

CHAIRMAN'S STATEMENT



Robbie Williams

Good results were achieved by the group for the year ended 31 March 2008 with headline earnings increasing by 16% to R599.6 million, whilst headline earnings per share increased by 15% to 171.6 cents. The group's profits benefited from a number of factors, most notably, increased sugar production, improved local market sugar sales and prices, a growth in exports to preferential markets in the European Union (EU), and good furfural and furfuryl alcohol export prices. In addition, profits also benefited from a significant decrease in the effective tax rate, due to a change in the rate applicable in Zambia and the tax allowances in respect of the expansion project in that country. These positive factors were offset to some extent by lower world and regional sugar prices, rising input costs and a material increase in financing costs.

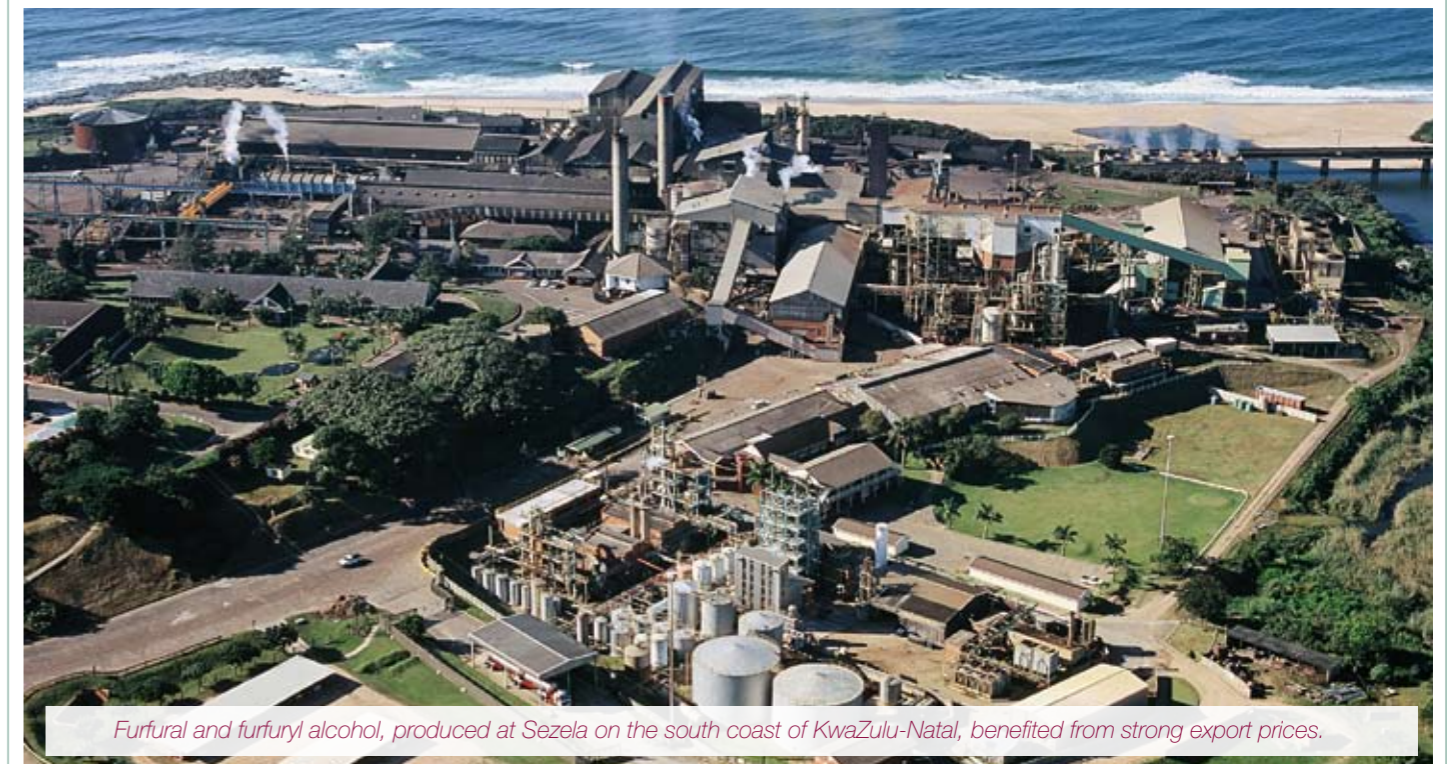
Group revenue increased by R530.5 million to R6.8 billion, whilst operating profit rose from R1 034 million to R1 065 million, with an operating margin of 15.7%. Net financing costs after dividend income increased from R96.4 million to R170.4 million, whilst taxation decreased significantly from R288.3 million to R140.7 million, due mainly to the 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%, although this can be expected to normalise at around 27% in the year ahead. Profit after tax increased by R99.5 million to R753.3 million.

Strong operational cash generation of R1 055 million was achieved. Group borrowings increased substantially from R272 million to R1 168 million as a result of the expansion projects embarked upon during the year, and gearing rose 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%.

The agricultural operations generally performed satisfactorily with cane production in the 2007/08 season amounting to 5.285 million tons, benefiting from increased cane and sucrose yields. A record 460 000 tons of cane was produced at Maragra in Mozambique. Group sugar production of 1.792 million tons was 4% above that of the previous season despite the heavy early summer rains which impacted negatively on the planned milling seasons. The performance levels of factories throughout the group were generally good, with improved recoveries of sugar from cane and better operational efficiency levels. 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. The Maragra factory performed well, and achieved record sugar production. The downstream plants in South Africa also operated well, with record production of 2.3-pentanediol and ethyl alcohol, whilst the furfural and furfuryl alcohol operations benefited from strong export prices.

The commencement of the Zambia Sugar expansion project during the year signalled the start of Illovo's major drive to significantly increase the group's cane and sugar productive capacity. This will be achieved through the expansion of existing operations, such as that in Zambia where sugar production will increase by 200 000 tons to 440 000 tons per annum, and through the group's involvement in new ventures, such as the proposed sugar project in Mali which was announced in November 2007. The first phase of the Zambian expansion is now operational and the overall project will be



Furfural and furfuryl alcohol, produced at Sezela on the south coast of KwaZulu-Natal, benefited from strong export prices.

finalised by April 2009. The Mali project, when complete, 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. Factory expansions have been completed at Dwangwa in Malawi and Kilombero in Tanzania during this past offcrop, whilst an agricultural and factory expansion will be undertaken at Nchalo in Malawi during the 2008/09 year. Thereafter, increases in capacity are to take place in Swaziland, as part of the Lower Usuthu Smallholder Irrigation Project, and in Mozambique where production is to be doubled over the next three years, involving the development of a significant area of new land to cane in co-operation with local communities.

Domestic markets 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 during the year under review. Significantly, domestic sales in Zambia increased by 17% compared to 2006/07, whilst those in Mozambique rose by 10% over the same period, with both operations benefiting from improved distribution and marketing initiatives. In Malawi, sales were marginally below last year's record offtake, whilst in Tanzania, sugar sales were negatively impacted by difficult trading conditions as a result of the presence of large consignments of imported sugar in the market in the first half of the season. Exports into preferential markets increased by 18% to around 250 000 tons. Demand from the group's regional markets remained strong, however sales to these regions were less than last season due to the increased domestic and preferential market sales.

Against the background of a record global surplus, the world raw sugar price traded at much lower levels than in the previous year. The price remained volatile and fell to a low of US8.37 cents/lb in June 2007, before rising to a high

of US15.02 cents/lb in March 2008. The average price achieved for Illovo's South African world raw sugar exports was US10.48 cents/lb compared to US14.92 cents/lb in the previous year. The lower world sugar price also impacted on regional market prices. The reduced prices were the result of significant production increases by the major sugar producers, notably Brazil and India. However, sugar prices rallied from December 2007 as a result of increased interest of global investment funds in commodities, including sugar. The scale and significant impact of this investment created a dislocation between shorter-term market fundamentals and futures prices. The investment funds were looking more at production cost trends of the major producers and future supply / demand balances. In addition, the relationship between the oil and sugar market continues to develop, with ethanol becoming an important factor in influencing sugar prices. The proportion of Brazil's cane production which is converted to ethanol, and the level of decline in production in India following two consecutive record crops could also have a marked impact on future export availability and prices.

The reform of the EU continues to take effect and since implementation domestic sugar quota renunciations have amounted to 5.6 million tons. The EU Commission had set a target for quota withdrawals of six million tons, and is able to make a final 'across-the-board' cut in quotas in 2010, if there is an imbalance between supply and demand at that time. However, it appears likely that following the latest renunciations, the European market will stabilise as intended. Negotiations to establish a number of interim regional Economic Partnership Agreements (EPAs) between the EU and African, Caribbean and Pacific (ACP) States have been concluded. EPAs constitute schemes by which free trade areas are created between the EU and ACP countries, the members of which have been split into seven regions, each under its own EPA. Whilst the interim EPAs will be finalised during the course of 2008, they became operative on 1 January 2008.

CHAIRMAN'S STATEMENT

continued

Domestic sales of sugar in Zambia increased by 17% compared to 2006/07, whilst those in Mozambique rose by 10% over the same period.



Exports to preferential markets, primarily to the EU, increased by 18% to around 250 000 tons.



The elements of market access for sugar included in the EPA's are as follows:

- The EU will bring to an end the existing ACP Sugar Protocol arrangements on 30 September 2009;
- The "Everything But Arms" (EBA) quota for Least Developed Countries (LDC's) in 2008/09 will be increased to cover a deferment of duty-free / quota-free access from 1 July 2009 to 1 October 2009. Import licensing during this period will continue;
- The "Complimentary Quantity" of approximately 230 000 tons, presently allocated to ACP states, will remain in place for 2007/08, in addition to a new duty-free tonnage of the same amount being made available to those ACP states concluding regional EPA's for supply in 2008/09;
- With effect from 1 October 2009, LDC's will have full duty-free / quota-free access to the EU for sugar with no volume limits applicable, but only subject to surveillance if fraud or abnormal volume surges occur;
- With effect from 1 October 2009, quotas will no longer apply and ACP-non-LDC states, which are signatories to an EPA, will be entitled to deliver duty-free / quota-free tonnages to the EU, up to various volume limits;
- As a mechanism to protect the market, a minimum price from 1 October 2009 to 30 September 2012 will be established as a "floor price", below which importers will be denied an import licence. Thereafter, no minimum price will apply.

Although South Africa is an ACP member state it currently has no preferential sugar access into the EU, and has chosen not to become a signatory to the Southern African Development Community (SADC) EPA, preferring at this stage to govern its trade with the EU under a Technical Development and Co-operation Agreement.

The successful conclusion of these negotiations with the EU is considered a reasonable outcome taking into account the various divergent positions of the parties involved, with the new arrangements providing significant future access for both ACP states and LDC's. At a group level, Illovo currently has operations in four ACP states / LDC's: Malawi, Zambia, Tanzania and Mozambique, and one ACP-non-LDC state: Swaziland. Mali is also an LDC. Much of the group's current expansion activity and future expansion plans have been underpinned by the envisaged increased sugar tonnages which these countries will be able to export to the EU following the finalisation of the Sugar Regime reform package, and the ultimate removal of export quotas applicable to ACP states / LDC's from September 2009.

The group remains focused on being the leading lowest cost sugar and downstream products producer in Africa. However, it is of concern that many of the basic input materials have increased significantly in price over the past year. On the agricultural side of the business, the cost of fertilisers and herbicides, vehicle operating and maintenance costs, and cane haulage costs have risen materially, whilst on the industrial side, the negative impact of steel, oil, coal, packaging materials and chemical price rises have been disquieting. The across-the-board price increases in food and transport has also resulted in wage increase pressures. Benchmarking techniques to measure and implement best practice methods continue to be utilised to optimise performance. The weaker US dollar and rising costs have affected all sugar producers, including the world's lowest-cost exporters. This could have an impact on world prices, as in the longer-term, prices need to reflect average costs of production of these producers.

The group continues to investigate the potential of supplying power into the electricity grids in the various countries in which it operates. Illovo's sugar factories utilise bagasse to generate sufficient power for ongoing factory operations, whilst



The commencement of the Zambia Sugar expansion project, which will increase annual sugar production at that operation to 440 000 tons, signalled the start of Illovo's major drive to significantly increase the group's cane and sugar productive capacity.



in most countries, additional power is produced in order to supply energy to the agricultural operations, particularly for irrigation. The group's objective is for its operations to become self-sufficient with regard to electricity requirements, and to supply power into the grids where the returns are attractive. To this end, Illovo continues to progress its bio-mass initiative, which utilises residue leaves and tops from harvested cane as supplementary fuel for the factory boilers. With the installation of the necessary factory equipment, this process is now undertaken at Ubombo in Swaziland and at both Dwangwa and Nchalo in Malawi. Discussions with national power producers and governments continue in various countries.

As advised in April 2008, the company has taken back ownership of the Umfolozi sugar mill and will be operating it during the current sugar season. Discussions regarding future long-term ownership arrangements are continuing.

The group continues to provide managed health care to its employees and dependants through direct access to group-run primary health care clinics and hospitals or through the provision of medical insurance schemes. In support of these activities, the group also addresses public health services not provided by governments, such as the provision of potable water, sanitation and refuse removal, or by upgrading these services where deficient. During the past year, there were approximately 550 000 patients visits to the group's health-care facilities. Occupational health is another 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 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.

Outlook

In the current year, own cane and sugar production are anticipated to exceed the levels achieved in the past season, whilst downstream production is expected to be at similar levels to those of last year. World sugar prices are presently above last year's levels but remain volatile. If they remain at current levels, it will impact favourably on revenues from both world and regional markets. The results for the current year will again be affected by the level of the rand compared to other currencies. Overall, it is anticipated that growth in earnings will be achieved in the year ahead.

Illovo's existing factory and field operations have significant growth potential and further expansions are being pursued across the group.

Directorate

We are pleased to welcome Mike Hankinson to the board as an independent non-executive director. Mr Hankinson has considerable experience in the corporate sector and is a director of other listed companies.

Appreciation

On behalf of the board, I would like to thank all the people of Illovo for their efforts, enthusiasm and contributions during the past year. The group has clear strategies for future growth and during the past year has commenced a number of significant projects. The year ahead has many opportunities and challenges for the people of the group.

R A Williams
Chairman

Mount Edgecombe
20 May 2008