

REVIEW OF OPERATIONS



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FINANCIAL RESULTS

Good results were achieved by the group for the year. Overall, profits benefited from increased sugar production in South Africa, Tanzania and Mozambique, improved domestic market sugar sales and prices, increased exports to preferential markets in the European Union (EU) and a further improvement in furfural and furfuryl alcohol export prices. This was offset by both lower world sugar prices and the continued strength of the rand in the first nine months of the year, together with increasing input costs despite ongoing cost savings initiatives. Headline earnings increased by 16% to R599.6 million, whilst headline earnings per share increased by 15% to 171.6 cents.

Group revenue increased by R530.5 million to R6.8 billion, whilst operating profit rose from R1 034 million to R1 065 million, with an operating margin of 15.7%. Net financing costs after dividend income increased from R96.4 million to R170.4 million, mainly as a result of increased seasonal working capital requirements, expansion capital expenditure and higher interest rates. Taxation decreased significantly from R288.3 million to R140.7 million due mainly to a change in the tax rate resulting from the Zambian subsidiary being recognised as an agricultural operation for tax purposes and also being granted expansion-related tax allowances. This reclassification as an agricultural operation gave rise to a one-off tax credit in respect of past tax years which impacted the tax cost in the year under review. The effective tax rate, excluding material items, was 15.7%, but can be expected to normalise at around 27% in the year ahead. Profit after tax increased by R99.5 million to R753.3 million.

Operational cash generation amounted to R1 055 million, whilst group borrowings increased substantially from R272 million to R1 168 million as a result of the expansion

projects embarked upon during the current year. Gearing increased from 12.2% to 39.9%.

The contributions to operating profit were: sugar production 57%, cane growing 30% and downstream 13%, and by country, contributions were: South Africa 25%, Malawi 41%, Zambia 12%, Swaziland 9%, Tanzania 9% and Mozambique 4%.

OVERVIEW

The performance of the operations across the group was generally satisfactory despite the onset of early summer rains across the Southern African region which, in all countries of operation except Malawi, prevented the completion of harvesting programmes and resulted in the respective sugar factories having to prematurely cease production for the season. The performance of the Zambia factory, however, was disappointing which together with the early rains, resulted in reduced sugar production and the carry-over of a significant tonnage of cane on the group's own estate. Record production of cane and sugar was achieved at Maragra in Mozambique whilst in South Africa, production of ethyl alcohol and 2.3-pentandione increased to new levels. A highlight of the group's activities during the past year was the commencement of Illovo's major drive to significantly increase group cane and sugar production capacity. This includes the current project in Zambia to increase sugar production by 200 000 tons per annum, and also the group's involvement in new sugar projects, such as the recently announced venture in Mali. It is anticipated that when complete, the Mali sugar project will produce annually 1.5 million tons of cane, 200 000 tons of sugar and 15 000 kilolitres of ethanol, and will generate sufficient electricity for the agricultural and factory operations, with additional capacity to export power into the electricity grid.



The agricultural operations generally performed satisfactorily, with increases in cane yields, particularly in South Africa, Zambia, Tanzania and Mozambique.

Cane production across the group amounted to 5.288 million tons in 2007/08 which was slightly less than in the previous season. Whilst variable weather conditions were experienced across the group, a common factor was the arrival of heavy early summer rains which disrupted harvesting and haulage activities in all countries of operation except Malawi, causing the factories in the affected countries to cease sugar production earlier than planned. The agricultural operations generally performed satisfactorily, with increases in cane yields, particularly in South Africa, Zambia, Tanzania and Mozambique, and increased percentage sucrose in cane in South Africa, Tanzania and Mozambique. The agricultural operations at Maragra produced a record 460 000 tons of cane. During the year, additional irrigated cane land was developed in Malawi and Tanzania, whilst various projects in the forthcoming year will see the development of further land to cane in these and other countries of operation, particularly in Zambia.

Aggregate sugar production of 1.792 million tons increased by 4% compared to 2006/07. The increase was largely as a result of an improvement in production in South Africa, although output was impacted significantly by a shorter than planned milling season as a result of the early heavy rains. The performance levels of the sugar factories were generally good, with improved recoveries of sugar from cane and a general improvement in operational efficiency levels. The Maragra factory achieved record cane throughput and sugar production, whilst the Ruembe factory in Tanzania attained a new record average cane throughput rate for the season. The Noodsberg factory in South Africa and the Nakambala factory in Zambia experienced operational difficulties and performed below expectation. All the problem areas have received attention during the recent offcrop. Also during the

offcrop period, the Zambia and Dwangwa sugar factories were expanded. The second phase of the Nakambala expansion to 640 tons of cane per hour will be undertaken during the ensuing financial year and is due for completion in April 2009.

In Zambia, marketing initiatives implemented over the past 18-months stimulated local sugar demand, resulting in a 17% increase in sales compared to 2006/07, whilst in Mozambique, domestic sales of sugar increased by 10% as a result of improved distribution and marketing. In Malawi, sales were below last year's record, whilst in South Africa and Swaziland, local demand was marginally above the previous season, despite an increase in imports and the shortage of carbon dioxide which impacted negatively on sales to the mineral water sector during the last quarter of the year. In Tanzania, as a result of the presence of large consignments of imported sugar in the first half of the season, Kilombero's domestic sales were below that of the previous year. The group benefited from increased exports of sugar to preferential markets in the EU and United States of America (USA), which increased sales by 18% compared to last year.

Overall, the downstream plants in South Africa operated well. Record production of 2.3-pentanedione, used as a high-quality natural flavourant, was attained at the Sezela plant, whilst ethyl alcohol produced at Merebank was also a record. The export prices of furfural and furfuryl alcohol were strong.

Against the background of a record global sugar surplus of nine million tons in 2006/07, world raw sugar prices spent most of the first eight months of the 2007/08 season generally trading in a narrow but volatile range between US9.00 cents/lb and US11.00 cents/lb, but falling to a low of US8.37 cents/lb in June 2007. However, as the result of significant investment activity from global investment funds in the sugar market in

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Record ethyl alcohol was produced at Merebank where an emission-free electrode boiler plant was installed to cater for the operation's steam requirements, previously provided by coal-fired boilers.

December 2007, futures prices lifted significantly reaching a high of US15.02 cents/lb in March 2008. The lower world sugar price during the early part of the year also impacted negatively on regional realisations.

Total capital expenditure in 2007/08 amounted to R1 003.6 million, of which expansion capital for projects aggregated R848.7 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.

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 65% to total revenue, whilst exports to 96 countries contributed the balance. A significant strength of the group was that 78% of sugar production by volume and 83% by value was sold into the domestic or premium-priced export markets.

Domestic markets

Sugar

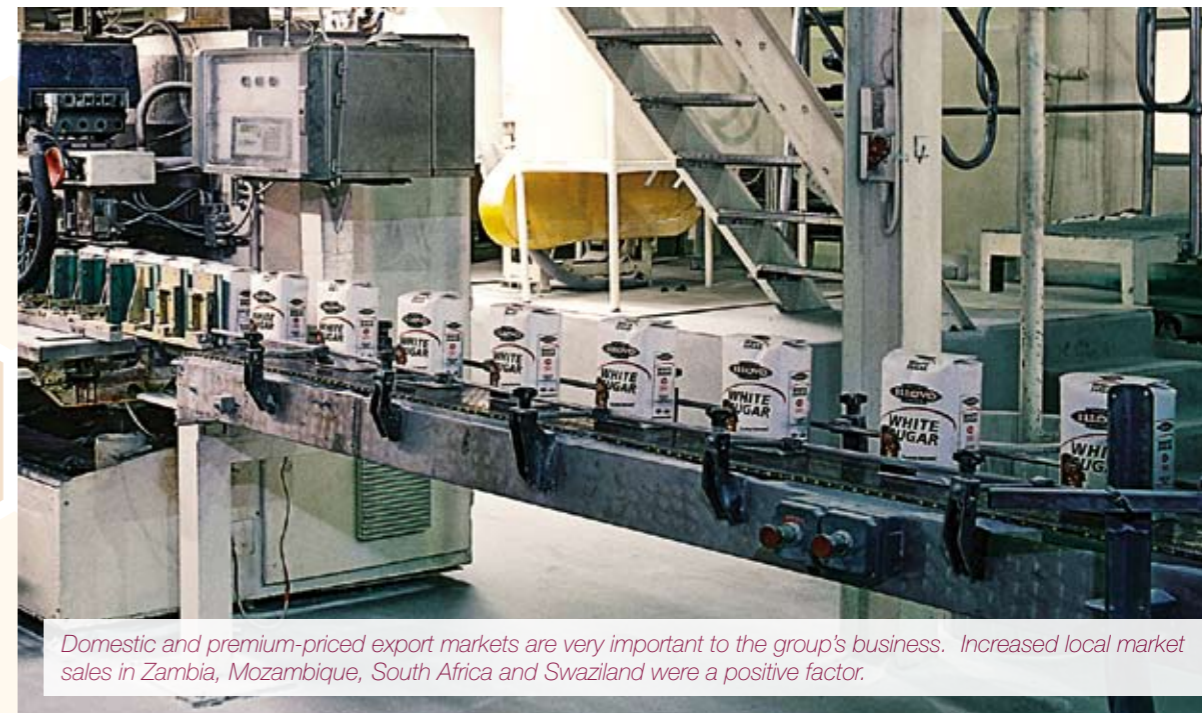
The South African Customs Union (SACU) market is of major significance for both the South African and Swaziland sugar industries. During the season, total sales into SACU amounted to 1.866 million tons, about 80% being refined sugar and the balance brown sugar. The South African sugar industry supplied 1.363 million tons, Swaziland 307 000 tons and Zimbabwe and other Southern African Development Community (SADC) sugar producing countries 71 000 tons. Duty-paid imports amounted to 125 000 tons of sugar.

In South Africa, approximately 57% of Illovo's total production was sold into the domestic SACU market. Illovo Sugar is Malawi's sole sugar producer and in the 2007/08 season, domestic sales comprised approximately 68% of total sales. Approximately 90% of Zambia's sugar output is produced by Zambia Sugar and domestic sales in 2007/08 increased significantly to 48% of total sales. In Swaziland, Ubombo is one of three producers and its production constitutes about 35% of the country's total output. Swaziland's domestic sales in 2007/08, undertaken by the Swaziland Sugar Association into the SACU market, represented 50% of total sales. Tanzania has three sugar producers but is a net importer of sugar, with annual domestic demand being about 310 000 tons. About 74% of Kilombero's total sales was sold locally, with the balance exported to preferential markets in the EU. Sugar production in Mozambique, which has four sugar producers, currently amounts to about 244 000 tons, with Maragra's share of industry production being 31%. Around 70% of Maragra's total sugar sales in 2007/08 was sold domestically.

In South Africa and Zambia, a range of syrups and speciality sugars is 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, including Agriguard, a furfural-based agricultural nematicide, as well as lactulose, are traditionally sold in the local South African market.



Domestic and premium-priced export markets are very important to the group's business. Increased local market sales in Zambia, Mozambique, South Africa and Swaziland were a positive factor.

Export markets

Sugar

Preferential markets

The group has significant access to preferential markets in the EU and the USA 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 operation outside South Africa increased by 18% to approximately 250 000 tons. Malawi and Zambia together supplied around 8 500 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 USA, whilst Zambia also currently produces speciality sugars for the EU market.

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 2007/08, Brazil, Thailand, Australia, India and SADC, are expected to supply approximately 79% of all world free market exports. South Africa is currently ranked as the ninth largest exporter to the world market.

World raw sugar prices spent most of the first eight months of the 2007/08 season trading in a narrow but volatile range

between US9.00 cents/lb and US11.00 cents/lb, falling to a low of US8.37 cents/lb in June 2007. The reduced prices were as the result of the significant increase in production by major sugar producers, including Brazil and India, which resulted in a record global sugar production surplus of approximately nine million tons in the 2006/07 international sugar season. It was against this background of weak underlying fundamental factors that sugar prices rallied to new highs in the latter part of the season as a direct result of the increased interest of global investment funds in the commodity markets, including sugar. The scale and significant impact of this investment activity created a sense of dislocation between market fundamentals and futures prices, with the investment funds looking more at production cost trends of the major sugar producers and future supply / demand balances. As a consequence, futures prices increased in December, reaching a high of US15.02 cents/lb in early March 2008.

Global investment funds will carry on impacting on world sugar prices, whilst the relationship between the oil and sugar markets continues to develop, with ethanol becoming an increasingly important factor in influencing sugar prices. However, fundamental factors which could ultimately alter the supply / demand balance also need to be taken into account, including the extent to which the projected global sugar surplus will be exported on to the world markets:

◆ In the current season, cane production in Brazil is expected to increase. Against the background of increasing local and export demand for fuel-ethanol, driven largely off the current high world oil prices, the issue as to how much of Brazil's cane crop will be diverted to ethanol production is uncertain. In the event that the increased cane production is utilised to produce ethanol, it will impact positively on sugar prices;

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Zambia, Swaziland, Malawi and South Africa exported sugar during the year 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 were achieved as a result of various competitive advantages.

- India's much-heralded record sugar production forecast of 32 million tons at the beginning of the 2007/08 international sugar season appears to have declined significantly to current estimates of around 22 million tons, due to cane price disputes and less than ideal growing conditions. With annual domestic offtake of 20 million tons, this would leave only two million tons available for export;
- The reform of the EU Sugar Regime continues to take effect and since implementation, the domestic sugar quota renunciations have amounted to 5.6 million tons. The EU Commission would therefore appear to be achieving its target of removing six million tons of production through its current restructuring scheme, with the further option, if necessary, of cutting quotas in 2010 without compensation, in order to stabilise the market;
- The growing interest around the world in fuel-ethanol production from sugar cane, increasing sugar production costs which are affecting the expansion plans of existing and new producers, and annual global consumption growth of around 2% will also have their influence on physical supply and demand.

World raw sugar prices, with prospects of firmer market fundamentals, are therefore expected to trade within a US12.00 to US14.00 cents/lb range, but with ongoing volatility. However, the investment funds' activities, ethanol prices and production movements could all impact on such forecasts.

As a major exporter to the world market in 2007/08, the South African Sugar Association (SASA) exported 875 000 tons of raw sugar on behalf of the producers. Exports achieved an average price of US10.48 cents/lb, compared to US14.92 cents/lb in 2006/07, and realised

around R1.6 billion. Refined and direct consumption raw sugar exports, amounting to 287 000 tons, were undertaken by the producers themselves.

Bulk sugar exports to the world market from Illovo's South African operations were slightly above those of last year, representing 40% of production, whilst a small world market cargo was exported by Swaziland. Zambia, Swaziland, Malawi and South Africa exported sugar during the year 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 were achieved as a result of various competitive advantages. Demand was strong, however sales to these regions were less than last season due to the increased domestic and preferential market sales.

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 76 countries. In addition, BioMass Sugar, a sugar cane-based fertiliser, is being sold to a growing number of international markets. During the year under review, downstream product sales contributed R576.0 million to group revenue.



All the company's agricultural operations in South Africa benefited from increased percentage sucrose in cane and the operations at Eston and Sezela achieved improved cane yields.

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 450 000 tons and 900 000 tons respectively. Furfural, furfuryl alcohol, Agriguard, diacetyl, 2,3-pentanedione, ethyl alcohol and lactulose are produced at the various downstream plants.

Agriculture

In the 2007/08 season, all the company's agricultural operations benefited from increased sucrose % in cane and the operations at Eston and Sezela achieved improved cane yields. Cane production of 448 000 tons was 7.5% below the previous season, due to a reduction in the area under cane resulting from the sale of a further farm to a local Black community.

Cane supplied by medium-scale cane growers increased in 2007/08 by 14% to 383 000 tons. Accumulative sales of company cane land to Black farmers and to BEE companies presently represent 58% of the company's previously owned cane land. Another farm sale is expected to take place in the current season. Cane deliveries from small-scale growers amounted to 405 000 tons. The company continues its ongoing support of the small-scale grower sector. Cane re-development initiatives which commenced in the previous season and are being co-ordinated by Illovo and local cane growing associations are expected to realise meaningful cane production increases in the current year.

Sugar production

The extremely wet weather in October and November 2007, which disrupted cane deliveries and impacted negatively on factory processing conditions, brought a premature end to the 2007/08 crushing season in December. Total sugar production, which was also affected by lower output at Noodsberg due to reduced cane deliveries as a result of frost, was constrained to 868 000 tons, although this represented a 9% increase over production in 2006/07. The company's share of industry production rose by 2.4% to 38.2%. The sugar factories at Eston, Sezela and Umzimkulu all achieved good recoveries of sugar from cane, and overall operational and mechanical performance was positive.

Following further rain in January 2008, it was dry in February whilst good falls occurred in late March and April, providing for good growing conditions. Sugar production is expected to increase by about 5% in the current season.

Downstream

Despite lower than expected cane supplies to the Sezela factory, furfural production at the operation's downstream plant was marginally above the previous season, whilst output of furfuryl alcohol was slightly lower having been negatively impacted during the offcrop by the national electricity load-shedding activities. Both distilleries at Merebank and Glendale performed well throughout the season, with Merebank improving upon its record ethyl alcohol production of the previous year. The lactulose plant also performed well and is to undergo a capacity expansion during the current year in order to take advantage of a growing demand for the product.

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.

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continued



Total sugar production in South Africa was constrained to 868 000 tons due to various weather-related factors, although this represented a 9% increase over production in 2006/07. The Eston sugar mill is pictured above.

The group remains the major supplier of sugar to the South African industrial market. Domestic sugar sales to industrial users recorded a small growth over last year, having benefited from increased offtake in the first nine months of the year, but impacted negatively in the latter part of the season by reduced requirements of mineral water manufacturers as a result of a carbon dioxide shortage in South Africa. There was a reduction in sugar sales to the retail market due mainly to the presence of increased duty-paid imports in the domestic market.

Exports of refined sugar and direct consumption raws are undertaken by Southern Cross Sugar Exports (Pty) Limited on behalf of South African producers. During the 2007/08 season, approximately 27 000 tons of these sugars were exported on behalf of Illovo to a number of different destinations, at good premiums.

Illovo's raw sugar exports to the world market, undertaken by SASA, amounted to 311 000 tons. The average price realised by the industry, including hedging activities undertaken by SASA, was US10.48 cents/lb, which was a reduction in price compared to the previous year's high level, due to the lower average world market prices experienced during 2007/08. In respect of the 2008/09 season, around 540 000 tons of world market sugar have been priced to date by SASA at an increased average price of US12.92 cents/lb.

Increased furfural production costs in China, the world's largest supplier, and the closure of several plants resulted in a reduction of that country's overall furfural output. Consequently, with continuing strong market demand and decreased product availability, global prices of furfural and furfuryl alcohol rose sharply during 2007/08, benefiting Illovo's export returns for these products. Global diacetyl demand also remained strong, whilst the group benefited from increased 2,3-pentandione production and good prices.

Domestic usage of Agriguard, the agricultural nematicide, reflected promising gains across a wide range of crops and further increases in sales are expected in 2008/09 following approval by the Department of Agriculture for the product's use on citrus. Further progress is being made in the USA towards approval of Multi-Guard, as the product is known in that country, for terrestrial non-food applications, following the USA Environmental Protection Agency's approval last year for its use on greenhouse, non-food applications. Sales growth of BioMass Sugar, the sugar cane-based agricultural fertiliser, has been positive and is expected to expand in the forthcoming year.

Export sales of ethyl alcohol were impacted by lower world prices during the year. However, local demand was strong and prices remained at good levels. There was increased demand for lactulose, in both local and export markets, and prices were attractive.

Combined production of cane at Nchalo and Dwangwa in Malawi amounted to 1.910 million tons which was below expectation, however, for the greater part of the season, harvesting and haulage operations performed well. Cane expansions were undertaken at both estates during the year.



MALAWI

Illovo Sugar (Malawi) Limited is Malawi's sole sugar producer with two operations, Dwangwa situated in the centre of the country and Nchalo in the south. On average, the two estates combined produce more than 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.

During the offcrop, the factory capacity at Dwangwa was increased as the first part of a two-phased expansion project to increase total capacity by 15%. This is linked to the expansion of cane growing areas being undertaken by both the company and its outgrowers, whereby cane deliveries will increase by about 110 000 tons of cane per annum. In addition, at Nchalo, 200 hectares of land have been developed to cane to take advantage of the available factory capacity.

An expansion of Nchalo's production capacity has been approved, involving the development of 1 200 hectares of land to cane, of which 800 hectares is to be developed in the current season, and the remainder in 2009/10. During 2008, the use of existing factory capacity will be maximised to cater for the expanded cane supply, whilst a marginal factory capacity expansion will be undertaken prior to the 2009/10 season to accommodate the further increase in cane availability.

Agriculture

Combined production of cane at both estates amounted to 1.910 million tons which was below expectation, particularly at Nchalo where cane yields dropped materially below last year due to heavy rain and flooding prior to the commencement of the 2007/08 season. The average percentage sucrose in cane at both estates was also lower than last year. However, for the greater part of the season, harvesting and haulage operations performed well. Outgrower production of 205 000 tons was marginally above last year's output. At Nchalo, financial assistance has been secured from the EU in terms of its Accompanying Measures programme for the Kasinthula Smallholders' Scheme for improved management and future land expansions.

Sugar production

Factory performance was good, with a new cane crush record of 830 000 tons being achieved at Dwangwa. Both mills benefited from favourable harvesting conditions and better cane quality, which resulted in marginal increases in the recovery of sugar from cane. Sugar production for the season, having been affected by the reduced cane crop at Nchalo, amounted to 266 000 tons. Illovo's biomass initiative, which utilises residue leaves from harvested cane as a supplementary fuel for the boilers, was extended to Dwangwa during the season.

Good cane growing conditions have prevailed during the past summer and the 2008/09 cane crop has responded accordingly. This, combined with the various expansions, is expected to result in sugar production increasing by about 10% compared to last year.

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Factory performance in Malawi was good with both mills benefiting from favourable harvesting conditions and better cane quality. An expansion of Nchalo's production capacity has been approved, involving the development of 1 200 hectares of land to cane and the maximisation of existing factory capacity during 2008, followed by a marginal expansion prior to the 2009/10 season.

Downstream

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

Marketing

After a slow start, domestic sales of sugar increased significantly towards the end of the season due to the implementation of various marketing initiatives. Although domestic sales were lower than last year's record levels, general market performance was positive. Sales to preferential markets in the EU and USA increased by 23% compared to 2006/07, with improved rail and port logistics impacting positively on shipments to these destinations. With the significant escalation of marine freight rates, attention is focused on implementing a range of cost saving initiatives. Sales were also made into the SACU market in terms of SADC Sugar Protocol arrangements. Whilst demand was strong, regional exports were impacted by the lower sugar production and increased exports to preferential markets.



Agricultural operations performed well in Zambia with an increase in the average cane yield being achieved, although cane production was negatively impacted by the onset of early and heavy summer rains.



Zambia Sugar's preferential sales to the EU, including greater tonnages of higher-premium speciality sugars, increased by 28% compared to last year.

ZAMBIA

Zambia Sugar Plc, which is listed on the Lusaka Stock Exchange, is the country's principal sugar producer, with a 90% 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. Zambia Sugar syrup and speciality sugars are also produced.

A major agricultural and milling expansion is currently being undertaken at Zambia Sugar whereby an additional 10 500 hectares of irrigated cane fields are being developed by the company and its growers, and the factory expanded to produce 440 000 tons of sugar annually, an increase of 200 000 tons compared to production in 2006/07. Milling capacity has been increased for the 2008/09 season, whilst an additional 2 085 hectares of land have been developed to cane by growers. Own cane production in the 2008/09 season is expected to increase to around 1.3 million tons, whilst sugar production will increase significantly to around 300 000 tons. In the final phase of the expansion programme, to be undertaken during the current season and the 2008/09 offcrop, factory milling capacity will be further increased, with additional cane land development of around 7 500 hectares being undertaken by the company and its growers.

Agriculture

Agricultural operations performed well with an increase in the average cane yield being achieved. The onset of early and heavy summer rains affected harvesting and haulage activities, bringing the crop harvest to a premature end during December 2007. Consequently, cane production for the season was substantially less than that achieved last year.

Sugar production

Overall factory performance for the season was disappointing due to a number of operational and mechanical problems. Production was further constrained as a result of the very wet conditions late in the season and the earlier than planned mill closure, with final sugar output of 234 000 tons being achieved.

Following the wet end to the 2007/08 season, drier and warmer conditions prevailed during February and March 2008 and the cane crop responded quickly to the good growing conditions. Remedial measures have been undertaken at the factory to address last season's operational difficulties and, combined with both factory and cane land expansions, sugar production in 2008/09 is expected to be about 30% above that of last year.

Marketing

Concerted efforts to improve domestic market sales in Zambia, including improvements to the company's sugar distribution and depot systems and the promotion of specific pack sizes, resulted in a significant increase in demand, with sales increasing by 17% above those of last year. Preferential sales to the EU increased by 28% compared to last year, due to additional export tonnages, including quota re-allocations, being awarded to Zambia. The exports included increased tonnages of higher-premium speciality sugars. Sales were also made into the SACU market in terms of SADC Sugar Protocol arrangements. The supply of sugar to regional markets decreased during the year under review due to the increased domestic demand and preferential sales.

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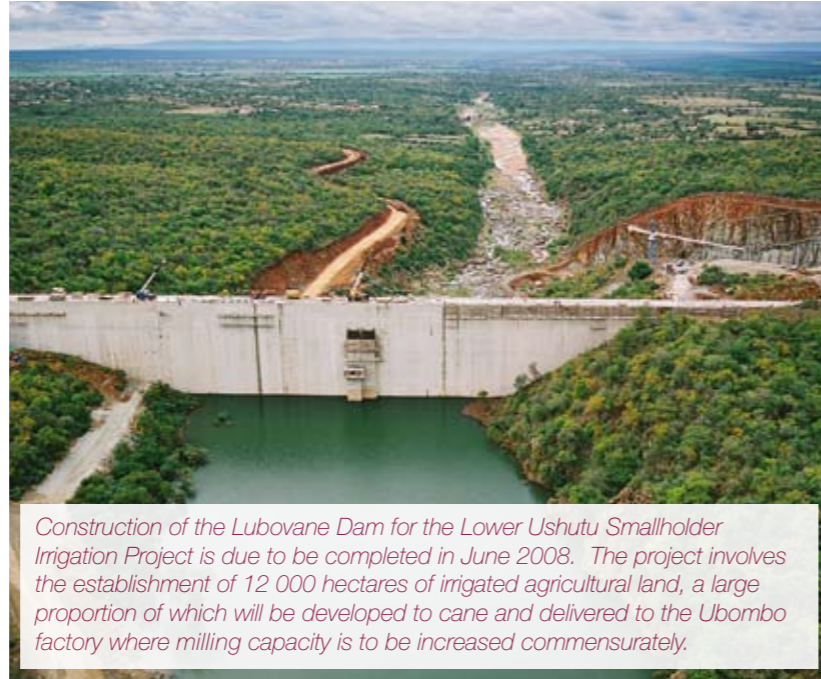
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Cane production of 768 000 tons in Swaziland was similar to that achieved in 2006/07.



The Ubombo factory operated well with a higher average hourly crush rate compared to last year.



Construction of the Lubovane Dam for the Lower Ushutu Smallholder Irrigation Project is due to be completed in June 2008. The project involves the establishment of 12 000 hectares of irrigated agricultural land, a large proportion of which will be developed to cane and delivered to the Ubombo factory where milling capacity is to be increased commensurately.

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.

The expansion plans for Ubombo have moved a step closer with good progress having been made with the independent Lower Ushutu Smallholder Irrigation Project (LUSIP). The project involves the establishment of about 12 000 hectares of irrigated agricultural land over a period of six to seven years, a large proportion of which will be developed to cane and delivered to the Ubombo factory where milling capacity is to be increased commensurately. Construction of the Lubovane Dam is due to be completed in June 2008, but the impounding of water has commenced. Work continues on other infrastructure, including the bulk water feeder system which will deliver water to the edges of new cane field developments. The first three grower associations have been granted water permits and authority to grow cane and, as a result, about 500 hectares of irrigated cane are expected to be developed during the coming season, with the first deliveries to the Ubombo factory expected in 2009/10.

In addition, the first phase of a company project to improve irrigation efficiency and thereby cane yields, involving the conversion of 2 740 hectares of land to centre-pivot irrigation will commence at Ubombo this season with the conversion of 650 hectares. A 200-hectare seed-cane nursery is also being developed by the company to supply seed cane to the LUSIP.

Agriculture

Cane production of 768 000 tons was similar to that achieved in 2006/07. After good rains at the start of the harvesting season, which improved river flow and replenished water

storage dams, the winter was very dry and maximum use was made of Ubombo's well-developed irrigation infrastructure to sustain the crop. Relief came from the early spring rains in October. However, heavy falls in November and December disrupted harvesting and haulage operations at the end of the season.

Sugar production

Consolidating on gains achieved in the previous season, the Ubombo factory operated well with good overall time efficiency and mechanical performance, and a higher average hourly crush rate compared to last year. The heavy rains at the end of the season negatively impacted the quality of the crop and severely disrupted cane supplies to the factory. As a result, final production of 222 000 tons was similar to that of the previous season. The use of biomass as a source of fuel for the boilers in order to generate electricity for factory, agricultural and other operations, was further enhanced during the year, reducing coal usage with significant cost saving benefits.

The first three months of 2008 were extremely dry, with rainfall constituting only 32% of the long-term mean for this period. Cane and sugar production in 2008/09 is expected to be similar to that of the past season.

Marketing

All sugar produced in Swaziland is marketed by the Swaziland Sugar Association, with sales to the domestic SACU market, preferential markets in the EU and USA, as well as regional markets. Sales into SACU were slightly above those of last year, whilst export tonnages to the EU and USA proceeded smoothly via Maputo. Although regional sales were less than those of last year, due to increased sales to the EU, demand was good.

Own cane production in Tanzania increased by 20% compared to last year. As part of a broader expansion programme, the 500-hectare Magombero land expansion project was completed during the year.

The factories operated well with improvements in crushing rates and recovery of sugar from cane. The milling capacity of the Ruembe factory was increased by 5%.



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 620 000 tons and 135 000 tons respectively.

Various phased initiatives have commenced at Kilombero to increase annual cane production by replanting fields with new higher-yielding cane varieties, improving irrigation effectiveness and increasing the company's area under cane. During the past season, the 500-hectare Magombero land expansion project was completed and the milling capacity of Kilombero's Ruembe factory was increased by around 5%.

Agriculture

Own cane production of 614 000 tons was 20% above last year, as a result of increased cane deliveries from the first phase of the recently-completed Magombero land expansion project along with better cane yields, due to the new varieties. The percentage sucrose in cane also reflected an improvement. In general, the agricultural operations performed well, however, variable weather conditions throughout the season, impacted upon growing and operating conditions. Wet weather in February and March 2008 brought an early end to harvesting operations. Cane produced by outgrowers amounted to 568 000 tons which was an 18% improvement over the previous year.

Sugar production

In general, the factories operated well with improvements in crushing rates and recovery of sugar from cane. A record average hourly crush rate was achieved by the Ruembe factory. Total production of approximately 127 000 tons was 23% above that of 2006/07, but was less than initial projections as a result of the factories having to stop operations prematurely as a result of the wet weather in February and March 2008.

Subsequent drier weather conditions and longer sunshine hours have resulted in good growing conditions and combined with initiatives to increase both cane yields and land under cane, sugar production in 2008/09 is expected to increase by about 12%.

Marketing

There are three producers in Tanzania with annual production amounting to approximately 265 000 tons. This is less than present domestic requirements of around 310 000 tons, with the shortfall supplemented by imports from the world market. In 2007/08, Kilombero's share of total industry sales was around 48%, with about 74% of this sugar sold locally and the balance exported to preferential markets in Europe. Trading conditions on the domestic market were difficult, impacted by large volumes of imported sugar. However, sales and prices improved towards the end of the season as the imported stocks were depleted. Sales to industrial customers were further consolidated during the year, with forward supply contracts guaranteeing offtake at agreed prices. Kilombero's sugar exports to the EU benefited from increased tonnages, including a quota re-allocation, granted to Tanzania.

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Record cane production of 460 000 tons was achieved in Mozambique. The board has approved a major expansion of Maragra's production facilities which will result in sugar output doubling over the next three years.

Sugar production at Maragra in 2007/08 was also a record, with domestic sales increasing by 10% compared to last year as the result of improved marketing and distribution initiatives.



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, to the north of Maputo. Maragra produces around 450 000 tons of cane and approximately 75 000 tons of sugar per annum.

During the season, good progress was made in respect of plans to increase sugar production at Maragra. The board has approved a major expansion of Maragra's production facilities, which will result in output doubling over the next three years. The project will result in a significant area of new land being developed to cane in co-operation with local communities.

Agriculture

Agricultural performance at Maragra was generally good, benefiting from favourable cane growing conditions and good operational performance. Compared to the previous season, there was an increase in cane yields and percentage sucrose in cane, and this combined with the incorporation of two previously privately-owned farms into the Maragra estate, resulted in cane production of 460 000 tons, representing a 35% increase. Heavy rains late in the season, however, had a negative impact on operations and harvesting activities had to be prematurely stopped.

Sugar production

Despite the wet conditions late in the season and the early closure of the factory, Maragra achieved new records of cane crushed and sugar produced. Sugar production of 75 188 tons was the most produced by any sugar operation in Mozambique during the season, with the factory benefiting

from improved cane quality, sugar recoveries and good operating efficiency levels.

During the summer, good sunshine hours and higher temperatures than normal have been favourable to cane growth and the crop is in good condition ahead of the 2008/09 milling season. Sugar production is expected to be 5% above the past year's record.

Marketing

Industry domestic sales of sugar increased by 10% compared to the previous season, benefiting significantly from improved marketing and distribution initiatives. Exports of sugar to preferential markets in Europe rose during the season due to increased EU allocations, and by supplying duty-paid sugar into Europe under the Everything But Arms (EBA) initiative, Mozambique avoided the sale of export sugar to the world market.

The group's Business Understanding Programme annually reaches all employees, promoting an understanding of the prevailing business climate at both operational and group levels.



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 plc, the subsidiary of Associated British Foods plc with responsibility for Illovo, is now an ongoing function, with research and development projects expected to 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 encourages focused, skilled employees to realise their full potential, to 'make a difference' in their areas of operation and who 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 to ensure that goals and objectives are achieved. Manpower benchmarking exercises are undertaken to ensure that structures are efficient.
-  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.
-  being the employer of choice in a skills market which is under growing pressure. To this end, remuneration packages which are merit-based and market-competitive in all countries of operation are constantly reviewed.

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In certain skill disciplines, such as engineers and artisans, these are being reviewed on a six-monthly basis. 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;

ensuring that sound employee relations prevail. Trade union involvement is a normal part of this process and some 80% of permanent employees are unionised. Collective bargaining forums, which determine the levels of wage rates and other substantive employment conditions, are established in all countries of operation. During the year under review, apart from a five-day work stoppage by agricultural employees in Mozambique, which was precipitated by seasonal employees, no time was lost to industrial action.

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 R26 million in this area over the reporting period, of which some 6% was used for business alignment workshops, 37% for technical-type training, 38% for management, supervisory and leadership development, 11% for safety 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. Approximately 19 000 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;
- the delivery of group-based management development programmes, aimed at both first-line and upper management. Some 350 managers completed these programmes during the reporting period;
- group co-ordinated engineer-in-training and management trainee programmes, presently involving some 70 graduates. The large majority of these employees are graduate engineers who provide a pool of critical skills in a market which is presently facing severe shortages;

- structured formal technical apprenticeships, with 75 employees presently enrolled across the group;
- in South Africa, the Training Outside Public Practice programme, allowing graduate accountants to continue their studies towards qualifying as Chartered Accountants, whilst in full-time employment by the company;
- 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 annual Employment Equity and Income Differential reports, covering progress made with the company's Employment Equity Plan, a key pillar of its Black Economic Empowerment programme, have been submitted to the Department of Labour and the Employment Equity Commissioner respectively. Progress continues to be monitored through a group Central Co-ordinating Forum which 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, are shown in the table below. They reflect a good improvement compared to last year, particularly in respect of external recruitment which incorporates the procurement of technical and engineering skills in a very competitive market.

| Representative areas | % designated | |
|---|--------------|------|
| | 2008 | 2007 |
| Management level | 58 | 54 |
| Skilled level | 87 | 84 |
| Promotions (management/skilled) | 91 | 75 |
| External recruitments (management/skilled) | 80 | 64 |
| Promotions (all levels) | 97 | 92 |
| External recruitments (all levels) | 91 | 88 |
| Combined recruitments & promotions (all levels) | 93 | 90 |
| Combined recruitments & promotions (management/skilled) | 84 | 70 |
| Skills development initiatives (permanent employees) | 90 | 90 |
| Management trainees | 91 | 85 |



During the past year, there were approximately 550 000 patient visits to the group's health care facilities, provided to employees and their dependants and surrounding communities where no such public facilities exist.

Overall focus continues to be given to designated appointments in the more senior levels of management.

Complement

The group's overall permanent manpower complement as at 31 March 2008 stood at 12 266. The focus remains one of right-sizing operations to ensure that the correct organisational structures are in place, staffed by competent people with appropriate skills to meet the group's operational objectives.

Employment was in the following categories -

- Sugar manufacture 6 409
- Agriculture 5 502
- Downstream 355

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 patient 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 services not provided by governments, such as the provision of potable water, sanitation and refuse removal, where 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 and biological monitoring of employees, 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 (VCT), 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 VCT as it enables individuals to become aware of their HIV status, empowering people to act safely and responsibly, and is therefore key to controlling the spread of the disease. To this end, the group continues to campaign for employees and their dependants to 'get to know their status' and in this regard, has set a target to test 40% of all employees annually. A further target has been set to ensure that at least 50% of HIV positive employees join the Wellness Programme. During the year 3 909 employees, representing 44% of the permanent complement, excluding those employees who have previously been identified as HIV positive, underwent VCT, whilst 60% of those who tested HIV positive joined the group's Wellness Programme.

Government interventions relative to the provision of anti-retroviral treatment (ART) are being closely monitored in all

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During the year, 3 909 employees, representing 44% of the permanent complement, excluding those employees who have previously been identified as HIV positive, participated in the group's voluntary counselling and testing programme.

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-ART centres, to allow employees and dependants on the Wellness Programme to be bridged into the government ART programme as and when their status for this treatment is medically necessitated;
- in Malawi and Swaziland, the group assists in implementing the government-funded ART programmes at its mill-based medical facilities whilst in Zambia a similar arrangement will be implemented during the course of 2008/09. Affected employees and dependants are presently being referred to government facilities as is the case in both Mozambique and Tanzania.

In respect of malaria, the group subscribes to the African continent's recognised 'Roll Back' malaria programme, with mosquito control spray programmes and the distribution of insecticide treated bed nets, being undertaken in the areas most affected. This, together with established laboratory testing facilities, enables early detection and prompt commencement of effective treatment. Close liaison is maintained with national malaria control units and in some cases the group's health centres are recognised sentinel sites for the collation of malaria statistics and research.

In the case of tuberculosis (TB), the group works closely with national programmes in this regard, and assists with the diagnosis, treatment and follow-up of TB cases where appropriate.

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.