Review of operations

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ILLOVO


Don MacLeod

FINANCIAL RESULTS

Good results were achieved by the group for the year ended 31 March 2007. The group benefited from improved domestic sales, better world and regional sugar prices, an improvement in downstream product export prices, ongoing cost savings, the weaker levels of the rand compared to last year and a further reduction in financing costs. These factors more than offset the negative impact of lower sugar production, primarily in South Africa and Tanzania. Headline earnings increased by 46% to R515.3 million, whilst headline earnings per share increased by 43% to 149.1 cents.

Group revenue increased by R794.8 million to R6 263.6 million, whilst operating profit rose from R751.5 million to R1 034.3 million, resulting in an improved operating margin of 16.5%. Net financing costs reduced from R100.9 million to R96.4 million, whilst taxation increased from R197.3 million to R288.3 million. The effective tax rate, excluding material items, was 30.6%. Profit after tax increased by R197.0 million to R653.8 million.

Cash generation amounted to R997.7 million, whilst group borrowings decreased further from R441.0 million to R271.7 million and gearing from 24.3% to 12.2%.

The contributions to operating profit were: sugar production 59%, cane growing 33% and downstream 8%, and by country, contributions were: South Africa 21%, Malawi 39%, Zambia 22%, Swaziland 7%, Tanzania 9% and Mozambique 2%.

OVERVIEW

Operationally, the group performed well despite a decrease in overall sugar production due to the negative impact of variable weather conditions experienced in certain of the countries of operation. Record production of cane and sugar was achieved in Malawi, and in a number of downstream products manufactured in South Africa.

Cane production of 5.440 million tons was similar to that of the previous season, with most agricultural operations performing well. Cane yields in Malawi were excellent. This performance was against the background of inconsistent weather conditions, particularly in South Africa, and in Tanzania which experienced severe drought conditions followed by very wet weather. Consequently, the milling seasons at Sezela, Umzimkulu and Kilombero were extended. During the year, new irrigated cane fields were developed in Zambia, Malawi and Tanzania.

Factory performance in general was satisfactory with higher levels of mechanical and operational efficiency being achieved. The operation in Mozambique performed well and a number of records were established. In Zambia, during the 2007/08 offcrop maintenance period, the factory was expanded to provide a rate of cane throughput of 425 tons of cane per hour. Group sugar production of 1.719 million tons in 2006/07 was impacted significantly by lower production in South Africa and Tanzania, representing an 8% reduction from that of last season.

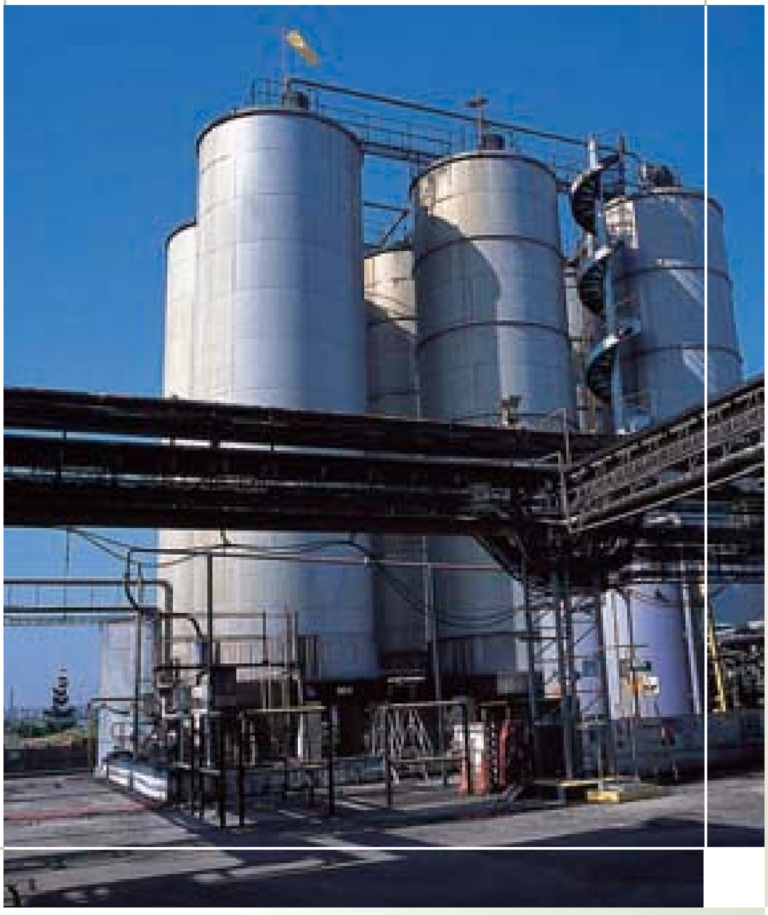
Following the notable increase in domestic market sales in Malawi in 2005/06, sales continued on their upward trend during 2006/07, rising by a further 12%. Domestic sales in South Africa, Zambia and Mozambique also increased, whilst in Tanzania, Kilombero benefited from strong demand and higher prices, although it was constrained by its own production limitations. Sales in Swaziland were similar to those of last year.

The downstream plants in South Africa performed well. At Sezela, furfural production was slightly higher than expected despite a reduction in raw material from the sugar factory as the result of the decreased cane supply, whilst the volume of furfuryl alcohol produced was close to record levels. Record production of diacetyl at Sezela, and ethyl alcohol and lactulose at Merebank was achieved.

Following the increase in world sugar market prices, which commenced in 2005 and peaked at almost US20 cents/lb in February 2006, increased sugar output by producers around the globe, including Brazil, India, China and Thailand, resulted in the two-year global sugar production deficit switching to a surplus in the 2006/07 international sugar season which ends in September 2007. Combined with other factors, such as the lower than anticipated production quota reductions forecast for 2007/08 in the European Union (EU), world prices came under pressure from May 2006 onwards, and were around the US10 cents/lb level at the end of the financial year. Nevertheless, the group benefited from the much improved prices available during the season, thereby increasing revenues from world and regional market sales. Compared to 2005/06, better refined sugar premiums were also achieved.

Total capital expenditure in 2006/07 amounted to R220.7 million, of which expansion capital for projects aggregated R96.0 million. Ongoing capital expenditure ensures that the group's factories are kept in sound condition, that strategic plant is adequately protected against breakdown, and that product quality meets global standards.

The downstream plants in South Africa performed well, with record production of ethyl alcohol and lactulose being achieved at the Merebank plant, south of Durban (pictured), and of diacetyl at the Sezela downstream plant.



Record production of cane and sugar was achieved in Malawi, with total group sugar production amounting to 1.719 million tons.

MARKETS

The group supplies sugar and downstream products to domestic, regional and world markets. Sales to the domestic markets in the countries in which the group operates contributed 64% to total revenue, whilst exports to 110 countries contributed the balance. A significant strength of the group was that 74% of sugar production by volume and 80% by value was sold into the domestic or premium-priced export markets.

Domestic markets

Sugar

The South African Customs Union (SACU) market is of major significance for both the South African and Swaziland sugar industries. During the season, total sales into SACU amounted to 1.774 million tons, about 80% being refined sugar and the balance brown sugar. The South African sugar industry supplied 1.346 million tons, Swaziland 318 000 tons and Zimbabwe and other Southern African Development Community (SADC) sugar producing countries 110 000 tons.

In South Africa, approximately 60% of Illovo's total production was sold into the domestic SACU market. Illovo Sugar is Malawi's sole sugar producer and in the 2006/07 season, domestic sales comprised approximately 70% of total sales. Approximately 91% of Zambia's sugar output is produced by Zambia Sugar and 40% of total sales were sold locally. In Swaziland, Ubombo is one of three producers and its production constitutes about 33% of the country's total output. Swaziland's domestic sales in 2006/07 represented 51% of total sales. Tanzania is a net importer of sugar with annual domestic demand being about 325 000 tons. Aside from relatively small export tonnages sold into preferential markets in the EU, about 90% of Kilombero's total sales were sold locally. Sugar production in Mozambique, which has four sugar producers, currently amounts to about 243 000 tons. Approximately 60% of Maragra's total sugar sales in 2006/07 was sold domestically.

In South Africa and Zambia, a range of syrups and speciality sugars are produced mainly for the domestic markets.

Downstream

Whilst the group's range of downstream products is primarily aimed at export markets, the Merebank and Glendale distilleries remain important 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 in the local South African market, whilst Crop Guard, an agricultural nematicide, is presently produced almost exclusively for the domestic market.

Export markets

Sugar

Preferential markets

The group has significant access to preferential markets in the EU and the United States of America (US) which are supplied by producers with export quotas to these regions at premiums to the world free market price. During the year, the group's preferential exports from its countries of production outside South Africa amounted to approximately 191 000 tons. Combined, Malawi, Zambia and Mozambique supply around 23 000 tons of sugar into the SACU market in terms of the SADC Sugar Protocol. In Malawi, speciality sugars are produced for markets in the EU and the US, whilst Zambia currently produces speciality sugars for the EU market.

During the year, the group's preferential exports to the European Union and the United States of America amounted to 191 000 tons of sugar, sold at premiums to the world free market price. Such exports originating in Malawi and Zambia, benefited from improved transport logistics to the Nacala (pictured) and Beira ports in Mozambique.

World markets

More than 100 countries produce sugar, 78% 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. Generally, the costs of producing sugar from sugar cane are lower than those in respect of processing sugar beets. Currently, 69% of the world's sugar is consumed in the countries 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 2006/07, Brazil, Thailand, Australia, SADC and Guatemala, are expected to supply approximately 80% of all world free market exports. South Africa is currently ranked as the eighth largest exporter to the world market.

Evidence that higher world sugar prices leading up to the price spike of almost US20 cents/lb in February 2006 had influenced increased cane and beet plantings amongst the world's major sugar producers, became clear in May 2006, when forecasts showed that the previous two-year global production deficit was about to change to a position of over-supply in 2006/07. Amongst the major world sugar producers who have expanded their production are Brazil, India, Thailand and China whose combined production increases at the end of the 2006/07 season are forecast to exceed 10 million tons of sugar, contributing significantly to the net global production surplus forecast of almost 6 million tons. An added factor to the high level of projected surplus has been the lower than anticipated production quota reductions forecast for 2007/08 in the EU, pursuant to the sugar regime reforms introduced last year. In response, the European Commission has imposed a 13.5% cut in EU domestic quotas which, in 2007/08, is expected to reduce production by about two million tons of sugar. The overall affect of higher global production has impacted on world prices which, from May 2006, have trended downwards to a low of US9.85 cents/lb in March 2007. The near to medium-term outlook will be dependent on a number of critical factors, including how much of its increased sugar production India may export, the size of the 2007/08 Brazilian cane crop and, against the background of rising demand for ethanol, the amount of cane Brazil sets aside for fuel-ethanol production and, to a lesser extent, other factors such as Russian demand for increased sugar imports, and normal global sugar consumption growth which increases at about 2% per annum.

As a major exporter to the world market in 2006/07, the South African Sugar Association (SASA) exported 888 000 tons of raw sugar on behalf of the producers. Exports achieved an average price of US14.92 cents/lb, compared to US9.79 cents/lb in 2005/06, and realised around R2 billion. Refined and direct consumption raw sugar exports, amounting to 242 000 tons, were undertaken by the producers themselves.

Bulk sugar exports to the world market from Illovo's South African operations were slightly lower than last year, representing 40% of production, whilst a small export cargo was undertaken by Swaziland. South Africa, Malawi, Mozambique, Swaziland and Zambia exported sugar to a number of regional markets, where selling prices are related to the world market price. In all instances, however, premiums above the world price are achieved as a result of various competitive advantages. Demand was strong and with the higher regional prices, sales to these regions during the year were increased.

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 and lactulose to 94 countries. In the year under review, downstream product sales contributed R508.1 million to group revenue.

In South Africa, approximately 60% of Illovo's total sugar production was sold into the South African Customs Union (SACU) market, in which the company is the major supplier to industrial users.

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, which incorporates the coastal, midlands and northern irrigated cane growing regions. The operations consist of three agricultural estates, five sugar factories, two of which incorporate refineries, and three downstream plants. Currently, annual average cane and sugar production amounts to approximately 480 000 tons and 900 000 tons respectively. Furfural, furfuryl alcohol, Crop Guard, diacetyl, 2.3-pentanedione, ethyl alcohol and lactulose are produced at the various downstream plants.

Agriculture

Cane production in 2006/07 amounted to 480 000 tons which was similar to that achieved in the previous season. The overall crop was affected by dry conditions which prevailed throughout the winter period and then by periods of wetter than normal weather in the last quarter of 2006, also negatively affecting cane harvesting and haulage operations. Early summer rain in 2006, with further good rains again in March and April 2007, have provided a positive base for cane production in 2007/08.

Cane supplies from land sold by the company to Black large and medium-scale growers amounted to 336 000 tons which was a significant increase over that of 2005/06. This increase was largely as a result of the sale of a large company farm in the Sezela area to a Black grower. Combined with a further farm sale at the end of the 2006/07 season, accumulative sales of cane land to Black farmers and to BEE companies now represent 58% of the company's previously owned cane fields.

Small-scale grower production amounted to 444 000 tons, which was slightly less than that achieved in the previous season. The company continues its ongoing support of the small-scale grower sector. Following the launch of two company co-ordinated cane rehabilitation projects at Sezela and Umzimkulu in 2006, funded by the Government and other third parties, Illovo and other locally-based grower structures have been successful in securing additional funding from the Government's "GijimaKZN" initiative to re-develop 500 hectares of small-scale grower cane land, west of Sezela. These initiatives are aimed at increasing the participation and improving the efficiency of small-scale growers in the South African sugar industry.

Combined with a further farm sale in 2006/07, accumulative sales of cane land to Black farmers and BEE companies now represent 58% of the company's previously owned cane fields in South Africa. Cane deliveries from Black farmers aggregated 780 000 tons in 2006/07.

The company continues its ongoing support of small-scale growers and has recently secured funding from the Government's "GijimaKZN" initiative to re-develop 500 hectares of small-scale grower cane land, west of Sezela.

Sugar production

Sugar production at Illovo's South African mills reflected a similar decline in output to that of the South African industry overall, falling by about 12% to 797 000 tons. Industry sugar production decreased from 2.5 million tons in 2005/06 to 2.2 million tons 2006/07. The significant reduction in production was as the result of the variable weather conditions during 2006 which impacted negatively on sucrose levels in cane and the quality of cane delivered to the factories. Whilst the recovery of sugar from cane decreased from that achieved in the previous season, the overall operational and mechanical performance of the factories remained ahead of the rest of the industry.

Sugar production in 2007/08 is expected to return to normal levels.

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. Sugar production reflected a similar decline in output to that of the South African industry overall, falling by about 12% to 797 000 tons.

Downstream

Whilst impacted by lower cane supplies to the mill, production of furfural and furfuryl alcohol at Sezela's downstream plant was only marginally below that of the previous year as the result of good operating performance. Record output of diacetyl was achieved. The Merebank alcohol plant operated well and a record volume of ethyl alcohol was produced. Lactulose manufactured at the same complex also reached new production levels. The Glendale distillery on the north coast of KwaZulu-Natal performed to expectation.

Marketing

Illovo sells raw, brown and refined sugar, speciality sugars, syrup, furfural and its derivatives, potable and denatured alcohols, and lactulose into local and international markets. Domestic sugar sales increased in 2006/07 due to further growth in sales to industrial users. Illovo remains the major supplier of sugar to the South African industrial market. Sugar sales to the retail market were similar to those of last year. The revenue earned from the domestic market amounted to 71% of total revenue from sugar sales.

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 2006/07 season, approximately 37 400 tons of these sugars were exported on behalf of Illovo to a number of African and other countries. These sales continued to benefit from good white sugar premiums.

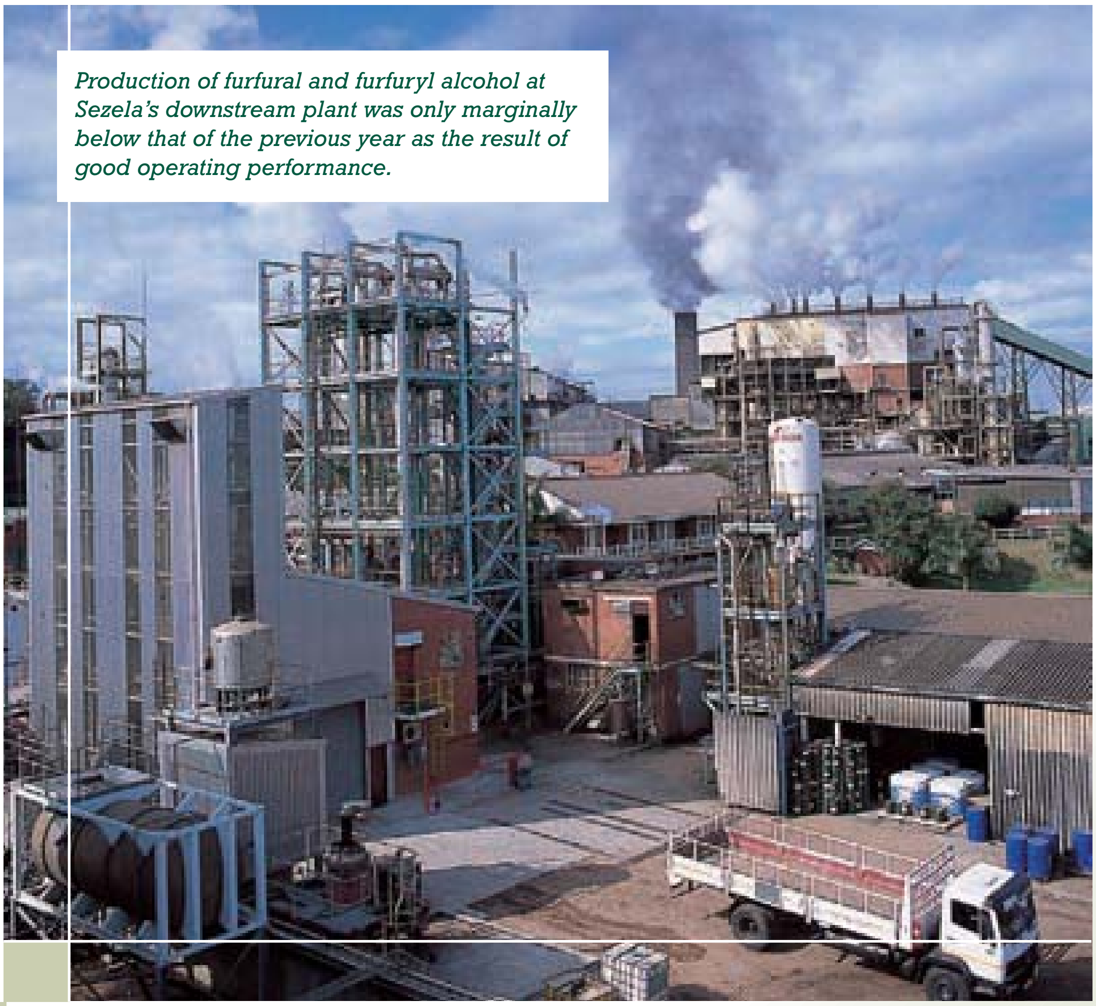
Illovo's raw sugar exports to the world market, undertaken by SASA, amounted to 319 000 tons. The average price realised by the industry, including hedging activities undertaken by SASA, was US14.92 cents/lb, a significant increase over the previous year due to the higher world market prices experienced during 2006. In respect of the 2007/08 season, around 500 000 tons of world market sugar have been priced to date by SASA at an average price of US10.56 cents/lb.

Illovo produced 316 000 tons of molasses during 2006/07. With a 6.5% reduction in overall industry production from that of 2005/06, demand in the domestic market exceeded supply, resulting in Illovo's entire production being sold locally.

Buoyant economic conditions in Europe, the US and China led to record demand for furfuryl alcohol and strong demand for furfural. This enabled a positive price adjustment in Illovo's markets at the start of the season which was maintained for rest of the year. Sales of diacetyl and 2,3-pentanedione reached record levels.

Sales of Crop Guard, an agricultural nematicide, were impacted by difficulties being faced by the agricultural sector in South Africa. The US Environmental Protection Agency granted conditional approval for the use of "Multi Guard", as it is known in that country, for application on greenhouse, non-food items. This was an important step in gaining entry to the important US market.

With increased volumes, good export pricing for most of the year and the benefits of a weaker rand, Merebank achieved much improved turnover from ethyl alcohol. Lactulose sales were also good, slightly above that of the previous year.



Production of furfural and furfuryl alcohol at Sezela's downstream plant was only marginally below that of the previous year as the result of good operating performance.

MALAWI

Illovo Sugar (Malawi) Limited is Malawi's sole sugar producer with two operations, Dwangwa situated geographically in the centre of the country and Nchalo in the south. Combined, the two estates annually produce in excess of two million tons of cane from fully irrigated fields and around 290 000 tons of sugar. Both mills have refineries, and speciality sugars are produced at Nchalo. Illovo Sugar (Malawi) is listed on the Malawi Stock Exchange. The Illovo group has a 76% shareholding, with the balance of shares held by institutional and private investors.

The 2006/07 season was most successful in all aspects of field and factory operations with both factories recording their highest-ever level of production.

Agriculture

An average increase of 12% in cane yields, brought about by excellent climatic conditions, a longer growing season and good agricultural practice, resulted in record cane production at both operations amounting to 2.1 million tons. About 204 000 tons of cane, representing a 6% increase over that of last year, was delivered by private growers. During the season, an additional 400 hectares at Nchalo and 70 hectares at Dwangwa of new irrigated cane fields were developed.

Well-spread rains were experienced during the summer months and conditions generally were conducive to good cane growth, although excessive rain at times impacted on sunshine hours. A similar cane crop is therefore expected in 2007/08.

Sugar production

Milling records were established at both Nchalo and Dwangwa which combined, crushed 2.3 million tons of cane to produce almost 290 000 tons of sugar. Good weekly cane-throughput was maintained throughout the season, with the factories achieving favourable sugar recovery rates and performing at high levels of efficiency, although operations towards the end of November 2006 were hampered by heavy rain which

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An average increase of 12% in cane yields in Malawi, brought about by excellent climatic conditions, a longer growing season and good agricultural practice, resulted in record production at both operations amounting to 2.1 million tons.

slowed cane deliveries to the mills. Both refineries ran well, as did the production of export speciality sugars for EU and US markets. Additional sugar packing facilities were installed at Nchalo. Sugar production in 2007/08 is expected to be similar to that of the previous year.

Downstream

Illovo Sugar (Malawi) is a minority shareholder in the Ethco Distillery at Dwangwa, which utilises molasses from the company.

Marketing

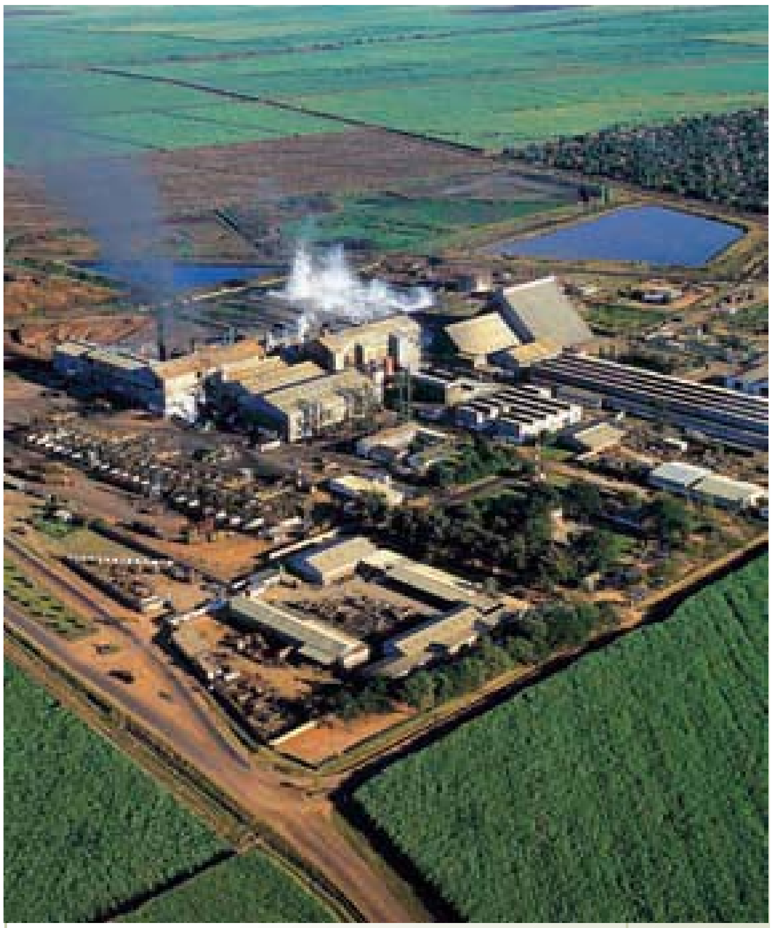
The past season was characterised by domestic market sales continuing to reflect a strong upward trend. Following last year's material increase in sales, a further 12% growth in domestic offtake was recorded in 2006/07. The efficient domestic distribution of sugar to all parts of Malawi provided the platform from which to launch several successful marketing initiatives to improve market offtake. Sales to preferential markets in the EU and the US benefited from improved transport logistics to the Nacala and Beira ports, although at one stage, the latter suffered from congestion during which exports were diverted back to Nacala and to Durban. Malawi benefited from the allocation of additional quota under the Everything But Arms (EBA) initiative of the EU. During the season, exports were undertaken into the SACU region, taking advantage of Malawi's existing quota under the SADC Sugar Protocol. Demand for sugar from the region was strong.

The efficient domestic distribution of sugar to all parts of Malawi provided the platform from which to launch several successful marketing initiatives to improve market offtake.

ZAMBIA

Zambia Sugar Plc, which is listed on the Lusaka Stock Exchange, is the country's principal sugar producer, with a 91% share of industry production. 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, and annually produces around 1.3 million tons of cane and 250 000 tons of sugar. Syrup and speciality sugars are also produced.

In April 2007, a major expansion in Zambia was approved whereby an additional 10 500 hectares of irrigated cane fields will be developed by the company and its growers, representing a 50% increase in area under cane, and the factory will be expanded to produce 440 000 tons of sugar per annum, an increase of around 200 000 tons compared to production in 2006/07. The project will be undertaken over two years and is estimated to cost R1.4 billion.



Sugar production in Zambia amounted to 246 000 tons which was only marginally below last year's record. In April 2007, a major expansion of Zambia Sugar's operations commenced, which will result in annual sugar production being increased to 440 000 tons.

Agriculture

Following a good start to the season, during which agricultural performance proceeded according to expectations, a noticeable reduction in both outgrower and company-owned estate cane yields occurred. This was attributed to the late planting of expansion cane fields in some areas, together with national power interruptions and subsequent disruptions to irrigation programmes during the growing period. Overall cane yields dropped by around 4% with own cane production amounting to 1.24 million tons.

Good rains in excess of the long-term mean fell during the summer months and irrigation of the crop was not necessary during that period. Around 900 hectares of new irrigated cane fields were developed by outgrowers during the season and this, together with good growing conditions, will result in a better crop in 2007/08.

Sugar production

The performance of the Nakambala mill was reasonable with final production of 246 000 tons of sugar being only marginally below last year's record. During the offcrop maintenance period, the crushing capacity of the mill was expanded from 410 to 425 tons of cane per hour. Combined with an improvement in cane yields and the additional production from the new areas of outgrower cane, sugar production is expected to rise in 2007/08 by about 25 000 tons.

Marketing

Domestic market sales in Zambia were 8% higher than in the previous year, benefiting from increased marketing activity and actions to counter the illegal importation of sugar into the country. Support from the Zambian authorities remains strong. In respect of exports, Zambia was a beneficiary of additional sugar quota allocated under the EBA initiative and the additional exports to the EU were co-shipped with those of Malawi in order to maximise freight advantages. The production of speciality sugars destined for the EU was further enhanced during the season with the installation of a new bagging plant and improved logistical arrangements. Zambia Sugar also took advantage of exporting sugar into the SACU region in terms of the SADC Sugar Protocol. Regional sales remain strong, particularly to the Democratic Republic of Congo.

Zambia Sugar is bordered in the north by the Kafue River, from which water is drawn to irrigate the cane crop.

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 and annually produces about 800 000 tons of cane and 230 000 tons of sugar.

There are good longer-term development prospects for the Ubombo operation with the commencement of construction of the holding dam and other infrastructure in respect of the Lower Usuthu Smallholder Irrigation Project (LUSIP). The project contemplates the establishment of about 12 000 hectares of irrigated agricultural land over a period of seven years, a large proportion of which will be developed to cane which will be delivered to the Ubombo factory where milling capacity is to be increased commensurately. The project is being funded by a number of development agencies, including the European Development Fund, and is aimed at promoting significant socio-economic development of the region. Water is expected to be available for irrigation from 2008 and the first commercial cane, from the initial development of 500 hectares of small-scale grower areas, will be supplied to the Ubombo factory during the 2008/09 season.

Agriculture

Despite good rains at the start of the 2006/07 season, below-average rainfall was experienced during the majority of the year resulting in a decline in the company's estate cane yields. A final crop of 774 000 tons was produced which, compared to last year, represented a 4% decline. Good management of Ubombo's bulk water supplies and irrigation limited the impact of the negative weather conditions. A slightly larger decline in yields was experienced by the other growers delivering cane to the mill. Cane harvesting and haulage operations ran smoothly for most of the season. Good crop growth was recorded in the first months of 2007 however, more recently, dry weather has impacted negatively on cane growth and output could therefore be slightly lower than normal although at least similar to last year.

Sugar production

Factory operations at Ubombo were reasonable, but the reduction in cane availability compared to the previous year resulted in sugar production declining by 6% to 219 000 tons. The factory crushed at a similar rate to last year, whilst mechanical efficiency was improved. The biomass project provided additional fibre availability to the factory and reduced coal consumption. Refined sugar production amounted to 99 000 tons.

Marketing

All sugar produced in Swaziland is marketed by the Swaziland Sugar Association. Sales into the domestic SACU market were similar to previous levels, whilst export tonnages to the EU proceeded smoothly via Maputo. Additional focus was given to regional market sales which benefited from higher prices and other premiums.

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The biomass project at Ubombo provided additional fibre availability to the factory and reduced coal consumption in 2006/07.

TANZANIA

Illovo's shareholding in Kilombero Sugar Company Limited represents 55% of the issued share capital, with 20% held by ED&F Man, the London-based commodities group, and 25% by the Government of Tanzania. Kilombero is situated in the Morogoro 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. Average annual cane and sugar production are around 600 000 tons and 140 000 tons respectively.

Agriculture

Following heavier than normal rainfall in April and May 2006, subsequent severe drought conditions significantly affected production across the entire Tanzanian sugar industry. The company's cane operations at Kilombero are irrigated, but the severity of the drought impacted upon the release of water from the main storage dam which also generates a major portion of the country's hydro-electric power requirements. The lack of water for irrigation at Kilombero had a negative affect on anticipated cane yields. However, an increase in area under cane and the relatively higher yields of new varieties resulted in overall cane production being only marginally below that of last year. The drought was broken in December 2006 when 500 millimetres of rain fell in a period of three weeks. This was followed by continual rain during January and February 2007. In the circumstances, the agricultural operations performed well to produce 508 000 tons of cane. Outgrower cane production, which is not irrigated, amounted to 481 000 tons, compared to 696 000 tons produced in the previous year. Due to the very wet conditions at the end of the season, about 130 000 tons of company and outgrower cane could not be harvested and has been carried forward to next season.

An additional 400 hectares of land were developed to cane during the season, and combined with new varieties, and generally better conditions for cane growth during the period leading up to the start of the 2007/08 season, cane production is expected to increase by more than 20% over that of 2006/07.

Sugar production

The extreme weather conditions played a material role in disrupting the milling activities of Kilombero and the industry's other producers. Compared to last year, the company's sugar production decreased by 24% to 104 000 tons. Further improvements were made to the refinery and good sugar quality was achieved. Both factories achieved new record average cane throughput rates for the season. Sugar production in 2007/08 is expected to be above the previous record output of 137 000 tons.

Marketing

About 90% of sugar produced at Kilombero is sold domestically, with the balance sold to preferential markets in the EU. The company benefited from strong demand and good prices in the Tanzanian domestic market. Good progress was made in securing supply contracts for refined sugar with a number of industrial customers, although the requirement to establish the same tariff protection for refined sugar, as currently applies for raw sugar, remains outstanding. The Tanzanian Government has however provided support for refined sugar output. In respect of Tanzania's export quotas to the EU, Kilombero's allocation was increased as a result of the production difficulties experienced by the other producers. Molasses sales were good and an improved long-term contract with an overseas customer was concluded.

Kilombero produced 104 000 tons of sugar in 2006/07 and new average cane throughput rates were achieved for the season.

In Tanzania, despite the impact of a severe drought, an increase in area under cane and the relatively higher yields of new varieties resulted in overall cane production being only marginally below that of last year.

MOZAMBIQUE

The Illovo group holds a 74% share in Maragra Açúcar Sarl, with the balance held by a private investor. The operation is situated on the eastern coast-line of Mozambique, just north of Maputo. On average, Maragra produces about 350 000 tons of cane and 75 000 tons of sugar per annum.

Agriculture

At Maragra, a material decrease in cane yields at the end of the season, largely attributable to low sunshine hours, resulted in a disappointing close to an otherwise good agricultural performance. Cane production in 2006/07 amounted to 338 000 tons which, compared to the previous season, represented a 7% reduction in production. Outgrower cane production was similarly affected. Further progress was made in the development of new areas of cane in close proximity to the mill, as well as in the investigation of an additional area which is about 30 kilometres from the mill and holds excellent potential for new irrigated cane development. Good and well distributed rainfall at Maragra in the early part of 2007, in addition to other climatic conditions conducive for healthy cane growth, are expected to result in increased cane production in 2007/08.

Sugar production

The factory operated very well and numerous performance records were established. Total sugar production amounted to 67 000 tons. Increased sugar production is expected in 2007/08.

Marketing

Further good progress was made by the industry producers' selling organisation to improve the national distribution of sugar and as a result, domestic sales increased by 12%. However, the presence of illegal sugar imports in the country, particularly in the central region, continued to impact negatively upon domestic sales, despite strong support from the authorities to counter these activities. In addition to the supply of its existing EU preferential quota, Mozambique also benefited from the EU's re-allocation of sugar quota during the season. Further positive developments during the year included increased industrial offtake, better sales to regional markets which replaced exports to the lower-priced world market, and improved molasses prices in both the domestic and export markets.

The Maragra factory operated very well and numerous performance records were established.

Cane production at Maragra in 2006/07 amounted to 338 000 tons.

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. A centralised core of expertise exists to ensure technical standards are maintained for both existing equipment and new agricultural and factory installations, and to keep abreast with technical innovations. This in-house function is also involved in investigating opportunities to expand the group's operations, and in the planning and implementation of approved projects. In addition, collaboration between the group's technical team and British Sugar has started and it is expected that research and development projects will benefit the group in the longer term.

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 Sugarcane 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.

HUMAN RESOURCES

Human resource management and operational strategies 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 of operation and alignment is achieved through the group's strategic intent. Underpinning this, and to ensure that the operational strategies are met, is a work ethic of continuous improvement which embodies focused, skilled employees who are able to realise their full potential, 'make a difference' in their areas of operation and are challenged to go 'the extra mile'.

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. 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 best practice benchmarking; targeted manpower succession planning; performance management; the maintenance of collaborative industrial relations; human resource development and business understanding; BEE-linked employment equity and localisation programmes; and the health and welfare of employees and their dependants. To this end specific attention is given to -

- the staffing of all operations within effective organisational structures, with competent personnel both from an operational and managerial perspective, in order that goals and objectives are achieved. Associated with this, manpower benchmarking exercises are undertaken to ensure that opportunities are developed to the full.
- the development and retention of technical and leadership talent, continuing to place 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 90% of all vacancies;
- being the employer of choice in a skills market which is continually under pressure. To this end, remuneration packages that are merit-based and market-competitive in all countries of operation are constantly reviewed. Similarly, incentives such as performance-related bonuses, share purchase and phantom share schemes are utilised and are continually up-dated to cater for specifically targeted outcomes.

The group invested approximately R23 million in training and development across the group over the reporting period.

- ensuring that sound employee relations prevail. Trade union involvement is a normal part of this process and some 80% of permanent employees have membership of such unions. Collective bargaining forums, which determine the levels of wage rates and other substantive employment conditions, are established in all countries of operation. Apart from a two day work stoppage by agricultural staff in Malawi, no time was lost to industrial action during the past year;
- training and employee development, which remains an important pillar for harnessing the group's human resource talent and potential. 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 R23 million in this area over the reporting period, of which some 10% was used for business alignment workshops, 35% for technical-type training, 36% for management, supervisory and leadership development, 10% for safely and health awareness and training, and the balance on education issues, including adult basic education type programmes. Employee development initiatives include –
  - the implementation of internationally accepted safe working practices and health care programmes;
  - the building of employees' understanding of the prevailing business context within Illovo. Some 21 000 employees attended the group-facilitated Business Understanding Programme;
  - the continued development, refinement and implementation of performance management systems, along with ongoing technical competency training, which are linked to ISO standards, along with individual career-pathing and operational excellence respectively;
  - the delivery of group-based management development programmes, aimed at both first-line and upper management. Some 373 managers completed these programmes during the reporting period;
  - group co-ordinated engineer-in-training and management trainee programmes, presently involving some 62 graduates. The large majority of these are graduate engineers which provides an important pool of critical skills in a market where there is presently a dearth of these skills;
  - structured formal technical apprenticeships, with 82 employees presently enrolled across the group;
  - 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);
  - the leveraging 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 Employment Equity and Income Differential reports, covering progress made with the company's Employment Equity Plan, a key pillar of its BEE programme, were submitted to the Department of Labour and the Employment Equity Commissioner respectively. Progress continues to be monitored through a group Central Co-ordinating Forum that includes representation from local consultative forums which are in place at the various operations.

Relevant statistics in respect of designated employees, as defined in legislation, for the past two years, include –

Representative areas	**% designated**	
	2006	**2007**
Management level	52	**54**
Skilled level	84	**84**
Promotions (management/skilled)	96	**75**
External recruitments (management/skilled)	76	**64**
Promotions (all levels)	99	**92**
External recruitments (all levels)	93	**88**
Combined recruitments & promotions (all levels)	91	**90**
Combined recruitments & promotions (management/skilled)	94	**70**
Skills development initiatives (permanent employees)	90	**90**
Management trainees	80	**85**

The reduced achievement in respect of external recruitment is largely attributable to the technical and engineering disciplines, where the ability to procure skills in a very competitive market has been difficult. 66% of the external recruitments in this area were made from non-designated groups. Overall focus continues to be given to designated appointments in the more senior levels of management where an under-representation is reflected.

Complement

The group's overall permanent manpower complement as at 31 March 2007 stood at 12 617. The focus remains one of right-sizing operations to ensure that the correct organisational structures are in place, staffed with competent skills to meet the group's operational objectives. Employment was in the following categories –

- Sugar manufacture 6 594
- Agriculture 5 682
- Downstream 341

In addition to the permanent complement, approximately 22 000 seasonal employees were engaged in agricultural operations at the peak periods during the year.

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. During the past year, there were approximately 550 000 visits to the group's health-care facilities. In support of the overall medical activities, the group 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.

Occupational health is an important facet of the medical services delivered at every site. Qualified nursing practitioners perform duties that include regular job-related medical examinations, along with medical surveillance, such as hearing and lung-function testing of employees and biological monitoring of blood lead levels in laboratory workers, in line with the health and safety regulations of the respective countries of operation.

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

Strategies towards controlling the spread of HIV/AIDS include preventative awareness programmes along with an established in-house Wellness Programme for those afflicted. These programmes continue to be developed in accordance with appropriate 'best practice' aligned to international standards. They involve ongoing 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 group recognises the importance of Voluntary Counselling and Testing (VCT) as it enables individuals to become aware of their HIV status, empowering people to act safely and responsibly, and is

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therefore key to controlling the spread of the disease. To this end, the group continues to campaign for employees to 'get to know their status'. An annual target that at least 40% of all employees get to 'know their status' by participating in the VCT programme has been set, together with an additional target that 50% of those who test positive join the Wellness Programme. During the year, 3 488 employees, representing 39% of the permanent complement, underwent VCT, whilst 38% of those who tested HIV positive joined the Wellness Programme.

Government interventions relative to the provision of anti-retroviral (ARV) drug therapy are being closely monitored in all countries of operation. Where the group is being asked to assist in the process, it is particularly important to ascertain the long-term sustainability of intended programmes and the role that the government medical facilities are expected to play -

- in South Africa, formal facilitation partnerships have been developed with those local government hospitals designated as HIV-ARV treatment centres, to allow employees and dependants on the company's Wellness Programme to be bridged into the government ARV programme as and when their status for this treatment is medically necessitated;
- in Malawi, the group continues to assist in implementing the government-funded ARV therapy programme at its mill-based medical facilities. In Zambia and Swaziland, similar government / public sector partnerships are being developed, whereby in one form or another, government-funded ARV therapy treatment will be made available through the group's mill-based medical facilities. In Mozambique and Tanzania, patients are referred to the nearest government facility for this form of treatment.

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, is 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 to its employees, including -

- 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 group continues to campaign for employees to "get to know their HIV / AIDS status" and employees are encouraged to participate in the Voluntary Counselling and Testing (VCT) programme.