

Chairman's statement



Robbie Williams

The group achieved sound results for the year ended 31 March 2009 with headline earnings increasing by 24% to R742 million, whilst headline earnings per share rose by 23% to 211.6 cents. Group operating profit increased by 30% to R1 386 million. The group's profits benefited from a number of factors, most notably, improved domestic market sales, higher world and regional market sugar prices, weaker exchange rates and good results from downstream operations. Lower sugar production in Zambia, Swaziland and Tanzania partly offset these benefits.

Net financing costs of R184 million reflect a small increase compared to the previous year, whilst taxation at R239 million remained relatively low mainly due to the Zambian subsidiary being granted expansion-related tax allowances. The group's effective tax rate was 19.9% (2008: 15.7%).

The contributions to operating profit were sugar production 52%, cane growing 36% and downstream 12%. By country, contributions were South Africa 19%, Malawi 45%, Zambia 12%, Swaziland 9%, Tanzania 9% and Mozambique 6%.

Strong cash operating profit of R1 207 million was achieved. However, group borrowings increased substantially from R1 168 million to R2 411 million as a result of the expansion projects during the year, with the debt : equity ratio rising from 40% to 70%.

The agricultural operations generally performed satisfactorily with cane production in the 2008/09 season amounting to 5.1 million tons. Adverse weather conditions in Swaziland and Tanzania impacted negatively on output in those countries, whilst in Zambia the difficulties experienced during phase 1 of the factory expansion resulted in a significant tonnage of cane being carried over to the next season. Group sugar production of 1.824 million tons was 2% above the previous season despite a 40 000 ton reduction in sugar production compared to the previous year in Zambia following the delayed start to the season and the

disappointing mechanical performance of the plant after phase 1 of the factory expansion. Phase 2 of the project was completed as planned in April 2009. The performance levels of the other factories throughout the group were generally good. The downstream plants have operated well, with output being similar to last year. World prices of furfural and lactulose were strong during the year.

Domestic market sugar sales across the group were encouraging with all operations achieving an improvement in offtake. Marketing initiatives and improved distribution, particularly in the rural areas, together with efforts of the authorities to control illegal imports were the main factors affecting the growth in sales. Exports into premium-priced markets are very important to the group's business and sugar sales into these markets were around 220 000 tons. Demand from the group's regional markets remained at a satisfactory level although slightly less than the prior year.

The world sugar price, although continuing to be very volatile, adjusted upwards during the past year. The improvement in this price also resulted in a firming of sugar revenue realisations in the regional markets supplied by Illovo. The world price rose in the early part of the year as a result of a forecast deficit in production, but then weakened in line with other commodities. However, in recent months the price has increased strongly, driven by a significant production decline in India, the success of the European Union (EU) Sugar Regime reform in reducing output in that region, and capital constraints within the sugar industry in Brazil. These factors have resulted in a material global deficit in production being anticipated, thereby creating a platform for higher sugar prices.

Reform of the EU Sugar Regime has been completed via a process of structural reform which has seen the reduction of EU export subsidies and the lowering of domestic farm support for European beet farmers. Annual domestic sugar production in the EU has reduced by nearly six million tons as a result of these measures which were also accompanied



Cane production in 2008/09 amounted to 5.1 million tons with the agricultural operations generally performing satisfactorily.

by a restructuring grant to affected EU producers. The price payable to suppliers of sugar into the EU was also reduced as part of the reform.

The net result of the reform will be to move the European sugar market from surplus into deficit. This will enable traditional exporters of sugar to the EU, mainly Least Developed Countries (LDCs) and member states of the African, Caribbean and Pacific (ACP) trade group, to continue to export to the EU on preferential terms such that the EU sugar market maintains equilibrium. Imports into the EU from these traditional suppliers are projected to reach 3.5 to 4.0 million tons by 2015, with new market access arrangements coming into force from 1 October 2009. These arrangements provide duty-free, quota-free access to the EU sugar market for qualifying LDC/ACP suppliers on the basis of unrestricted access for LDCs, with ACP access being limited by a safeguard ceiling of 3.5 million tons. Previous quality restrictions which limited imports to bulk raw sugar for refining will also be relaxed from 1 October 2009, and exporters to the EU will in future be entitled to supply sugar of various qualities as required by different customers. The new EU sugar arrangements have been incorporated into the terms of new Economic Partnership Agreements (EPAs) currently being negotiated between the EU and the supplying regions. These market access changes are positive for the Illovo group, although the lower prices received in these markets have impacted on export revenues. The company has concluded an investment in a United Kingdom-based joint venture with British Sugar which will provide an effective route to the EU market for Illovo's export sugars from 1 October 2009.

Illovo has embarked on a major drive to significantly increase its cane and sugar productive capacity. The first step was the Zambian expansion project, with phase 2 of the project being completed as planned on 1 April 2009. The project increases the capacity of the Nakambala sugar mill to 450 000 tons of sugar per annum. The expanded factory is settling down and is operating at design capacity.

The group has, subject to approval by the Zambia Competition Commission and other regulatory authorities, acquired a majority stake in a cane growing company currently producing 325 000 tons of cane per annum with the potential to further increase output. This operation delivers its cane to the Nakambala sugar mill. A rights offer has been announced by Zambia Sugar Plc, the group's Zambian subsidiary, to secure the future financing requirements of the Zambian business.

The Mali project continues to progress, albeit slowly, particularly in respect of the social and environmental impact studies which are required in respect of the concessional funding for the agricultural development. The commercial planting of sugar cane is expected to commence in the first quarter of 2010, with sugar production anticipated to start in December 2011.

The expansion of the group's sugar factory at Maragra in Mozambique, which will result in output from that operation doubling to 150 000 tons of sugar per annum over the next three years, is progressing well with phase 1 completed in April 2009. The group has entered into a joint venture with the local community at Maragra to develop 4 000 hectares of land to cane over the next two years at a site located on the east bank of the Inkomati River approximately 40 kilometres from the mill. The joint venture will produce 400 000 tons of cane per annum and the project is linked to the factory expansion. The company has also acquired an option to purchase a 90% shareholding in the Búzi sugar estate situated near Beira, which provides the opportunity to erect a sugar factory capable of producing 150 000 tons of sugar per annum in the future.

In Malawi the marginal factory expansion and increase in cane land area at Nchalo was successfully completed prior to the commencement of the new sugar season.

Illovo plans to transfer its South African business to a wholly owned subsidiary with effect from 1 April 2010. In addition, it has undertaken a number of disposals and investments

Chairman's statement continued

in South Africa which will result in a more streamlined business. The sale of the Umfolozi sugar mill to a grower consortium was completed on 31 March 2009, with payment received in full. An agreement to sell the Pongola sugar mill to TSB Sugar RSA Limited has been concluded, subject to approval by the Competition Commission. The company has acquired a 30% shareholding in and will provide technical services to a new business entity which has purchased the Gledhow sugar mill which was previously wholly-owned by Ushukela Milling (Pty) Limited (Ushukela). The other shareholders in this new business entity comprise Ushukela, a consortium of supplying cane growers and Sappi Manufacturing (Pty) Limited.

The group continues on its path to become self-sufficient in respect of power requirements for its operations as well as supplying power into the national 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 in most countries, additional power is produced in order to supply energy to the agricultural operations, particularly irrigation. Illovo continues to progress its bio-mass initiative which utilises residue leaves and tops from harvested cane as supplementary fuel for the factory boilers.

The group remains focused on being the leading low cost sugar and downstream products producer in Africa. Benchmarking techniques to measure and implement best practice methods, as well as in house technical expertise, are used to optimise returns on installed capacity. Despite significant increases in input costs, such as fertilizer and steel, the group has continued to ensure that its

factories and field operations are well maintained and that factory offcrop maintenance programmes and field ratoon management and replant programmes are carried out in line with best practice.

Risk management is an integral part of Illovo's business. The safety, security and preservation of our people are essential for the group's sustainable growth. The NOSA Integrated Five Star System covering safety, health and environmental management is implemented at all the cane growing and factory operations. The Disabling Injury Frequency Rate (DIFR) measurement of safety performance is used in all the group's operations, and is included as one of the line-of-sight targets for the performance related bonus scheme. It is pleasing that the DIFR measurements reflect a significant improvement over the past year.

In order to meet the ongoing financial requirements of the group, existing facilities have been renewed. In addition it is intended that a rights issue be undertaken by the company to raise fresh capital to provide for current and longer term growth plans. This initiative has the full backing of the holding company which has indicated a willingness to support a rights offer to shareholders at or around the prevailing share price. Shareholders will be advised further as this matter is progressed.

Outlook

In the current year, own cane and sugar production are anticipated to exceed the levels achieved in the last season, whilst downstream production is expected to be at similar levels to those of last year. World sugar prices are anticipated to remain above last year's average levels but

The performance levels of factories were generally good with group sugar production amounting to 1.824 million tons, 2% above that of last year.



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to continue to be volatile. Provided they remain at current levels, it will be favourable for revenues from both world and regional markets. Domestic market offtake is expected to remain positive. The results for the current year will however be affected by the level of the rand compared to other currencies. Financing costs as a result of increased borrowings related to the major expansion projects, are anticipated to increase significantly. The effective tax rate is expected to normalise at around 30%.

Directorate

I would like to congratulate Graham Clark on his appointment as Managing Director with effect from 1 April 2009. Mr Clark has extensive operational, commercial and financial experience in the sugar industry throughout Africa and internationally. He joined the sugar industry in 1980 and the Illovo board in 1997.

My congratulations also go to David Haworth and Larry Riddle who have been appointed as executive directors, both of whom have considerable experience within the group's operations.

I am pleased to welcome Nosipho Molohe as an independent non-executive director. Mrs Molohe has experience in the corporate sector and is a director of other listed companies.

Imogen Mkhize, who has been a non-executive director of the company since November 2005, resigned from the board due to increasing demands on her time and I thank her for her contribution during her tenure on the board.

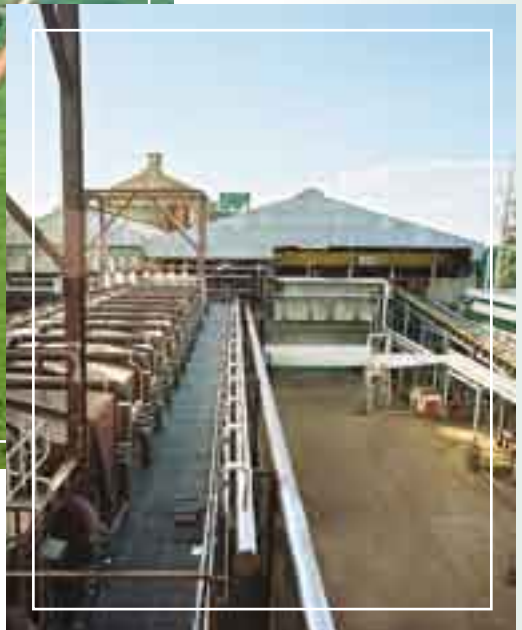
John Russell, who has been an executive director of the company since 1993, and Don MacLeod who was Managing Director from 1992, both retired on 31 March 2009. I would like to thank them both for their meaningful contribution to the company over a long period of time. Mr MacLeod became a non-executive director and Deputy Chairman on 1 April 2009 and the company will continue to benefit from his experience.

Appreciation

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

R A Williams
Chairman

Mount Edgecombe
26 May 2009



The Zambian expansion project, increasing sugar production to 450 000 tons of sugar per annum, was completed as planned on 1 April 2009, marking the first step in Illovo's major drive to significantly increase its cane and sugar productive capacity.