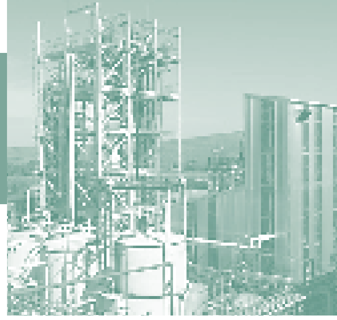
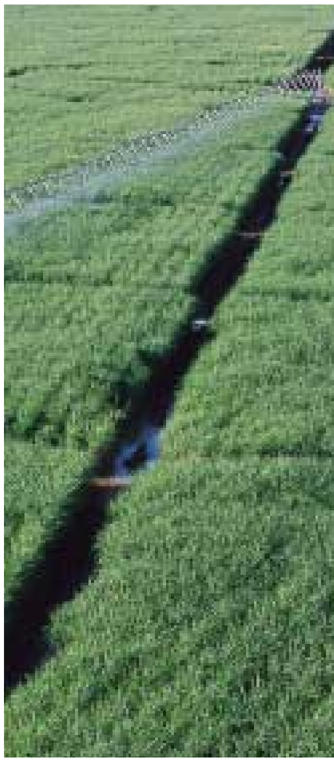
review of operations





Don MacLeod
Managing Director

FINANCIAL RESULTS

Illovo's disappointing financial results overshadowed a year of good agricultural and manufacturing performance across the group. The results were negatively impacted by the continuing strong rand in respect of both sugar and downstream exports and on the translation of foreign profits, reduced cane and sugar production in South Africa, low world sugar prices and by the reduction in South African and Swaziland local sugar prices in October 2003. As a result, headline earnings for the year ended 31 March 2004 were R256.5 million, a decrease of R182.2 million compared to the restated earnings of R438.7 million for the previous year. Headline earnings per share were 76.9 cents which is 42% below last year.

Group turnover decreased by R536.8 million to R6 488.2 million whilst group operating profits fell to R726.6 million. The operating margin decreased to 11.2%. Financing costs of R256.4 million were marginally above those of last year whilst taxation reduced considerably to R122.5 million. The effective tax rate, excluding abnormal items, was 5.6% lower than last year. Profit after tax decreased to R349.6 million.

Cash generation from operations of R859 million was strong and group borrowings of R1 366.3 million reflected a material decrease of R410.9 million. Gearing of 80.3% showed a slight improvement compared to the previous year.

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%)

Another consequence of the strong rand has been that net losses have arisen on the translation of assets and liabilities of foreign subsidiaries. The aggregate amount involved of R390.9 million has resulted in a reduction of both group reserves and net asset values. Whilst the approach is correct from an accounting standpoint, the reality of the situation is that the value of the group's foreign assets and the future revenue generating capacity has not been affected. In this regard it should be noted that the depreciated replacement value of assets at the year-end was R3 830.6 million compared to a net book value of R1 292.1 million.

In the Interim Report for the six months ended 30 September 2003, it was advised that the percentage decline in profit for the full year was expected to be similar to that of the first six months on a sugar season basis. Whereas net profit attributable to shareholders for the first six months declined by 46% against the comparative period in the previous year, net profit for the full year declined by 41%. This variance was mainly due to improved production, sales and profit in the second half of the year in Malawi and Tanzania.

Accounting standards AC133 (Financial Instruments - Recognition and Measurement) and AC137 (Agriculture) were adopted during the financial year.

In the group's African countries of operation outside South Africa, particularly Malawi, Tanzania and Mozambique, local market sales benefited from concerted drives to improve national distribution of sugar through the implementation of more effective marketing arrangements.

OVERVIEW

Operationally, the group performed very well with record sugar production being achieved in a number of countries and a new high for ethyl alcohol output being attained.

Although conditions in South Africa, Swaziland and the United States were dry, growing conditions elsewhere in the group were favourable and in several countries, above average cane yields and record sucrose production were achieved. Efficient cane harvesting and haulage operations assisted in the delivery of good quality cane to the factories. Consequently, group cane production ended at 5.641 million tons which was only 3% less than the record production achieved in 2002/03.

Record sugar production was achieved in Swaziland, Tanzania and Mozambique whilst output in Malawi and Zambia fell only marginally short of the previous year's levels. Factory performance across the group was generally excellent with mechanical and operational efficiency-related records being achieved at the majority of factories at frequent intervals during the season. Total sugar production amounted to 2.224 million tons, which is slightly less than last year's all-time record of 2.308 million tons.

In the group's African countries of operation outside South Africa, particularly Malawi, Tanzania and Mozambique, local market sales benefited from concerted drives to improve national distribution of sugar through the implementation of more effective marketing arrangements.

Performance at the downstream furfural and derivatives plant at Sezela and the Merebank distillery continued to be good with record production of ethyl alcohol being achieved. The commercialisation of furfural as an agricultural chemical is progressing with further registrations having been received in South Africa. However, sales were disappointing partly as a result of drought conditions being experienced in the summer rainfall regions of South Africa. International registrations in a variety of applications are being pursued.

World sugar prices were very volatile during the year. After a positive start to the season, when world sugar prices were just under US8.0 cents per pound (cents/lb), prices declined to a low of US5.35 cents/lb in November and eventually ended the season at above US7.0 cents/lb. White sugar premiums, whilst not at the same levels achieved in 2003, remained favourable. Illovo continued to benefit from these premiums as well as those achieved for regional sugar sales.

During the year, capital expenditure amounted to R198.5 million, most of which was directed to ensuring that the group's factories are kept in sound condition, that strategic plant is adequately protected against breakdown and that production quality meets world standards. This cost compares with depreciation retention aggregating R236.2 million.

Record sugar production was achieved in Swaziland, Tanzania and Mozambique, in a year which saw mechanical and operational efficiency-related records being achieved at the majority of factories at frequent intervals during the season.

MARKETS

The group supplies sugar and downstream products to domestic, regional and export markets. Sales to the domestic markets in the countries in which the group operates contributed 69% to total revenue whilst exports to 93 countries contributed the balance. A significant strength of the group is that 69% of sugar production by volume and 77% by value was sold into stable domestic or premium-priced export markets.

Sales to the domestic markets in which the group operates contributed 69% to total revenue of R6.488 billion.

Domestic markets

Sugar

The South African Customs Union (SACU) market is of major significance for both the group's South African and Swaziland industries. During the season, total sales into SACU amounted to 1.553 million tons, 83% being refined sugar and the balance brown sugar. The South African sugar industry supplied 1.102 million tons, Swaziland 332 000 tons and Zimbabwe and other SADC sugar producing countries 119 000 tons.

In Malawi, 50% of sugar produced during 2003/04 was sold into the domestic market by The Sugar Corporation of Malawi Limited (Sucoma) which is the country's sole sugar producer. Zambia Sugar, which produces 97% of total sugar output, sold 117 000 tons domestically. Tanzania is a net importer of sugar with annual domestic demand being about 290 000 tons. Aside from relatively small export tonnages sold into preferential markets in Europe, all production from Kilombero was sold domestically. Approximately 55% of Maragra's sugar output was sold domestically whilst in the United States, Monitor's entire sugar output was sold locally.

Downstream

Whilst the group's range of downstream products is primarily aimed at export markets, the Merebank and Glendale distilleries remain material suppliers of ethyl alcohol to the South African liquor, pharmaceutical and industrial chemical industries. Relatively small volumes of furfural and its derivatives, as well as lactulose, were sold domestically whilst the total production of the agricultural chemical Crop Guard was sold on the local market. In South Africa and Zambia, a range of syrups and speciality sugars are produced mainly for the domestic markets whilst in Malawi, speciality sugars are produced for the European Union and United States markets. At Monitor, beet pulp, betaine and concentrated molasses solids, were sold domestically.

The African-based operations exported 160 000 tons of sugar to preferential markets in Europe and the United States at a marked premium to the world free market price. Here, raw sugar is delivered directly to the Tate & Lyle refinery in the United Kingdom.

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 regions at a marked premium to the world free market price. The African-based operations exported 160 000 tons to these markets in 2003/04.

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. Prior to 1990, about 40% of sugar was made from beet but this has decreased to current levels as cane sugar producers have made considerable gains in expanding their sugar markets due to the lower costs of cane sugar production. Currently 71% 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, Brazil, Thailand, EU, Australia and Cuba, supply approximately 71% of all world free market exports. South Africa is the eighth largest exporter.

During the year, production expanded across the globe whilst consumption failed to keep pace. In the world market, the growth in production resulted in a rise in export availability, whilst high duties in Russia and the war in Iraq curtailed demand. The prospect of a world sugar surplus for the international sugar year 2003, driven primarily by the expectation of a record Brazilian crop of more than 26 million tons sugar, kept raw prices under pressure, trading at levels below US6.0 cents/lb for most of the year.

Prices have recently increased due to increasing evidence to suggest that last year's surplus could switch to a deficit with production declines expected in India, Thailand and China, which is also experiencing increased demand as the result of improved economic conditions and hence more capacity for imports. A further factor in support of higher prices is increased world freight rates which have impacted on the competitiveness of Brazilian exports, despite that country's significant export availability. The latest estimates suggest a deficit of 3.5 million tons in the next world crop year.

As a major exporter to the world market in 2003/04, the South African Sugar Association (SASA) exported 654 000 tons of raw sugar on behalf of producers. Exports realised around R1.328 billion. Refined and direct consumption raw sugar exports amounting to 403 000 tons were undertaken by the producers themselves.

Bulk sugar exports to the world market from Illovo's South African operations amounted to 33% of production, whilst world exports were also undertaken by Swaziland and Mozambique. 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 the world price are achieved as a result of various competitive advantages.

Downstream

The group is a material player in each of the world markets in which it participates and exports furfural, furfuryl alcohol, diacetyl, acetoin, 2.3-pentanedione, ethyl alcohol, lactulose and certain speciality sugars to 73 countries. In the financial year under review, downstream product sales contributed R555.4 million to group revenue.

OPERATIONS

South Africa

Illovo's South African operations comprise five sugar cane estates, seven sugar factories, four sugar refineries and six downstream plants. The company is the country's largest sugar and downstream products manufacturer. The operations are strategically located across the length of the eastern section of KwaZulu-Natal, maximising the benefit of wide geographic spread and incorporating the coastal, midlands and northern-irrigated cane growing regions. In a recently released international survey, South Africa ranked amongst the world's ten lowest-cost cane sugar producers.

Total cane output in South Africa was 848 000 tons which, due to very dry conditions for most of the season, reflected a 20% decline compared to the previous season.

Agriculture

Cane growing operations were impacted by very dry conditions which were alleviated only by short, and infrequent, showers during the season. Total cane output of 848 000 tons reflected a 20% decline compared to the previous season. The impact of the decreased yield was partly mitigated by higher than normal sucrose levels. Severe frosting of cane occurred at Noodsberg at the end of August 2003 and although all the damaged cane was able to be milled before any major deterioration took place, cane production by both the group's own estates and that of private growers in this region is expected to be significantly down in the coming season.

An additional two farms in the Noodsberg area were sold to Black medium-scale farmers during the season, with the group now having sold 70 medium-scale farms representing 26.5% of the company's previously-owned cane lands. Cane deliveries from these farmers amounted to 272 000 tons whilst small-scale farm deliveries amounted to 828 000 tons. The company continues to provide agricultural and other assistance to these farmers in order to optimise their production.

Sugar production

Whilst there was a 10% decrease in production compared to last year's record of 1.3 million tons sugar due to the dry weather, in general, all the factories operated well with good mechanical and operational performances being recorded. The overall performance of the factories was highlighted by the achievement of the following records: cane crushed at Pongola; refined sugar production at both Pongola and

Noodsberg; milling extraction rates at Sezela and Umzimkulu; and recovery of sugar from cane at Umzimkulu. The aggregate recovery of sugar from cane achieved by the company exceeded that attained by the other major competitors.

The summer growing season experienced variable rainfall. The early part of summer was extremely dry and recently rainfall has been below the long-term average. Overall, the dry conditions and frost of last year are expected to result in sugar production in the 2004/05 season being 8% below the previous year.

Downstream

The expanded diacetyl plant at Sezela's downstream complex came on stream in November 2003. Production at the plant was similar to the previous year and the benefit of the expansion will be felt in the current year. Overall, the furfural and furfuryl alcohol plants experienced a good year with the output of furfuryl alcohol being increased to benefit from the margin differential between the two products. The Merebank distillery performed very well throughout the year with record ethyl alcohol production and good product quality. The lactulose plant operated well whilst Glendale's production of ethyl alcohol was similar to last year's good level. The level of syrup production at the plant at Lower Illovo on the south coast was the same as last year.

The overall good performance of the South African factories was highlighted by the achievement of many production-related records during the season.

The expanded diacetyl plant at Sezela's downstream operations came on stream in November 2003.

In South Africa, revenue earned from domestic sugar sales constituted 79% of total revenue from sugar sales.

Marketing

Illovo sells raw, brown and refined sugar, speciality sugars, furfural and its derivatives, potable and denatured alcohols, lactulose and syrup into local and international markets. In South Africa, revenue earned from domestic sugar sales constituted 79% of total revenue from sugar sales. Illovo has established itself as the major supplier to the industrial market.

Exports of refined sugar and direct consumption raws are undertaken by Southern Cross Sugar Exports (Pty) Limited on behalf of South African producers. During the 2003/04 season, approximately 403 000 tons were exported to a range of African and other countries. Whilst not achieving the same high levels as experienced last season, refined sugar exports continued to benefit from good white sugar premiums.

Illovo's raw sugar exports to the world market, undertaken by the South African sugar industry, amounted to about 374 000 tons. The average price realised by the industry for world raw sugar market exports, which included hedging activities undertaken by SASA, was US6.77 cents/lb. Early forward cover taken by SASA in respect of export proceeds lessened considerably the impact of the prevailing strong rand. Equally, proceeds from Illovo's refined sugar exports were also covered forward at better than the average exchange rate for the year. In respect of the 2004/05 season around 426 000 tons of world market sugar has been priced by SASA at US6.60 cents/lb.

Industry molasses sales into the domestic market have grown by 25% over the last two seasons. This growth is attributable to the marked increase in usage of molasses in the animal feeds sector as well as the recent expansion of production capacity in the ethyl alcohol industry. Molasses exports have declined as a consequence with the industry benefiting from the higher domestic prices.

Furfural and furfuryl alcohol prices improved considerably in US dollar terms compared to the previous year due to reduced availability of product from China. However, prices came under some pressure during the last quarter as a result of new-season Chinese production coming on stream. Global offtake was stable as world economic conditions improved, particularly in China. Additional global supply of diacetyl and acetoin increased competition which resulted in lower than anticipated prices in these markets. Additional registrations for the use of Crop Guard as a nematicide were granted by the Department of Agriculture in South Africa. Unfortunately, sales did not reach expectations for a number of reasons, particularly the drought conditions in the regions where the product's registered target crops are grown.

Domestic sales of ethyl alcohol were in line with forecast whilst a number of new markets in Africa and the Middle East were secured. New export markets were also found for syrup during the season. Syrup sales into the domestic market remained at previous levels.

Malawi

The Sugar Corporation of Malawi Limited (Sucoma) is Malawi's only sugar producer and is listed on the Malawi Stock Exchange. Illovo's shareholding remained at 76% with the balance of the shares held by Malawian institutional and private investors. Operations in Malawi continued to perform well, recording an excellent production year overall. Malawi is ranked as one of the world's lowest-cost cane sugar producers.

Agriculture

Agricultural performance on both estates was good, with Dwangwa attaining record sucrose content and a return to the high cane yields previously achieved. It was disappointing that electricity supplies to both estates from the national grid were interrupted at a crucial time, impacting negatively on irrigation during the main growth period of the crop. Consequently, the operations were unable to benefit fully from the ideal weather conditions which were experienced throughout the season and cane production was slightly down from the previous year.

Sugar production

Factory performance at both factories was good. Dwangwa achieved its best ever sugar production of 103 000 tons which, combined with Nchalo's output of 157 000 tons, resulted in Sucoma's total production of 260 000 tons. Both milling operations achieved record sugar from sucrose recoveries, and time efficiencies were such that the factories were able to crush ahead of production plans for most of the season.

This summer, the favourable weather has resulted in good growing conditions and the cane crop is looking encouraging. Sugar production in the 2004/05 season is therefore expected to be similar to that of last year.

Downstream

Nchalo produces various speciality sugars which are sold to European markets at price premiums and more recently, in small quantities, to the United States. Sucoma is a minority shareholder in the Ethco Distillery at Dwangwa, which receives molasses from both factories.

Marketing

Domestic sales were much improved despite the weak economy. Initiatives to improve local market distribution, including the opening of a new depot in the south of the country, the introduction of several incentive schemes and government actions to control illegal imports, were contributory factors to the good sales performance. Preferential market sales to Europe and the United States, the export logistics of which were improved by the re-opening of the railway line from Blantyre to Nacala harbour in Mozambique, amounted to about 20% of production.
In terms of the SADC Protocol on Trade, 12 500 tons of sugar was sold into the SACU region whilst the balance was sold into regional markets. A further positive development was the attaining of new European outlets for Sucoma's speciality sugar range.

Sucoma's total sugar production of 260 000 tons of sugar was marginally less than the previous year's all-time record.

Agricultural performance on both estates in Malawi was good, with Dwangwa attaining record sucrose content and a return to the high cane yields previously achieved.

Zambia

Zambia Sugar is the country's principal sugar producer with a 97% share of production and is ranked as one of the world's lowest-cost cane sugar producers. The group holds 90% of the issued share capital with the remaining shares held by private and institutional investors. Zambia Sugar Plc is listed on the Lusaka Stock Exchange.

Agriculture

Agricultural operations were characterised by good weather conditions which resulted in excellent cane yields and good sucrose percent cane for the season. With an average yield of 120 tons of cane per hectare, in excess of 1.2 million tons of cane were produced. In addition, sucrose percent cane was over 15%. Cane harvesting and haulage operations performed well.

Sugar production

The factory produced 230 000 tons of sugar which was marginally below last year's record output. The factory performance was below expectations and the off-crop maintenance programme has been geared to overcoming the problem areas.

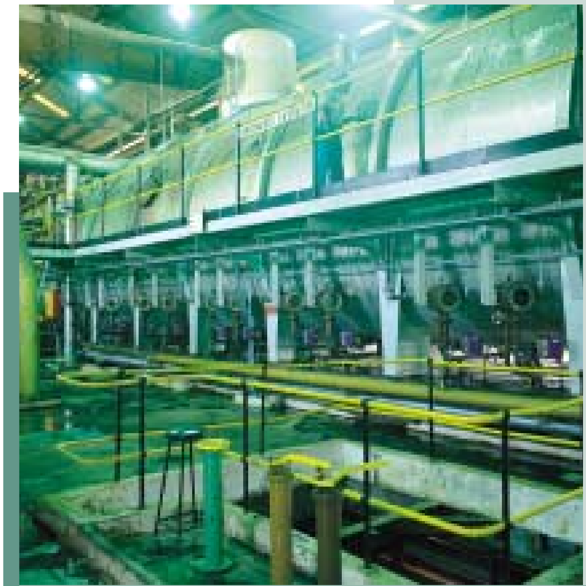
During the summer months, conditions have been favourable for cane growth, rainfall has been well distributed and the number of sunshine hours good. With an anticipated improvement in factory performance, sugar production in 2004/05 is expected to be slightly higher than that of the previous year.

Downstream

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

Marketing

Good sales of about 117 000 tons were achieved in the domestic market despite rising levels of competition from a new local sugar producer which commenced operations during the year. Sugar sold in the domestic market is fortified with Vitamin A in terms of government regulation. Zambia exported approximately 23 000 tons of sugar to preferential markets in Europe. The balance of production was sold into regional markets where prices were negatively impacted by pressure from other producers in the region.



The factory at Mazabuka produced 230 000 tons of sugar which was marginally below last year's record output.

Agricultural operations in Zambia were characterised by good weather conditions. With an average yield of 120 tons cane per hectare, approximately 1.2 million tons of cane were produced.

Irrigation from the Usuthu River and Ubombo's storage dams played a significant role in sustaining the crop during a season which was affected by dry weather conditions.

Swaziland

The group has a 60% share in Ubombo Sugar Limited with the balance of shares held on behalf of the Swazi nation by Tibiyo Taka Ngwane. Swaziland is ranked amongst the ten lowest-cost sugar producers in the world.

Agriculture

Total cane production amounted to 770 000 tons in a season affected by the very dry weather conditions which impacted upon both cane yields and quality. Irrigation from the Usuthu River and Ubombo's storage dams played a significant role in sustaining the crop during the dry periods. The one advantage of the drier conditions was the slight increase in the sucrose content of cane.

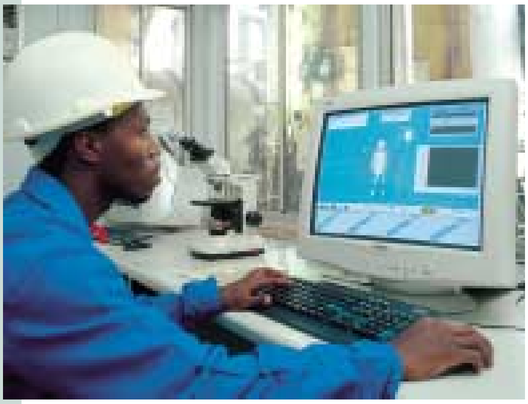
Sugar production

The Ubombo factory produced a record 216 000 tons of sugar, with other highlights being the achievement of a new daily crush record and best-ever refined sugar output of 102 000 tons. Low cane purities impacted on sugar recoveries in the early part of the 2003/04 season.

It was extremely dry at the beginning of this summer, but since the start of the 2004 calendar year the rainfall pattern has been beneficial to cane growth. A later start to the season is expected to result in improved cane quality with sugar production in 2004/05 anticipated to exceed that of the past season.

Marketing

The Swaziland Sugar Association markets all sugar produced in Swaziland. Sugar sold into the local SACU market comprised about 54% of production, with 26% sold to preferential markets in Europe and the United States and the balance into regional markets and on to the world market. Molasses produced is sold primarily to local distilleries.



The Ubombo factory produced a record crop of 216 000 tons of sugar with a best-ever refined sugar output of 102 000 tons.

An excellent performance from Kilombero's agricultural operations together with ideal weather conditions throughout the season, resulted in record production of 665 000 tons of cane.

Tanzania

Illovo's shareholding in the Kilombero Sugar Company Limited stands at 55%, with 20% of the share capital held by ED & F Man, the London-based commodities group, and 25% by the Government of Tanzania. Kilombero comprises two adjacent agricultural estates and sugar factories on either side of the Great Ruaha River, strategically linked by a low-level bridge. Following the completion of the rehabilitation and redevelopment programme in the previous financial year, Kilombero had an extremely successful season with both agricultural and milling records broken.

Agriculture

Total cane production amounted to a record 665 000 tons, representing a 13% increase over the previous year.
In addition to an excellent performance from the agricultural operations, weather conditions throughout the season were ideal, providing favourable conditions for harvesting and haulage of cane to the factories. Kilombero's outgrowers exceeded expectations with a record production of 430 000 tons of cane, approximately 170 000 tons more than in the previous season.

Sugar production

The good weather conditions also assisted factory operations and both sugar factories performed well with excellent time efficiencies. The record production of 127 000 tons of sugar significantly exceeded all previous levels of output, representing a 30% increase over the previous year's record.

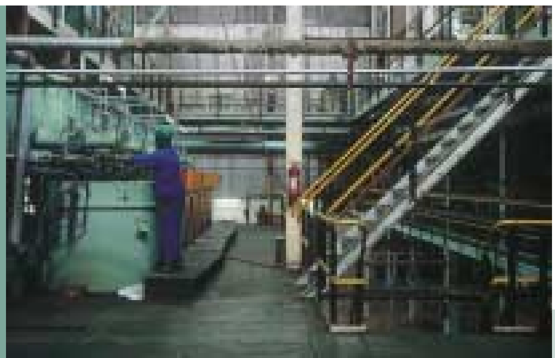
The weather at Kilombero has been generally favourable during the past few months and the cane crop has responded well to these conditions. The off-crop maintenance programme has progressed smoothly and a further increase in sugar production in the 2004/05 season is anticipated.

Marketing

The early start to the milling season set the tone for what was an excellent year of local market sugar sales.
In addition to capturing markets traditionally held by the competition early in the season, Kilombero's increased focus on national distribution together with the general absence of illegal imports resulted in a significant improvement in local market penetration. Local market sales amounted about 120 000 tons with approximately 10 000 tons being shipped to preferential markets in the European Union. Kilombero's share of industry production increased to 58% during the year.

Refined sugar in Tanzania is currently supplied by imports. The company is constructing a refinery which will provide sufficient white sugar to satisfy domestic requirements. The project is progressing smoothly with refined sugar supplies anticipated to reach the market in August 2004.

In addition to capturing markets traditionally held by the competition early in the season, Kilombero's increased focus on national distribution together with the general absence of illegal imports resulted in a significant improvement in local market penetration.



Kilombero's record production of 127 000 tons of sugar significantly exceeded all previous levels of output.

Good agricultural practice at Maragra resulted in the production of 290 000 tons of cane, an improvement of 110 000 tons over the previous year.

Mozambique

Illovo holds a 76% share in Maragra Açúcar Sarl. Following the completion of the rehabilitation and redevelopment programme last year, the 2003/04 season will be noted for positive progress made by both the field and factory operations.

Agriculture

In general, cane yields reflected a major improvement due to good agricultural practice which resulted in the production of 290 000 tons of cane, an improvement of 110 000 tons over the previous year.

Sugar production

The factory experienced a considerable improvement with an all-time record production of 62 000 tons of sugar, representing a 22% increase over the previous year. Good mechanical and operational efficiency of the plant resulted in many crush and other factory records being broken through the season. A major disappointment was the heavy July rains which resulted in a two-week production stoppage due to cane not being able to be delivered from water-logged fields and impassable roads. However, once operations had recommenced, the factory quickly returned to good operating levels.

It was hot and dry during December / January but since then, above average rainfall has been experienced. Drainage has coped well with the heavy rains and the crop is looking reasonable. Sugar production is expected to be marginally above that of the 2003/04 season.

Marketing

The 2003/04 season saw a considerable improvement in local market sales due to several initiatives undertaken to enhance the distribution of sugar to all parts of the country. The industry's central selling organisation continues to consolidate its position in the local market which, with the support of government across many areas, including continued efforts to prevent illegal sugar imports, is resulting in more effective market penetration. In addition, the industry is benefiting from the commencement of refined sugar supplies to industrial users. The re-introduction of the bulk sugar rail service between Maragra and the Maputo sugar terminals to facilitate world raw sugar exports was an important milestone. Maragra's local market sales amounted to approximately 27 000 tons with 30% of sugar production being exported to preferential markets in Europe and the United States. The balance of production was sold into regional and world markets.

The Maragra factory experienced a considerable improvement in operations with a new record of 62 000 tons of sugar being established.

Monitor produced 155 000 tons of sugar, representing a slight increase over the previous season. Sugar beets supplied by independent beet farmers, prior to processing, are stored at large piling grounds situated adjacent to the factory.

United States

Illovo has a 100% shareholding in Monitor Sugar Company which is located in Bay City, Michigan. The company produces refined sugar from sugar beets supplied by independent beet farmers, from its own molasses produced during the sugar manufacturing process and from molasses purchased from other sugar manufacturers. Monitor also produces several co-products and downstream products.

Sugar production

The 2003/04 beet slicing campaign ended in March 2004 with sugar production of 155 000 tons being slightly above last year's level. This included the production of sugar from the molasses desugarisation plant for which additional molasses was purchased from other producers. Although factory performance was disappointing, the amount of sugar produced per ton of beet was the highest since 1997. The high price of natural gas which is used for steam generation and pulp drying remains a significant obstacle to achieving reasonable profitability.

Downstream

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

Beet contracting for the next campaign has resulted in the same number of acres as last year being secured. An early planting of beets was achieved and at this stage a similar quantity of beets is expected to be delivered for harvesting. Improvements in factory performance are expected and therefore an increase in sugar production is anticipated. The level of sugar sales will, however, depend on the marketing allocation received next year.

Marketing

The US sugar market is currently soft due to a general reduction in the consumption of sugar arising out of the wide-spread promotion of low carbohydrate diets and increased importation of sugar-containing products. Further impacting on sales by domestic producers are a series of free trade agreements being negotiated by the US government, several of which provide increased access to the market for trading partners. Domestic sugar producers and processors are operating under a system of marketing allocations requiring many, including Monitor although to a limited extent, to hold back sugar from the market as consumption declines and imports increase. The purpose of the programme is to support sugar prices by balancing supply with demand. Sales of beet pulp and concentrated molasses solids were good whilst the development of betaine markets showed significant progress during the period.

TECHNOLOGY, RESEARCH AND DEVELOPMENT

The group continues to benefit from 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. During the year, factories throughout the group were able to improve further on the mechanical and operational efficiencies achieved previously, with many plants operating at best-ever levels.

The group benefits on an ongoing basis from research and development undertaken by the South African Sugar Milling Research Institute, of which Swaziland, Malawi and Zambia 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 downstream products and new applications. 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 resources management and operational strategy are determined by the business needs of each operational entity with direction from the corporate office. The company is the largest sugar producer in Africa and is committed to being a world class organisation which requires skilled and committed employees who are challenged to make a difference in their areas of work, are rewarded for "going the extra mile" and who have the opportunity to achieve their full potential. Strategies that complement this and that appropriately embrace the macro-environment prevailing in each country of operation continue to be implemented. The group's goals and objectives as contained in its strategic intent provide for the alignment of these strategies and bring cohesiveness to the group.

As a multi-national company with diverse and widespread senior management teams in several operating countries, regular communication forums and executive-led site visits are undertaken, serving to strengthen the communication throughout the group. This is reinforced through the group's Business Understanding Programme which all employees attend, promoting an understanding of the prevailing business climate at both the operational and group levels.

A changing business environment requires that the group adopts a performance culture and a work ethic of continuous improvement, whereby short to medium term performance targets are set and operations are structured to best meet such targets.

Key areas of human resource focus include targeted manpower succession planning; performance management; the maintenance of collaborative industrial relations; human resource development and business understanding; Black economic empowerment-linked employment equity and localisation programmes; and the health and welfare of employees and their dependants. Specific attention is given to:

- The ongoing need to staff all operations within effective organisational structures, with competent personnel both from an operational and managerial perspective. The development and retention of technical and leadership talent has further placed a high focus on manpower succession and career path planning, especially within the group's identified key disciplines and positions. During the year under review existing employees filled 87% of all vacancies.
- The continued development and implementation of performance management systems that are linked to individual performance and career development. Remuneration packages remain merit-based and market competitive, whilst performance-related bonus, share purchase and share option schemes have continued to be utilised as incentives.
- Ensuring that sound employee relations remain an imperative if the group is to achieve sustained growth into the future. Trade union involvement is a normal part of this process and some 82% of permanent employees have membership with such unions. Collective bargaining forums which determine the levels of wage rates and other substantive employment conditions are in place in all countries of operation. Aside from a ten-day wage negotiation related strike at Ubombo Sugar in Swaziland, there was no time lost to industrial action across the group during the year under review.
- With cane growing and sugar milling operations in seven different countries, the opportunity to leverage best practice in many areas will continue to be implemented to the fullest extent.
- Wide-ranging training initiatives continue to ensure that personnel are competent in their areas of operation, both from a managerial and technical perspective so as to deliver superior performance as well as to support employment equity and localisation initiatives. The group invested approximately R19 million in this area over the reporting period, of which 49% was for

technical-type training whilst 19% was spent on management / supervisory and leadership development. Examples of certain of the initiatives are the group co-ordinated Business Understanding Programme; adult literacy and basic education programmes in all countries of operation; trade apprenticeships, group co-ordinated engineer–in- training and management trainee programmes presently involving approximately 210 trainees; and the Illovo group Leadership Development Programme attended by a further 20 senior managers in 2003 and bringing to 60 the total number of people who have participated in this programme.

During the year, the group invested approximately R19 million in wide-ranging training initiatives undertaken to ensure that personnel are competent in their areas of operation.

Employment equity

The company promotes equal opportunity and fair treatment in employment through the elimination of unfair discrimination. It encourages inclusiveness with regard to human resource practices, irrespective of race, gender, nationality and religious affiliation.

In South Africa, an ongoing transformation process has entailed the implementation of measures largely aimed at achieving a more equitable representation of designated groups, as defined in legislation, across all occupational categories and levels.

Progress is being monitored through constituted local forums and a Central Co-ordinating Forum at group level. During the year, a report was submitted to the Department of Labour outlining progress with respect to the group's Employment Equity Plan. The table below show statistics contained in the submission for designated groups over the past two calendar years -

Representative areas as per submission	% designated 2002	% designated 2003
Management level	39	47
Skilled level	78	78
Promotions (all levels)	94	93
External recruitments (all levels)	83	85
Promotions (management/skilled)	84	84
External recruitments (management/skilled)	61	69
Skills development initiatives (permanent employees)	89	86
Management trainees	90	80

Focus continues to be given to designated appointments in the more senior levels of management where there is shown to be an under-representation.

Complement

The group's overall permanent manpower complement as at 31 March 2004 stood at 16 743, a decrease of 3% compared to the previous year, employed in the following categories -

Sugar manufacture	8 521
Agriculture	7 890
Downstream	332

In addition, at peak periods during the year, approximately 25 000 seasonal employees were engaged in agricultural operations.

Managed health care

Access to health care is provided to all employees and their dependants either through the network of group-run primary health care clinics and hospitals or through the provision of medical insurance schemes. In support of the group's overall medical activities, the company attempts to ensure the health of employees and their dependants by addressing public health issues such as the provision of potable water and sanitation, where these are deficient.

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

Illovo strategies towards controlling the spread of HIV/AIDS include preventative awareness programmes along with an established 'Wellness Programme' for those afflicted. These programmes continue to be developed in accordance with appropriate 'best practice' aligned to international standards.

They involve 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.

Determining the impact of any HIV/AIDS intervention is difficult, largely due to the confidentiality restrictions with respect to the testing and recording of the disease. However the company's commitment towards managing the effects of HIV/AIDS recognises the importance of voluntary counselling and testing, because it enables individuals to become aware of their HIV status, and empowers people to act safely and responsibly, and is therefore key in controlling the spread of the disease. To this end the company last year launched a heightened campaign in this area for employees to 'get to know your status'. People diagnosed as being HIV positive are encouraged to join the voluntary wellness programme. Government interventions on the provision of anti-retroviral drug therapy are being closely monitored.

In respect of malaria, the group subscribes to the African continent's recognised 'Roll Back' malaria programme, and mosquito control spray programmes continue to be carried out in areas most affected. This, together with established laboratory testing facilities to enable early detection, are having an encouraging impact with a further reduction in the number of positive cases being reported to the group's health care facilities.

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Employee benefits and welfare

The group offers a diverse range of benefits and is 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;
- Upliftment of life skills of employees through the provision of Adult Basic Education and Training (ABET), retirement planning; HIV/AIDS education and counselling.

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, 898 houses have been transferred to employees, whilst purchase commitments for a further 53 have been received. This represents 89% of the houses made available for sale. Further progress has been made towards township proclamation at Ubombo Sugar in Swaziland and 380 houses are expected to be made available for sale to employees in the current 2004/05 season.

At Ubombo in Swaziland, 380 houses are expected to be made available for sale to employees in the current 2004/05 season.