

# chairman's statement



**Robbie Williams**

Group results were sharply down compared to the previous year with headline earnings of R256.5 million representing a 42% decrease. Headline earnings per share of 76.9 cents represent a 42% decrease.

Group operating profits, which decreased by 31%, were severely impacted by the continuing strong rand in respect of both sugar and downstream exports, and the translation of foreign profits. The rand strengthened by 36% compared to the US dollar over the financial year. In addition, as a consequence of the strong rand, local sugar prices in South Africa and Swaziland had to be reduced.

The contributions made to operating profit were sugar manufacture 58%, cane growing 33% and downstream 9%. The contributions made by country were South Africa 18%, Malawi 34%, Zambia 26%, Swaziland 9%, Tanzania 15%, Mozambique (1%) and the United States (1%).

Group borrowings of R1 366.3 million reflected a material decrease of R410.9 million, whilst gearing of 80.3% shows a slight improvement compared to the previous year.

Group sugar and cane production was slightly below last year's record output largely due to the dry conditions experienced in South Africa. However, elsewhere in the group, growing conditions were favourable and record sugar production was achieved in Swaziland, Tanzania and Mozambique. In addition, the ethyl alcohol operation further improved its output. In general the sugar and downstream plants performed very well with high levels of mechanical and operational efficiency being achieved. The cane and sucrose yields on the group's own estates in Africa, other than the cane yields in South Africa, were good and reflected a further improvement compared to the previous year.

The group continues to focus on being a leading, global, low-cost sugar and downstream products producer. The strong rand has impacted negatively on production costs in US dollar terms but a recent independent survey of international sugar production costs indicated that four of the regions in which the group operates are amongst the ten lowest-cost producers in the world for the period to 2002/03. However, the continuing strong rand is severely affecting certain of the operations in South Africa and has also resulted in planned new projects being put on hold.

Benchmarking and the application of best practice, together with in-house technical expertise, are used to optimise returns from existing installed capacity, with employee training and development programmes key priorities to building competitiveness. The National Occupational Safety Association's systems are used to ensure that the group's safety, health and environmental standards are developed and maintained. The ISO 9001(2000) quality system accreditation has been obtained by the South African, Swaziland and Malawian operations whilst the other factories continue to make good progress towards achieving certification.

The world sugar price remains volatile. During the 2003 sugar year, production expanded across the globe with consumption failing to keep pace. The season started with prices just under US8.0 cents per pound (cents/lb) which fell to a low of US5.35 cents/lb during the season. Futures prices have recently risen to above US7.0 cents/lb due to increasing evidence that last year's surplus could switch to a deficit due to significant production declines in India, Thailand and China. In recent times, the world sugar price has been below the production costs for most sugar producing countries which has necessitated rationalisation

and contraction of many sugar operations. Deliberate expansion for world market sales has only really taken place in Brazil which now dominates the world market. However, whether Brazil will continue to expand aggressively is now in question. Outside Brazil, producers' costs are much higher largely as a result of the appreciation of their currencies against the US dollar. The market is still uncertain but its physical structure may be starting to improve.

World trade negotiations faltered at Cancun and many countries are now involved in bi-lateral trade discussions. The access tonnage and prices earned for sugar in the European Union and the United States are valuable to the group and the many developing countries which receive this access. The group's access in the past year was 160 000 tons of sugar. It is important that the sugar producers from developing countries continue to have preferential access into the EU and the US at reasonable prices. The EU is investigating reform of its sugar regulations which should start to operate in 2006. However, members of the commission have drawn attention to the complexity of the sugar market and that the time frame for changes is undecided. The EU previously made provision for additional access for the Least Developed Countries (LDC's) which have called on the European Union Commission to grant them increased and accelerated market access for sugar at remunerative prices. If this is successful, it will be beneficial to the group and would create expansion opportunities at preferential prices. Sugar is a good development crop with

local growers having a ready market whilst participating in the proceeds earned from sugar sales through various proceeds-sharing arrangements. New and existing local growers would be able to expand their cane production whilst the company would provide the milling capacity. The company is actively participating in the EU lobbying process and providing technical input to the discussions.

The domestic sugar markets are very important to the group and it is pleasing that the governments in the countries in which the group operates have responded positively to stem the flow of 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 affected by illegal imports of dumped sugar. In South Africa, the strong rand has resulted in the local sugar price having to be reduced as the tariff protection afforded to the industry is driven off a US dollar-based reference price. The low export revenue and reduced local revenue have severely impacted on the viability of both the millers and growers in the industry, with one smaller sugar factory having closed at the end of last season. The finalisation of the new Sugar Act in South Africa is well advanced and should be in place from the beginning of the 2005/06 sugar season.

In Tanzania, the local refined sugar market is currently supplied by imports, however the company's operation at Kilombero is constructing a refinery to meet this demand and is planning for it to be operative by August 2004.

*Despite dry conditions in South Africa and Swaziland, above-average cane yields and sucrose production were achieved elsewhere in the group. Total cane production of 5.641 million tons was only 3% less than the record production achieved in 2002/03.*





*Factory performance across the group was generally excellent. Total sugar production amounted to 2.224 million tons, which was slightly less than last year's all-time record of 2.308 million tons.*

The group is conscious of the need to progress Black economic empowerment (BEE) in South Africa and has adopted an integrated approach which encompasses meaningful and sustainable participation of Black people at all levels of the operations of the company. Extensive resources are invested in various aspects of human resource development and skills upliftment programmes. The group has specific objectives for achieving meaningful employment equity targets. A formal company policy is in place to promote preferential procurement and outsourcing to Black enterprises and service providers. In order to give further impetus to established sugar industry programmes to promote the participation of Black people and communities in the sugar cane business, Illovo launched its medium-scale farm development programme in 1997. To date, cane farms sold to Black medium-scale farmers as a percentage of cane land owned by the company amounts to 26.5%. Two farms were sold during the 2003/04 season. The company also provides considerable support to both small and medium-scale cane farmers. In addition, approximately 1 670 employees, of which 84% are new home owners from designated groups, have been assisted to acquire company-owned houses or to purchase houses in the open market. In the group's African operations outside South Africa, local equity participation is well established and ranges between 10% and 40%. Illovo has active social investment programmes in each of the countries in which it operates, structured to address the specific needs of the relevant local communities.

As announced on 17 May 2004 and in line with Illovo's objective that there should be direct and meaningful BEE

participation in the South African sugar milling industry, the company has entered into an agreement for the sale of the Gledhow sugar factory and cane growing estates on the north coast of KwaZulu-Natal. The purchaser, trading under the name Grand Bridge Trading 40 (Proprietary) Limited, is a broad-based BEE company whose major shareholders include The Sokhela Family Trust and the Gledhow employees. The purchase price of R335 million is to be settled in cash and Illovo will continue to provide management support for a period of five years after transfer. The agreement is subject to approval by the Competition Commission.

Considerable attention is focused on the prevention of HIV/AIDS, malaria and tuberculosis in the African countries of operation. As part of the group's existing HIV/AIDS initiative, a heightened education and awareness programme, together with testing and voluntary counselling, is being undertaken, the aim of which is to encourage employees throughout the group to know their HIV / AIDS status. In respect of malaria, the group subscribes to a broad-scale initiative amongst African countries to prevent malarial infection and mosquito control programmes are carried out in the areas most affected.

The group continues to assess the performance of existing assets and their potential for future growth. Non-performing assets will be disposed of and the proceeds utilised to reduce debt to achieve the gearing objective and to expand the business in line with its strategic intent. In this regard, the company has entered into discussions with various parties, including the Monitor Sugar Beet Growers'



*In a landmark Black economic empowerment deal, the Gledhow operations were sold for R335 million in cash to a broad-based BEE company whose major shareholders include The Sokhela Family Trust and the Gledhow employees. Signing the sale agreement are Dr. Patrick Sokhela, Chairman of The Sokhela Family Trust, Don MacLeod, Illovo Sugar and George Oricho, representing The Land and Agricultural Development Bank of South Africa.*

Association which represents Monitor's 600 growers, regarding the possibility of divesting of its interest in Monitor Sugar Company in the USA. The group is a strong cash generator and opportunities exist both for expansion of its existing operations and acquisitions in Africa.

Illovo's presence as the leading sugar and downstream products operation in Africa and an increasingly global player, was recognised at the most recent South African Global Company Awards where it was adjudicated as South Africa's fifth most global company. In addition, the company received the inaugural NEPAD award which recognised Illovo as the South African company that had most successfully expanded into Africa.

#### **Outlook**

The results for the forthcoming year will be considerably impacted by the level of the rand compared to other currencies, particularly the US dollar. Excluding the impact of the sale of the Gledhow operations, cane production and downstream output for the group should be similar to that achieved last year, whilst sugar output is expected to be marginally down due to the below-average rainfall experienced in South Africa during the past summer. World sugar prices have recovered from previous low levels in recent months and the average price achieved from world market sales should be around levels attained in the past year.

#### **Directors**

In line with corporate governance best practice relative to the balance between the number of executive and non-executive directors, Mike Buchanan, Bob Hetzler and Gordon Knox resigned from the Board with effect from 1 April 2004. All three continue to hold senior positions within the Illovo group and I thank them for their contributions whilst members of the Board. Gordon Knox will continue in his role as company secretary.

#### **Appreciation**

On behalf of the Board, I would like to thank the members of the Board and all the people of Illovo for their efforts and contributions during the past year which has been a difficult one for the group. The year ahead has many opportunities and challenges as we continue to focus on the company's objectives.

A handwritten signature in black ink, appearing to read 'R A Williams', written over a light-colored background.

**R A Williams**  
Chairman

Mount Edgecombe  
19 May 2004