Don MacLeod
Managing Director

FINANCIAL RESULTS

During the past year the group experienced disappointing financial results despite good operational performances by the agricultural estates and the factories. The results were negatively impacted by the continuing strong rand on both sugar and downstream exports and the translation of foreign profits, the stronger local currencies in the African operations outside South Africa, lower local sugar prices in real terms in South Africa and Swaziland and reduced cane and sugar production in South Africa due to adverse weather conditions. As a result, headline earnings for the year ended 31 March 2005 were R142.8 million, a decrease of R94.8 million compared to the restated earnings of R237.6 million for the previous year. Headline earnings per share were 42.6 cents, which is 40% below last year.

Group turnover decreased by R1 345.2 million to R5 143.0 million whilst operating profits fell to R405.6 million. The operating margin decreased to 8%. Financing costs decreased significantly from R256.4 million to R153.5 million, whilst taxation reduced considerably to R82.9 million. The effective tax rate, excluding abnormal items, was 23%. Profit after tax decreased to R90.0 million.

Cash generation was strong and group borrowings of R794.7 million reflect a material decrease of R571.6 million. Gearing of 49% showed a good improvement compared to the previous year.

The contributions made to operating profit were sugar production 68%, cane growing 16% and downstream 16%, and by country were South Africa 13%, Malawi 34%, Zambia 38%, Swaziland 5%, Tanzania 17%, Mozambique (1)% and the United States (6)%. The operation in the United States was sold with effect from 30 September 2004.

In the trading statement issued on 20 January 2005, it was advised that the percentage decrease in headline earnings for the year was expected to be between 50% and 60%. The improvement to 40% is due mainly to better production, sales and prices in downstream operations in South Africa, cost reductions across the group and increased domestic sugar sales in Malawi and Tanzania.

Accounting Standards AC501 (Accounting for Secondary Tax on Companies ((STC)) and AC140 (Business Combinations) were adopted during the year.

OVERVIEW

The group's operational performance in 2004/05 was good with near-record sugar production in Malawi, Zambia and Tanzania, a fine performance at the furfural downstream plant and record ethyl alcohol production at the Merebank distillery in South Africa. In addition, domestic sugar sales in almost all of Illovo's countries of operation rose to new levels through improved distribution and marketing arrangements.

Agriculturally, good operational performance resulted in improved cane production in Malawi and Zambia, whilst marginally lower deliveries compared to last year were achieved in Tanzania, Mozambique and Swaziland. The notable decline in cane output was in South Africa where due to large-scale farm sales and adverse weather conditions,

Group cane production amounted to 5.257 million tons.

production was materially lower than that achieved in the previous season. The farm sales were largely Black economic empowerment (BEE) deals. In total, group cane production amounted to 5.257 million tons which was approximately 7% less than in 2003/04.

Sugar production in Malawi, Zambia, Tanzania, Mozambique and Swaziland was similar to that achieved last year, although unfavourable weather conditions impacted slightly on initial expectations of new record output in certain areas of operation. In South Africa, sugar production was significantly down on the previous season due to the sale of the Gledhow mill and adverse weather conditions. Factory performance across the group was generally very satisfactory and performance related records were broken at several of the factories. The Monitor Sugar operation in the United States was sold prior to the beginning of the new sugar campaign. Final sugar production for the season was 1.777 million tons, representing a 25% decrease compared to that of last year.

Capitalising on the good gains in 2003/04, domestic sales of sugar in almost all countries of operation were better than previously achieved. Various retail, trade and other marketing and distribution initiatives to promote sugar offtake and to counter increasing competitor activity and illegal imports, were undertaken during the year. New regional markets were also established.

The furfural downstream plant at Sezela was constrained by reduced cane throughput at the sugar factory. However, plant operating performance was very good. The Merebank distillery performed very well with record production of ethyl alcohol being achieved. The performance of the lactulose plant and the Glendale distillery also improved. Export and domestic sales of all downstream products were good.

The commercialisation of furfural as an agricultural chemical is progressing steadily with further registrations having been received in South Africa. However, sales were below expectation. Registration in the United States is being pursued.

On the back of a global sugar production deficit, world raw sugar prices, whilst remaining volatile throughout the season,

The Merebank distillery performed very well with record production of ethyl alcohol being achieved.

saw a welcome upward adjustment during the year, rising from the nearby futures price of US7.15 cents/lb in March 2004 to over US9.00 cents/lb by March 2005. However, prices have declined recently to around US8.50 cents/lb. In the medium term raw sugar prices are expected to remain at their recent higher levels. Illovo also benefited from the premiums achieved from regional sales. In general, white sugar premiums were marginally lower than those received in 2003/04.

During the year, normal capital expenditure amounted to R159.9 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 product quality meets world standards. In addition, during the year, the company acquired the operating leases in respect of various buildings amounting to R172.2 million. The depreciation provided for the period was R180.2 million.

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 67% to total revenue whilst exports to 93 countries contributed the balance. A significant strength of the group is that 70% of sugar production by volume and 85% by value was sold into stable domestic or premium-priced export markets.

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 1.707 million tons, about 80% being refined sugar and the balance brown sugar. The South African sugar industry supplied 1.268 million tons, Swaziland 311 000 tons and Zimbabwe and other SADC sugar producing countries 128 000 tons.

In South Africa, approximately 54% of total output is sold into the domestic SACU market. Illovo Sugar (Malawi) Limited (previously The Sugar Corporation of Malawi Limited) is the country's sole sugar producer and in the 2004/05 season, domestic sales comprised approximately 57% of total sales. Approximately 92% of Zambia's sugar output is produced by Zambia Sugar Plc and 47% of total sales was sold locally. In Swaziland, Ubombo Sugar Limited is one of three producers and its production constitutes about 35% of the country's total output. Swaziland's domestic sales in 2004/05 amounted to about 50% of total sales. 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, about 91% of Kilombero Sugar Company's total sales went into the domestic market. Sugar production in Mozambique, which has four sugar producers, currently amounts to about 205 000 tons. Approximately 55% of Maragra Açúcar Sarl's total sugar sales in 2004/05 were sold domestically.

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, are traditionally sold on the local South African market, whilst Crop Guard is presently produced exclusively for the domestic market.
In South Africa and Zambia, a range of syrups and speciality sugars are produced mainly for the domestic markets.

Domestic sugar sales are very important to Illovo and, in Malawi, constituted 57% of total sales during 2004/05.

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. During the year, both Zambia and Mozambique were benefactors of the reallocation of the Barbados Protocol Sugar quota, increasing the group's preferential exports from its countries of production outside South Africa to 183 000 tons. Combined, Malawi, Zambia and Mozambique supply 22 000 tons of sugar into the SACU market in terms of the SADC Sugar Protocol.

World markets

More than 100 countries produce sugar, 74% 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 mainly 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, 70% 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 in 2004/05, Brazil, the EU, Australia, Thailand and Guatemala, are expected to supply approximately 79% of all world free market exports. South Africa is the ninth largest exporter.

World raw sugar prices, whilst remaining volatile throughout the season, saw a welcome upward adjustment, rising from the nearby futures price of US7.15 cents/lb in March 2004 to over US9.00 cents/lb by March 2005. However, prices have declined recently to around US8.50 cents/lb. During the period under review, prices spiked to US9.32 cents/lb in October 2004 and to US9.89 cents/lb in January 2005. The most important change in the world market was the change by India from being a net exporter to a net importer of sugar as drought-affected domestic production fell from approximately 22 million tons in 2002/03 to an estimated 12.5 million tons in 2004/05. In addition, global export availability was further curtailed with production declines in Thailand and Cuba, and increased demand for sugar from China. The resultant world sugar production deficit for 2004/05, currently estimated at 3.5 million tons, placed upward pressure on world sugar prices. Significantly, whilst Brazil remains the world's largest sugar producer, increased domestic and export demand for ethanol, against the backdrop of rising world oil prices, is expected to limit the increase in that country's sugar exports in 2004/05.

As a major exporter to the world market in 2004/05, the South African Sugar Association (SASA) exported 665 000 tons of raw sugar on behalf of producers. Exports realised around R1.272 billion. Refined and direct consumption raw sugar exports amounting to 353 000 tons were undertaken by the producers themselves.

Bulk sugar exports to the world market from Illovo's South African operations amounted to 38% 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 most of the world markets in which it participates and exports furfural, furfuryl alcohol, diacetyl, 2.3-pentanedione, ethyl alcohol, lactulose and certain speciality sugars to 74 countries. In the financial year under review, downstream product sales contributed R509.1 million to group revenue.

Regional sales made by South Africa, Malawi, Swaziland and Zambia benefit from premiums above the world price due to various competitive advantages.

The 2004/05 cane crop, amounting to 508 000 tons, was impacted by large-scale farm sales and adverse weather conditions. Accumulative sales of cane land to Black medium-scale farmers and to BEE companies now represent 50.1% of the company's previously owned cane lands.

OPERATIONS

SOUTH AFRICA

Illovo is South Africa's largest sugar producer with its operations strategically located across the eastern section of KwaZulu-Natal, maximising the benefit of a wide geographic spread and incorporating the coastal, midlands and northern-irrigated cane growing regions.

In the 2003/04 season, the company's South African operations comprised five sugar cane estates, seven sugar factories, four sugar refineries and six downstream plants. Early in the 2004/05 season, the sale of the Gledhow sugar mill, refinery and cane growing estates to a BEE company was finalised whilst the sale of the Umfolozi sugar factory, also to a BEE company, was effected at the end of the financial year. The combined sugar production of these operations amounted to 28% of Illovo's total South African output and 11% of that of the South African sugar industry. The combined effect of the sales reduces the company's number of cane estates to four, its sugar factories to five and its refineries to two. Parts of the Umfolozi refinery and the packing plant, which were excluded from the sale, are to be moved to the Noodsberg and Pongola factories in order to increase and optimise refined sugar output and packing operations at those plants.

Agriculture

Large-scale farm sales, dry conditions and the effect of severe frost which occurred at Noodsberg in 2003, resulted in a significant decline of the cane crop with final production of 508 000 tons being almost 40% lower than that of the previous year. Rainfall remained well below the long-term average for most of the season and, as a result, both company and private-grower cane estimates fell throughout the period, with lesser declines at Pongola and Umfolozi which benefited from irrigation.

Welcome rains and good growing conditions in the first four months of the year have improved prospects for a better cane crop in the 2005/06 season.

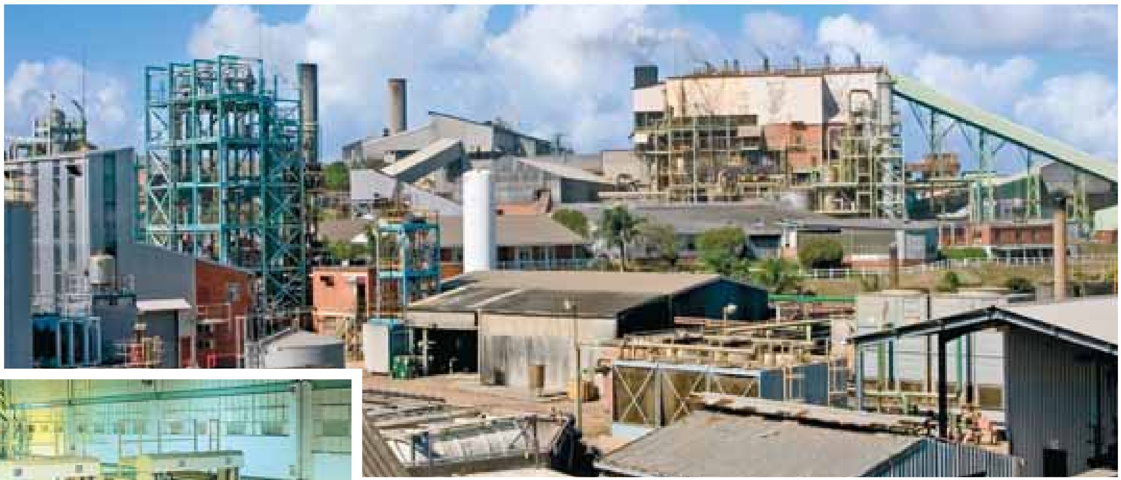
Accumulative sales of cane land to Black medium-scale farmers and to BEE companies now represent 50.1% of the company's previously owned cane lands.

As a result of the adverse weather and difficult economic conditions, cane deliveries from small-scale growers during the year declined to 583 000 tons, representing a decrease of approximately 42% from that of the previous year, whilst medium-scale farm cane deliveries reduced to 230 000 tons. The company continues to support the operations of these growers and during the year was successful in obtaining grant funding from the Department of Agriculture of R3.4 million for the re-establishment of small-scale grower cane land and R2.5 million to be allocated amongst medium-scale growers for ratoon management.

Sugar production

Sugar output of 884 000 tons was significantly lower than the previous year due to the sale of Gledhow, the impact of the dry weather and the severe frosting of cane which occurred at Noodsberg in 2003. The mills generally operated well throughout the season with good mechanical and operational

The Sezela downstream plant performed well despite reduced raw material supplies due to lower cane throughput at the sugar factory.



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.

performances. Milling extraction and mechanical efficiency records were achieved by Umzimkulu and Sezela and time efficiency records by Umzimkulu and Eston. However, recovery of sugar from cane was marginally down on the previous year due to lower cane purities. Despite the sale of Umfolozi, sugar output in the 2005/06 season is expected to be only marginally less than the output achieved in 2004/05 due to the better growing conditions experienced in the summer months and the diminishing effects of the Noodsberg frost.

Downstream

Although raw material supplies were reduced by lower cane throughput at the sugar factory, the Sezela downstream plant performed well with final production of furfural and furfuryl alcohol declining by around 8% compared to the previous year. The diacetyl plant suffered from quality problems during the season. This, and lower raw material supplies, reduced output. The quality problems have been resolved and diacetyl production has returned to normal with the benefit of the expanded plant anticipated in the 2005/06 season. The Merebank distillery continued to operate at consistently high throughput levels and record alcohol production was achieved. The lactulose plant at the same complex performed well, whilst the Glendale distillery's performance improved. Syrup production was steady.

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.

Revenue earned from South African domestic sugar sales constituted 77% of total revenue from sugar sales. Illovo has established itself as the major supplier to the industrial market. In an initiative to improve costs, service levels and efficiencies in the company's outbound distribution operations, Illovo sold its South African sugar distribution and warehousing activities to Barloworld Logistics with effect from 1 June 2004.

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 2004/05 season, approximately 60 000 tons of sugar were exported on behalf of Illovo to a range of African and other countries. Illovo's refined sugar exports continued to benefit from good white sugar premiums.

Illovo's raw sugar exports to the world market, undertaken by SASA, amounted to about 334 000 tons. The average price realised by the industry for these exports, including hedging activities undertaken by SASA, was US7.56 cents/lb. Early forward cover taken by SASA in respect of export proceeds considerably lessened 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 rates for the year. In respect of the 2005/06 season, around 388 500 tons of world market sugar have been priced by SASA at US9.07 cents/lb.

Demand for molasses in the local market remains strong. During the past season, the industry sold approximately 800 000 tons of molasses into the domestic market. This

represents an increase of around 25% compared with sales achieved three seasons ago. Increased production capacity in the fermentation sector and a marked increase in the usage of molasses in the animal feed segment are responsible for this step change in demand. Exports have declined as a consequence of this higher domestic offtake.

Strong demand for furfural and furfuryl alcohol in Europe resulted in increased prices being achieved for both products. A combination of factors affecting the furfural and furfuryl alcohol industry in China, including increased production costs and greater demand for both products from within the country itself, together with the withdrawal of a Thai producer supplying the EU market, resulted in significant shortages in Europe. As a consequence, prices improved progressively throughout the year. Strong demand for the products was also experienced in the United States with a welcome increase in prices. Current price levels are expected to continue in the short term. Diacetyl sales were good.

The ongoing negative economic conditions within the South African agricultural sector, particularly in the maize and groundnut industries, impacted on Crop Guard sales during the year. However, efforts to increase Crop Guard's current list of registrations for its use as a nematicide continued, resulting in approvals being obtained from the Department of Agriculture in respect of sugar cane, tobacco, onions, lettuce and carrots. New arrangements have been put in place to improve the distribution of the product to all sectors of the local agricultural industry. Steady progress is being made in obtaining registration in the United States.

Ethyl alcohol export sales were hampered by the congestion delays which were experienced at the Durban port at the commencement of the 2004/05 season. However, dispatches improved significantly during the second half of the year as a global shortage of potable alcohol arose. In general, domestic sales of ethyl alcohol were good. Export sales of lactulose were ahead of expectations, and a new supply agreement was concluded with a customer in the premium-priced United States market.

Export sales of lactulose in 2004/05 were ahead of expectations. Significant storage and shipping benefits arise out of the use of 1 kilolitre "Octoboxes" which, once decanted by the customer, are collapsed and returned to the Merebank plant in Durban where they are recycled for reuse.

At Dwangwa, excellent cane yields, in addition to weather conditions conducive to efficient harvesting, resulted in a good cane crop of 661 000 tons

The factory at Nchalo performed well and total production for the company amounted to 257 000 tons, marginally below the record production achieved in 2003/04.

MALAWI

During the year, the name of the group's operating subsidiary was changed from The Sugar Corporation of Malawi Limited to Illovo Sugar (Malawi) Limited. The company is Malawi's sole sugar producer with two operations, Dwangwa in the centre of the country and Nchalo in the south, and is listed on the Malawi Stock Exchange. The Illovo group's shareholding in the company amounts to 76% with the balance of shares held by Malawian institutional and private investors.

Agriculture

At Dwangwa, excellent cane yields, in addition to weather conditions conducive to efficient harvesting, resulted in a good cane crop of 661 000 tons. Combined with Nchalo, where cane yields were affected by power outages restricting irrigation in the summer growing season and above average rainfall when harvesting commenced, total cane production amounted to 1 877 000 tons, which represented a small increase over last year. However, the sucrose content in cane was slightly reduced. Increased production of 188 000 tons of cane was achieved by local Malawian growers.

Sugar production

Record sugar production of 104 351 tons was attained by the Dwangwa milling operation which benefited from good sucrose recoveries from cane. The factory at Nchalo performed well and total production for the company amounted to 257 000 tons, marginally below the record production achieved in 2003/04. Currently, normal summer rainfall and excellent sunshine hours have combined to promote healthy cane growth on both estates and prospects for production in the coming season are encouraging with record sugar output forecast.

Downstream

Nchalo produces various speciality sugars which are sold to European markets at price premiums, whilst small quantities are also sold into the United States. Illovo Sugar (Malawi) is a minority shareholder in the Ethco Distillery at Dwangwa, which utilises molasses from the company.

Marketing

Various steps to increase sales resulted in a strong upward trend in domestic sales, which constituted about 57% of total sales for the season. Full advantage was taken of Malawi's access to preferential markets in Europe and the United States, and of the SADC Sugar Protocol quota. Regional sales remained strong and new markets in Rwanda and Burundi were established. Speciality sugar sales to new EU customers were encouraging.

Various steps to increase sales resulted in a strong upward trend in domestic sales.

The total amount of cane crushed and the recovery of sucrose from cane for the season both ended at levels higher than the previous year. Total sugar production at Nakambala in 2004/05 amounted to 232 000 tons.

Promotional campaigns initiated by Zambia Sugar across all sectors in the domestic market were largely successful in counteracting the presence of two other national sugar producers.

ZAMBIA

Zambia Sugar Plc is the country's principal sugar producer with a 92% share of production and is listed on the Lusaka Stock Exchange. The Illovo group holds 90% of the issued share capital with the remaining shares held by private and institutional investors. The operation is based at Nakambala adjacent to Mazabuka in the south of the country.

Agriculture

The agricultural operations performed well, despite heavy and abnormal rains in October 2004, which affected cane and sucrose yields. While marginally down compared to the previous season, the operation continues to benefit from excellent cane yields of over 115 tons of cane per hectare. Total cane production of 1 260 000 tons was similar to last season's output. Commercial and small-scale farmers supplying sugar cane to the factory produced 539 000 tons, marginally below last year's performance.

Sugar production

Factory performance for the year was improved, with a throughput rate exceeding 390 tons of cane per hour being achieved. Despite the impact of the October rains, the total amount of cane crushed and the recovery of sucrose from cane for the season both ended at levels higher than the previous year. Total sugar production at Nakambala in 2004/05 amounted to 232 000 tons. Drier than normal conditions were experienced in the early part of 2005, but full-scale irrigation combined with good sunshine hours has resulted in good growing conditions with an increased sugar output expected in 2005/06.

Downstream

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

Marketing

The presence of two other national producers in the Zambian local market put pressure on domestic sales. However, intensive promotional campaigns initiated across all sectors limited the reduction in company sales compared to the previous year. Preferential sales to Europe of 36 000 tons included 14 750 tons of sugar allocated to Zambia in terms of the EU Sugar Regime's reallocation of the Barbados Protocol Sugar quota. The annual tonnage awarded to Zambia amounts to 7 215 tons, however the 2004/05 season shipment included the previous year's back-dated allocation. Preferential sales in terms of the SADC Sugar Protocol were also undertaken, whilst sugar sales into the region experienced another good year.

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.

Ubombo produced 210 000 tons of sugar in 2004/05.

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. The operation is situated at Big Bend, in the south-east of the country.

Agriculture

Cane yields at Ubombo were impacted by the dry summer growing period in early 2004. Irrigation from the Usuthu River and Ubombo's storage dams played a significant role in sustaining the crop during the dry period but was not sufficient to supply fully the growth needs of the developing crop. Cane quality and sucrose content in cane was much improved and burn-to-crush delivery delays well managed. Total cane production amounted to 716 000 tons.

Sugar production

The season was characterised by satisfactory factory performance. The factory produced 210 000 tons of sugar, of which 44% was refined. After a dry start to the summer, normal rainfall was received in February 2005 with good falls in March. This, together with favourable sunshine hours, resulted in better growing conditions and enabled irrigation dams to be replenished prior to winter. Sugar production in 2005/06 is anticipated to exceed that of the past year.

Marketing

The Swaziland Sugar Association markets all sugar produced in Swaziland. In addition to strong domestic sales into the local SACU market, preferential sales of sugar to Europe and the United States amounted to 61 000 tons. Sugar was exported on to the world raw sugar market whilst strong regional demand was also experienced. Molasses produced at Ubombo is sold primarily to local distilleries.

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 is situated in the Morogora region in the centre/south of the country and comprises two adjacent agricultural estates and sugar factories on either side of the Great Ruaha River, strategically linked by a low-level bridge.

Agriculture

Weather conditions proved troublesome to operations during the season. Initial dry weather, which impacted on yields, was followed by a wet finish to the season making harvesting and haulage conditions difficult. Total cane production amounted to 622 000 tons. New cane varieties planted at Kilombero are showing great promise and should benefit future cane production on the estate.

The outgrowers once again performed well with a record production of 614 000 tons of cane being delivered from a much-increased area under cane.

Sugar production

Sugar production at Kilombero amounted to about 127 000 tons, which was similar to last year's record. A new refinery was commissioned in August 2004 but the level of tariff protection granted by the government to domestic refined sugar producers is currently proving to be a stumbling block to supplying local industrial users who continue to import world market sugar. Refined sugar sales were therefore below expectation. Milling operations are set to recommence at the beginning of June. Satisfactory growing conditions have been experienced and production is expected to exceed the 2004/05 output.

Marketing

Despite increased competitor activity, domestic brown sugar sales were strong throughout the season with good volumes and prices being received. There has been a noticeable increase in pre-packed sugar offtake. Limited quantities of refined sugar are being sold in the domestic retail market, whilst discussions with the Tanzanian government regarding import protection to domestic sugar producers supplying industrial customers continue. Regional refined sugar sales are also being explored.

Sugar production at Kilombero amounted to about 127 000 tons, which was similar to last year's record.

New cane varieties planted at Kilombero are showing great promise and should benefit future cane production on the estate.

MOZAMBIQUE

The Illovo group holds a 76% share in Maragra Açúcar Sarl. The operation is situated on the eastern coast-line, just north of Maputo.

Agriculture

Estate agricultural operations continued to perform in a satisfactory manner with approximately 275 000 tons of cane delivered to the factory for milling. However, wet conditions impacted negatively on the sucrose content in cane. During the latter part of the year, the estate agricultural operation took over responsibility for the management of two of the private growers' cane farms. Initial efforts are concentrated on improving cane yields. Initiatives to increase production by outgrowers continue to be a major area of focus. Part of this effort is directed at developing small-scale sugar cane agriculture amongst local Mozambicans, and it is pleasing to note that donor funding for the establishment of 10 hectares of seed cane was secured recently.

Sugar production

The factory performed well throughout the season with higher than forecast recovery of sugar from cane being achieved. In September, the weekly extraction record was broken twice and time efficiency achievements were the best ever attained. However, as a result of lower sucrose levels in the cane, sugar production of 58 000 tons was less than forecast. In July 2004, the factory was awarded a NOSA 3 Star rating which was the first safety grading achieved by the operation. Although the early months of 2005 were generally hot and dry, sufficient irrigation was applied to meet the cane crop demand. A 10% increase in sugar production is expected in 2005/06.

Marketing

The 2004/05 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 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. The industry is also benefiting from an agreement reached to supply industrial users with refined sugar. Maragra's domestic sales amounted to 38 000 tons. As the result of a new export quota awarded to Mozambique by the European Union, following the reallocation of the Barbados Protocol Sugar quota, increased exports to Europe were undertaken during the season. The annual export quota allocation to Mozambique amounts to 6 000 tons but the 2004/05 shipment included the previous year's back-dated allocation. Preferential sugar sales were also made to the United States and into South Africa as part of the SADC Sugar Protocol quota arrangements. The balance of production is sold into regional and world markets.

Estate agricultural operations continued to perform in a satisfactory manner with approximately 275 000 tons of cane delivered to the factory for milling.

At Maragra, the factory performed well. The weekly extraction record was broken twice and time efficiency achievements were the best ever attained.

TECHNOLOGY, RESEARCH AND DEVELOPMENT

The group continues to benefit from well-established in-house resources which 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 Research Institute. These organisations are funded by the member sugar industries.

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.

Approximately 23 100 employees attended the Business Understanding Programme during the course of the year.

HUMAN RESOURCES

Human resource management and operational strategy are determined by the business needs of the group's operating entities with 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 group's goals and objectives provide for the alignment of these strategies and bring about cohesiveness to the group.

A work ethic of continuous improvement that embodies focused, skilled employees who are able to realise their full potential, 'make a difference' in their areas of operation and be challenged to go the 'extra mile', is a pre-requisite to being a world-class organisation.

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 operational and group levels.

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. To this end, specific attention is given to:

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.

- Staffing 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 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 85% of all vacancies.
- Becoming the employer of choice in a skills market that is continually under pressure. To complement this, remuneration packages are merit-based and market competitive in all countries of operation. Incentives such as a performance-related bonus, share purchase and share option schemes are presently utilised and are continually under review for effectiveness.
- Ensuring that sound employee relations prevail. 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 two-day illegal strike at Kilombero in Tanzania, there was no time lost to industrial action across the group during the year under review.
- Training and employee development that remains an important pillar for harnessing the group's human resource talent and potential. These activities are aimed at satisfying both the current and future business needs in terms of skills supply, whilst also supporting employment equity and localisation initiatives. The group invested approximately R21.1 million in this area over the reporting period, of which 38% was for technical-type training whilst 23% was spent on management / supervisory and leadership development. Employee development initiatives include:
  - the building of employees' understanding of the prevailing business context within Illovo (some 23 100 employees attended the group facilitated Business Understanding Programme during the course of the year);
  - the continued development, refinement and implementation of performance management systems, along with ongoing technical competency training, which are linked to individual career pathing and operational excellence respectively;
  - group co-ordinated engineer–in–training and management trainee programmes presently involving approximately 172 trainees;
  - the Training Outside Public Practice programme whereby graduate accountants may now carry out their traineeship within the company in order to obtain the academic qualification of Chartered Accountant (South Africa).
- Leverage of operational best practice across the group.

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, the company's Employment Equity and Income Differential reports, reporting on progress made with the company's Employment Equity Plan, were submitted to the Department of Labour and the Employment Equity Commissioner respectively by due date. The reports show that good progress is being made towards the achievement of the goals set for September 2005. Progress is monitored via a group Central Co-ordinating Forum that includes representation from the local consultative forums which are in place at the various operations.

The table below shows relevant statistics in respect of designated employees as defined in legislation for the past two years:

Representative areas	**% designated**	
	2004	**2005**
Management level	52	51
Skilled level	84	83
Promotions (all levels)	90	93
Promotions (management/skilled)	91	82
External recruitments (all levels)	74	81
External recruitments (management/skilled)	74	61
Skills development initiatives (permanent employees)	89	89
Management trainees	89	87

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 2005 stood at 14 598, a decrease of 14.7% compared to the previous year, employed in the following categories:

- Sugar manufacture 7 053
- Agriculture 7 200
- Downstream 345

In addition, at peak periods during the year, approximately 22 200 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 continues to campaign 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 (ARV) drug therapy are being closely monitored. In Malawi, the company has begun to assist in implementing the government-funded ARV therapy programme at its mill-based medical facilities.

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.

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 which 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.

The company's commitment towards managing the effects of HIV/AIDS recognises the importance of voluntary counselling and testing.