

2006 ANNUAL REPORT



# STRATEGIC INTENT

To:

be the leading sugar and downstream products operation in Africa, an increasing global player and a world-class organisation.

be the lowest-cost producer in every country in which it operates and among the lowest-cost producers in the world.

optimise the return on every stick of cane by adding value to its core commodity products - fibre, sugar and molasses. It will focus on its core business and develop material niche operations which add value.

be the market leader, meeting and proactively anticipating customer needs.

increase profits in real terms on an ongoing basis and maximise the return on capital employed through cost leadership, the use of innovative technology and the participation of all of its employees.

be a moral performance focused organisation that people are proud to work for, where they are challenged to 'go the extra mile', feel they can make a difference and know that good performance is recognised.

be welcomed in the communities in which it operates because of what it does, how well it does it and be accepted as a progressive company by all communities; aligning strategies to meet changing circumstances in the various countries in which the group operates.

be cognisant of the rural locations of the group's operations and the impact that it has on job creation and poverty alleviation in such areas.



Company Registration No. 1906/000622/06

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# FEATURES

## Record production levels

## Strong growth in headline earnings and dividends

## Good cash generation

## Major reduction in borrowings and gearing

|   | Year ended 31 March |                  | Change<br>% |
|---|---------------------|------------------|-------------|
|   | 2006                | 2005<br>Restated |             |
| <b>Results (Rm)</b>                         |                     |                  |             |
| Revenue                                     | 5 468.8             | 5 102.7          | 7           |
| Operating profit                            | 751.5               | 423.7            | 77          |
| Net financing costs                         | 100.9               | 153.9            | (34)        |
| Headline earnings                           | 352.4               | 153.8            | 129         |
| <b>Share performance (cents per share)</b>  |                     |                  |             |
| Headline earnings                           | 104.2               | 45.9             | 127         |
| Dividend (interim - paid; final - declared) | 62.5                | 25.5             | 145         |
| Year-end market price                       | 1 660               | 810              |             |
| <b>Balance sheet and cash flow (Rm)</b>     |                     |                  |             |
| Total assets                                | 3 996.1             | 3 811.9          |             |
| Ordinary shareholders' funds                | 1 425.5             | 1 135.0          |             |
| Net borrowings                              | 441.0               | 801.6            |             |
| Cash generated from operations              | 827.7               | 667.7            |             |
| <b>Financial ratios</b>                     |                     |                  |             |
| Operating margin (%)                        | 13.7                | 8.3              |             |
| Gearing (%)                                 | 24.3                | 54.7             |             |
| Interest cover (times)                      | 7.4                 | 2.8              |             |
| Return on net assets (%)                    | 25.2                | 11.1             |             |
| Net asset value per share (cents)           | 533.2               | 434.7            |             |
| Dividend cover (times)                      | 1.7                 | 1.8              |             |
| Price : headline earnings ratio             | 15.9                | 17.6             |             |

Illovo Sugar is a leading, global, low-cost sugar producer and a significant manufacturer of high-value downstream products. The group is Africa's biggest sugar producer and has extensive agricultural and manufacturing operations in six African countries. Downstream products include furfural, furfuryl alcohol, Crop Guard, diacetyl, 2,3-pentanedione, ethyl alcohol, lactulose and syrup. Illovo is listed on the JSE Limited.

Excellent climatic and soil conditions in the group's countries of operation, accompanied by irrigation from secure water sources, are ideal for the cultivation of high-yielding and excellent quality sugar cane. Annual cane production of approximately 5.5 million tons is produced on agricultural estates in South Africa, Malawi, Zambia, Swaziland, Tanzania and Mozambique. Annual sugar output amounts to approximately 1.9 million tons comprising 900 000 tons produced in South Africa, Malawi 270 000 tons, Zambia 250 000 tons, Swaziland 230 000 tons, Tanzania 140 000 tons and Mozambique 70 000 tons.

A recent independent survey of international sugar production costs covering in excess of 100 sugar producing countries indicated that, of the six countries in which Illovo operates, three are in the top ten lowest-cost producers in the world, and all six are within the top 25.

The group is a major supplier of sugar to African consumer and industrial markets, particularly in its own countries of operation. In Malawi, Illovo is that country's sole sugar producer and in Zambia, manufactures 94% of all local production. The group's share of industry production in South Africa is 36%, Tanzania 52% and Mozambique 28%. Illovo has significant and increasing access to preferential markets in the European Union and the United States, whilst the African operations outside South Africa also have access to the South African Customs Union market in terms of the Southern African Development Community (SADC) Sugar Protocol on Trade. Sugar in consumer packs is supplied into other regional markets within Africa. The group, through the South African, Swaziland and Mozambique industries, also exports sugar into the world free market.

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

In recognition of the group's interdependence with the communities in which it operates, Illovo co-ordinates a wide-range of social investment-related programmes focusing on basic needs such as the provision of water and sanitation, access to health care, education delivery and involvement in community outreach programmes. Illovo also provides considerable extension, training and other support to Black farmers in order to promote sustainable agriculture and economic development activities. Total cane supplies from small and medium-scale growers, including community-based co-operative schemes, amount to two million tons annually, generating revenue of approximately R477 million. Particular attention is given to preferential procurement with the aim of promoting and supporting the development of small and medium-sized businesses which supply goods and services to both cane growing communities and the group.

## 2006



# GOALS AND OBJECTIVES

## Primary objective

- To enhance the wealth of shareholders by optimising the long-term returns and growth of the business.
- To be a world-class organisation and among the most efficient and lowest-cost producers in the world.
- To achieve a balanced and integrated economic, social and environmental performance.

## Growth

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

## Profitability

- To achieve a competitive rate of return on shareholders' funds and increase profits on an ongoing basis in real terms.
- To maintain a dividend cover of between two and three times; this in the light of the economic environment during the past three years, having been increased to 60% of earnings.

## Asset management

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

## Product development

- To be proactive in identifying the needs of our customers.
- To consistently deliver quality products and services to our customers.
- To undertake research and development to improve returns, and develop new products and applications, from its core commodity products using every stick of cane.

## Human resources





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

## Corporate governance

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

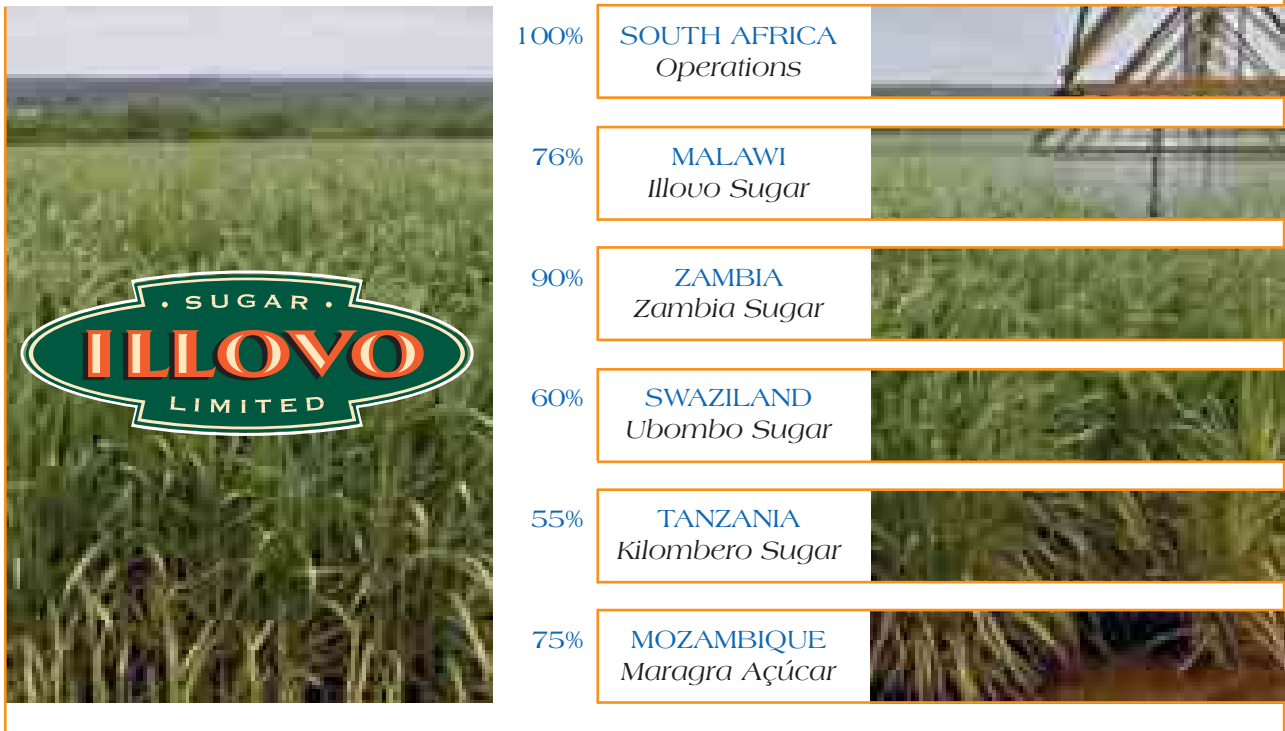
# GROUP LOCATIONS

## SUGAR MILLS AND CANE SUPPLY REGIONS

-  Irrigated
-  Rainfed / coastal
-  Rainfed / inland
-  Downstream plants



# GROUP STRUCTURE



## OPERATIONS

|                     | Operation | Cane growing | Sugar manufacturing | Sugar refining | Sugar packaging | Downstream production |
|---------------------|-----------|--------------|---------------------|----------------|-----------------|-----------------------|
| <b>SOUTH AFRICA</b> | Pongola   |              | ✓                   | ✓              | ✓               |                       |
|                     | Noodsberg |              | ✓                   | ✓              | ✓               |                       |
|                     | Eston     | ✓            | ✓                   |                |                 | ✓                     |
|                     | Sezela    | ✓            | ✓                   |                |                 | ✓                     |
|                     | Umzimkulu | ✓            | ✓                   |                | ✓               | ✓                     |
|                     | Merebank  |              |                     |                |                 | ✓                     |
|                     | Glendale  |              |                     |                |                 | ✓                     |
| <b>MALAWI</b>       | Nchalo    | ✓            | ✓                   | ✓              | ✓               | ✓                     |
|                     | Dwangwa   | ✓            | ✓                   | ✓              | ✓               |                       |
| <b>ZAMBIA</b>       | Nakambala | ✓            | ✓                   | ✓              | ✓               | ✓                     |
| <b>SWAZILAND</b>    | Ubombo    | ✓            | ✓                   | ✓              | ✓               |                       |
| <b>TANZANIA</b>     | Kilombero | ✓            | ✓                   | ✓              | ✓               |                       |
| <b>MOZAMBIQUE</b>   | Maragra   | ✓            | ✓                   |                | ✓               |                       |

# DIRECTORATE

## EXECUTIVE DIRECTORS

### MANAGING DIRECTOR



**D G MacLeod** (59) \* ^ +  
*B.Com., A.M.P. (Oxon)*  
**Managing Director**

Joined the sugar industry 1971  
 Appointed to the Board 1983



**G J Clark** (Australian) (50) ^ +  
*B.Acct.(Hons.), A.C.A.*  
**Operations Director - Africa**

Joined the sugar industry 1980  
 Appointed to the Board 1997



**N M Hawley** (49) +  
*B.Com.(Hons.)*  
**Human Resources Director**

Joined the sugar industry 1978  
 Appointed to the Board 1998



**M I Hlatshwayo** (Swazi) (48) +  
*B.A.(Law)*  
**Corporate Affairs Director**

Joined the sugar industry 1987  
 Appointed to the Board 2003



**J T Russell** (57) +  
*A.C.M.A.*  
**New Projects Director**

Joined the sugar industry 1978  
 Appointed to the Board 1993



**B M Stuart** (58) ^ +  
*B.Com., Dip. Sugar Tech.,  
 S.E.P. (Stanford)*  
**Operations Director - South Africa**

Joined the sugar industry 1968  
 Appointed to the Board 1994



**K Zarnack** (33) ^ +  
*C.A.(S.A.)*  
**Financial Director**

Joined the sugar industry 2005  
 Appointed to the Board 2005

- \* Member of Audit Committee
- # Member of Remuneration/Nomination Committee
- ^ Member of Risk Management Committee
- + Member of Group Executive Committee

# NON-EXECUTIVE AND INDEPENDENT DIRECTORS

## CHAIRMAN



**R A Williams** (65) \* #

*B.A., L.L.B.*

**Director of companies**

Appointed to the Board 1985



**P M Madi** (42) #

*B.Proc., E.D.P.*

**Director of companies**

Appointed to the Board 2002



**A R Mpungwe** (Tanzanian) (55) ^

*B.A.(Hons.)*

**Director of companies**

Appointed to the Board 2001



**B P Connellan** (65)

*C.A.(S.A.)*

**Director of companies**

Appointed to the Board 1993



**I N Mkhize** (43)

*B.Sc.(I.S.), M.B.A.*

**Director of companies**

Appointed to the Board 2005



**R A Norton** (67) \* #

*M.A.(Oxon)*

*Chairman of Remuneration/  
Nomination Committee*

**Director of companies**

Appointed to the Board 1997



**D Konar (Dr)** (52) \*

*C.A.(S.A.), M.A.S.(Illinois), D.Com.*

*Chairman of Audit Committee*

**Director of companies**

Appointed to the Board 1995



**M J Shaw** (67) \* # ^

*C.A.(S.A.), S.E.P. (Stanford)*

*Chairman of Risk Management  
Committee*

**Director of companies**

Appointed to the Board 2001

# SENIOR MANAGEMENT

| Name                           | Qualifications                             | Joined the group | Operational responsibility |
|--------------------------------|--|------------------|----------------------------|
| <b>GROUP</b>                   |  |                  |                            |
| P H Canter (Dr) (59) ^         | MB.Ch.B, D.T.M.&H.                         | 1990             | Medical services           |
| D E Howells (42) +             | C.A.(S.A.)                                 | 1995             | Finance                    |
| G D Knox (57) ^ +              | B.Com.                                     | 1984             | Administration             |
| J M Moulton (57) +             | B.Sc.Eng., Nat.Dip.Tech.                   | 1995             | New projects               |
| D A Rowbotham (61) ^           | C.A.(S.A.)                                 | 1987             | Internal audit             |
| D A Schaller (42)              | B.Com., A.C.M.A.                           | 1999             | Information technology     |
| <b>SOUTH AFRICA OPERATIONS</b> |  |                  |                            |
| W M A Buchanan (56) +          | B.Tech.Mkt., S.E.P. (Stanford), C.M.(S.A.) | 1981             | Marketing                  |
| C H Kyle (56)                  | B.Com., H.D.P.M.                           | 1998             | Human resources            |
| S D Langton (45) +             | Pr.Eng., B.Sc.Eng.                         | 1996             | Raw sugar production       |
| G F Mann (52) +                | Dip.Sugar Tech.                            | 1979             | Refined sugar production   |
| L W Riddle (46) +              | B.Com., C.A.(S.A.)                         | 1986             | Commercial / alcohols      |
| L Bachan (52)                  | B.Sc., M.B.L., Dip.Sugar Tech.             | 1978             | Umzimkulu                  |
| B R Cornish (52)               | B.Com., H.N.Dip.Mech.Eng.                  | 1983             | Eston                      |
| M T Crossman (60)              | B.Sc.Eng., M.B.L.                          | 1992             | Noodsberg                  |
| G B Dalglish (40)              | M.Sc.Eng.Chem.                             | 1990             | Merebank                   |
| J P Hulley (46)                | Dip.Mech.Eng., M.D.P.                      | 1978             | Pongola                    |
| S S Munsamy (51)               | B.Tech.Mgt., P.M.D.                        | 1982             | Sezela                     |
| S Rau (54)                     | B.Sc.Agric.                                | 1981             | Gledhow / Umfolozi         |
| <b>AFRICA OPERATIONS</b>       |  |                  |                            |
| R J de Allende (47)            | B.A.                                       | 1999             | Marketing                  |
| A Koen (61) +                  | Cert.Eng., E.M.P. (Berkeley)               | 1982             | Operations                 |
| <b>Malawi</b>                  |  |                  |                            |
| D Haworth (57) +               | B.Sc.(Hons.)                               | 1999             | Managing director          |
| D H Carter-Brown (56)          | B.Sc.Agric.Eng.                            | 1978             | Dwangwa                    |
| D K E Chaula (36)              | B.Soc.Sc.                                  | 1997             | Human resources            |
| D P R Davies (51)              | Dip.Mkt.Mgt.(I.M.M.)                       | 2003             | Marketing                  |
| G M Mkandawire (59)            | B.Sc.Econ., M.Com.Mktg.                    | 2003             | Commercial                 |
| I G Parrott (39)               | B.Com., C.I.A.                             | 1997             | Finance                    |
| T C Wormald (60)               | Dip.Sugar Tech.                            | 1968             | Nchalo                     |
| <b>Zambia</b>                  |  |                  |                            |
| J P M De Robillard (59) +      | Dip.Sugar Tech.                            | 1974             | Managing director          |
| J A Blumberg (46)              | B.Compt., M.B.L.                           | 1996             | Finance                    |
| D Kabunda (43)                 | B.A.Pub.Admin., M.B.A.                     | 1986             | Human resources            |
| R M L Katowa (45)              | B.A., M.B.A.                               | 1997             | Marketing                  |
| L M Sievu (43)                 | A.C.M.A., A.C.I.S.                         | 2004             | Corporate affairs          |
| P J Van Greunen (41)           | H.N.D.Mech.Eng., G.C.O.C.                  | 1983             | Factory                    |
| H Veenstra (49)                | M.Agric.Mgt.                               | 1990             | Agriculture                |

^ Member of the Risk Management Committee

+ Member of Group Executive Committee

| Name                 | Qualifications                      | Joined the group | Operational responsibility   |
|----------------------|-------------------------------------|------------------|------------------------------|
| <b>Swaziland</b>     |                                     |                  |                              |
| E I Williams (59) +  | Cert.Eng., S.M.S.A.I.E.E.           | 1984             | Managing director            |
| C R Crebo (52)       | B.Com., Dip.Sugar Tech.             | 1984             | Factory                      |
| D W H Cousens (57)   | M.Sc.Eng., M.B.L.                   | 1988             | Commercial                   |
| A H Domleo (46)      | B.Com.                              | 1983             | Agriculture                  |
| J Mashwama (43)      | M.Sc.Soil Science, Dip.I.R.         | 1993             | Human resources              |
| K Rowney (58)        | B.Com.                              | 1992             | Finance                      |
| <b>Tanzania</b>      |                                     |                  |                              |
| D G Coates (55) +    | H.N.Dip.Mech.Eng., G.C.O.C.         | 1983             | Managing director            |
| S Cloete (51)        | G.C.O.C.                            | 1980             | Factory                      |
| A Maenda (53)        | B.A.(Hons.), M.A.                   | 2005             | Commercial / Human resources |
| Z E Mshechu (54)     | M.Sc.Agric.                         | 1998             | Agriculture                  |
| V R Suchak (30)      | C.I.M.A., A.C.C.A.                  | 2000             | Finance                      |
| <b>Mozambique</b>    |                                     |                  |                              |
| A F Currie (53) +    | B.Com., Dip.Sugar Tech.             | 1998             | General manager              |
| M Cotter (50)        | R.C.E., G.C.O.C.                    | 1989             | Factory                      |
| L A Elkington (56)   | B.Compt.                            | 1984             | Finance                      |
| R Giblot-Ducray (50) | Cert.Labour, Cert.Sugar Cane Agric. | 2002             | Agriculture                  |
| P Streng (56)        | B.A.(Law), F.I.P.M.                 | 2001             | Human resources              |

## CORPORATE INFORMATION

|   |   |  |  |
|---|---|--|--|
| <b>Company Secretary:</b>               | G D Knox  | <b>Auditors:</b>                                 | Deloitte & Touche  |
| Business address and registered office: | Illovo Sugar Park,<br>1 Montgomery Drive,<br>Mount Edgecombe, KwaZulu-Natal | <b>Attorneys:</b>                                | Garlicke & Bousfield Incorporated                              |
| Postal address:                         | P O Box 194,<br>Durban, 4000  | <b>Principal Bankers:</b>                        | The Standard Bank Group Limited and<br>First Rand Bank Limited |
| Telephone:                              | +27 31 508-4300   | <b>Sponsor:</b>                                  | J P Morgan Equities Limited                                    |
| Telefax:                                | +27 31 508-4525   | <b>Financial Adviser:</b>                        | The Standard Bank Group Limited                                |
| E-mail:                                 | gdknox@illovo.co.za   | <b>Company Registration No:</b>                  | 1906/000622/06   |
| Website:                                | <a href="http://www.illovosugar.com">www.illovosugar.com</a>                | <b>Share Code:</b>                               | ILV  |
| <b>Transfer Secretaries:</b>            | Ultra Registrars (Proprietary) Limited                                      | <b>International Security Identification No:</b> | ZAE000003547   |
| Business address:                       | 5th Floor, 11 Diagonal Street,<br>Johannesburg, 2001                        |  |  |
| Postal address:                         | P O Box 4844,<br>Johannesburg, 2000   |  |  |
| Telephone:                              | +27 11 834-2266   |  |  |
| Telefax:                                | +27 11 834-4398   |  |  |
| E-mail:                                 | info@ultraereg.co.za  |  |  |