drive,  
 Mount Edgecombe, KwaZulu-Natal  
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 Durban, 4000  
 Telephone: +27 31 508-4300  
 Telefax: +27 31 508-4525  
 Website: [www.illovosugar.com](http://www.illovosugar.com)

**Transfer Secretaries:** Computershare Investor  
 Services Limited  
 Business address: 70 Marshall Street,  
 Johannesburg, 2001  
 Postal address: P O Box 1053,  
 Johannesburg, 2000  
 Telephone: +27 11 370-5000  
 Telefax: +27 11 370-5271/2

**Auditors:**  
 Deloitte & Touche

**Attorneys:**  
 Garlicke & Bousfield Incorporated

**Principal Bankers:**  
 The Standard Bank Group Limited and  
 First Rand Bank Limited

**Sponsor:**  
 Cazenove South Africa (Pty) Limited



**Robbie Williams**

The past year has seen the group achieve very good results. Headline earnings increased by 34% to R454.6 million with headline earnings per share rising by 33% to 136.8 cents. Record production of cane, sugar, ethyl alcohol, diacetyl, lactulose and acetoin was attained.

Overall, the season was characterised by favourable weather conditions which assisted in the achievement of improved cane and sucrose yields. Factory performance continued to improve with high levels of mechanical and operational efficiency. Downstream operations also had an extremely successful year.

The contributions to operating profit were sugar manufacture 59%, cane growing 27% and downstream 14%. The contributions to profit by country were South Africa 39%, Malawi 24%, Zambia 22%, Swaziland 13% and the United States 2%. Following the completion of the rehabilitation and redevelopment programmes at Kilombero in Tanzania and Maragra in Mozambique, both operations have been consolidated into the group with effect from 31 March 2003. At the end of March 2003, the group increased its shareholding in Sucoma (Malawi) to 76% whilst it raised its stake in Zambia Sugar to 90% during the year. Both these investments should contribute towards future headline earnings. Gearing increased from 68.0% to 94.4% as a result of the consolidation of Maragra and Kilombero. However, group borrowings of R1 777.2 million, taking into account the borrowings of these entities at both the beginning and end of the financial year under review, reflected a decrease of R594.8 million.

In the past season the group consolidated its position as a leading, global, low-cost sugar and downstream products producer. Progress towards the achievement of the ISO 9001:2000 quality accreditation by all field and factory operations continued with the Malawi entities achieving such certification during the current year. Benchmarking and the application of best practice together with in-house technical expertise are used to optimise returns from existing installed capacity. Training and employee development programmes are a key priority in building competitiveness. The National Occupational Safety Association's systems are also used to ensure that the group's safety, health and environmental standards are developed and maintained. There is, however, a need in some of the countries in which the group



*In the past season the group consolidated its position as a leading, global, low-cost sugar and downstream products producer.*



*Approximately 16 000 small and medium scale growers deliver more than two million tons of cane to the group's mills, generating about R400 million for the benefit of local communities. As sugar is a good development crop, the requirement for grower finance to promote and expand these enterprises needs to be addressed by the various development agencies.*

operates for the government to provide the necessary infrastructure if the business is to achieve its goal of being world class and expand its export markets.

Sugar is a good development crop with local growers having a ready market and participating in the proceeds earned from sugar sales through various proceeds-sharing arrangements. The group has a number of potential expansion prospects in its existing areas of operation, most of which will result in new and existing local growers expanding their cane production whilst the company will provide the milling capacity. Currently, approximately 16 000 small and medium-scale farmers deliver more than two million tons of cane to the group's mills, generating R400 million for the benefit of local communities. The requirement for grower finance needs to be addressed by the various development agencies.

World trade negotiations continue and the group is monitoring the impact of these on its markets, as access tonnages and prices earned in the European Union and the United States are valuable to the group and the many developing countries which receive this access. A strength of the group is that 53% of its sugar production is sold into the stable domestic markets whilst a further 8% has access to the high-priced preferential markets in the European Union and the United States. An additional 13% is sold into regional markets where premiums above the world price are earned, with the balance sold on the world free market, which is one of the most volatile of all major international commodity markets. The group is supportive of international sugar trade reform which is largely aimed at increasing market access and the dissolution of domestic support structures and export subsidies. However, it also recognises that any new trade arrangements arising out of transformation could come at the expense of the developing members of the World Trade Organisation. Many of these countries, situated in the African, Caribbean & Pacific (ACP) region, or those classified as "Least Developed Countries", are highly dependent on agriculture as a means of developing their economies and tackling poverty eradication, and thus rely on the preferential sugar arrangements with Europe and the United States. Whilst greater market access to the developed world as the direct result of trade reform could be the catalyst for potential production expansion, it is important that sugar producers from developing countries continue to have preferential access into the European Union and United States at reasonable prices. Thus it is imperative that any new trade agreements take cognisance of the special differential needs of these developing countries.

Illegal sugar imports into some of the countries in Africa where the group has operations has again been of concern during the past year, but it is pleasing that the government in each of the affected countries has responded positively to stem the flow of these illegal imports. It is vitally important to both the economies of the region and the group that the long-term viability of the local sugar industries, many of which have been recently re-established, are not negatively affected by illegal imports of dumped sugar.

The group continues to focus on various pillars of black economic empowerment and localisation in its areas of operation. The development of small-scale and larger commercial local growers across the group is actively pursued. The new season will see further company cane farms in South Africa being sold to Black farmers which will result in 27.5% of company-owned cane land having been transferred under its medium-scale farm development programme. The company has a procurement programme which is a catalyst for the establishment and development of a range of small to medium-sized businesses. The company's employment equity and localisation programmes are closely monitored and good progress has been made. Direct and indirect local investment in the operational companies across the group continues to be significant. The sale of company housing to employees in South Africa and Swaziland is progressing well.

Much attention continues to be focused on the prevention of HIV/AIDS, malaria and tuberculosis in the Southern African countries of operation. Increasingly, private sector companies operating in these countries have to play a greater role in the prevention and treatment of these diseases. I am pleased to report that Illovo is escalating its intervention programmes and as part of the group's existing HIV/AIDS wellness programme, a heightened Voluntary Counselling and Testing campaign has been launched. Its primary thrust is to encourage employees throughout the group to know their HIV/AIDS status. The programme is entirely voluntary and confidential, offering to those who test positive the option of joining the group's wellness programme which is administered at all the company's clinics and hospitals. In addition to involving high profile education and awareness campaigns, it offers treatment to affected people including the use of prophylactic antibiotics and counselling by medical and other trained personnel. In respect of malaria, the group subscribes to the African continent's recognised "roll back" malaria programme, and mosquito control programmes continue to be carried out in areas most affected. This and other proactive measures have had a positive impact with a reduction in the number of cases reported to the group's health care facilities.

### **Prospects**

The results in the forthcoming year will be impacted by disappointing rainfall in South Africa this past summer. The first official cane estimate released in early April was approximately 12.5% below last year's final production figure. In addition to reduced sugar production, the lower cane estimate will also impact on furfural production at the Sezela downstream plant. In the irrigated areas in the rest of the group's African operations the cane is looking excellent, however sugar production remains dependent on the weather conditions experienced during the rest of the season. Illovo is a major exporter of sugar and downstream products and earnings are affected by both world prices and exchange rates. In addition, profits from foreign operations are impacted by the currency translation effect. The rand is considerably stronger at present compared with the same period last year and there will be a significant negative effect on earnings should the rand continue to trade at current levels for the remainder of the 2003/04 financial year.

### **Directors**

At Board level, I would like to welcome Mr Phinda Madi who was appointed a non-executive director in November 2002. Mr Madi is currently Group Managing Director of the Thebe Risks and Benefits Group, Chairman of Madi HerdBuoys and a founder member and commissioner of the Black Economic Empowerment Commission.

In addition, I am pleased to advise that Mr Mandla Hlatshwayo was appointed executive director responsible for corporate affairs in March 2003. Mr Hlatshwayo has been in the sugar industry since 1987 and was previously assistant general manager of the group's operations in Swaziland.

### **Appreciation**

On behalf of the Board, I would like to thank all the people of Illovo for their efforts and contributions during the past year. The group has clear strategies for future growth and the achievement of targets set for its people will deliver the company's objectives although the year ahead will be a difficult one.



**R A Williams**  
*Chairman*

Durban  
20 May 2003