SUGAR ILLOVO LIMITED

Integrated Annual Report

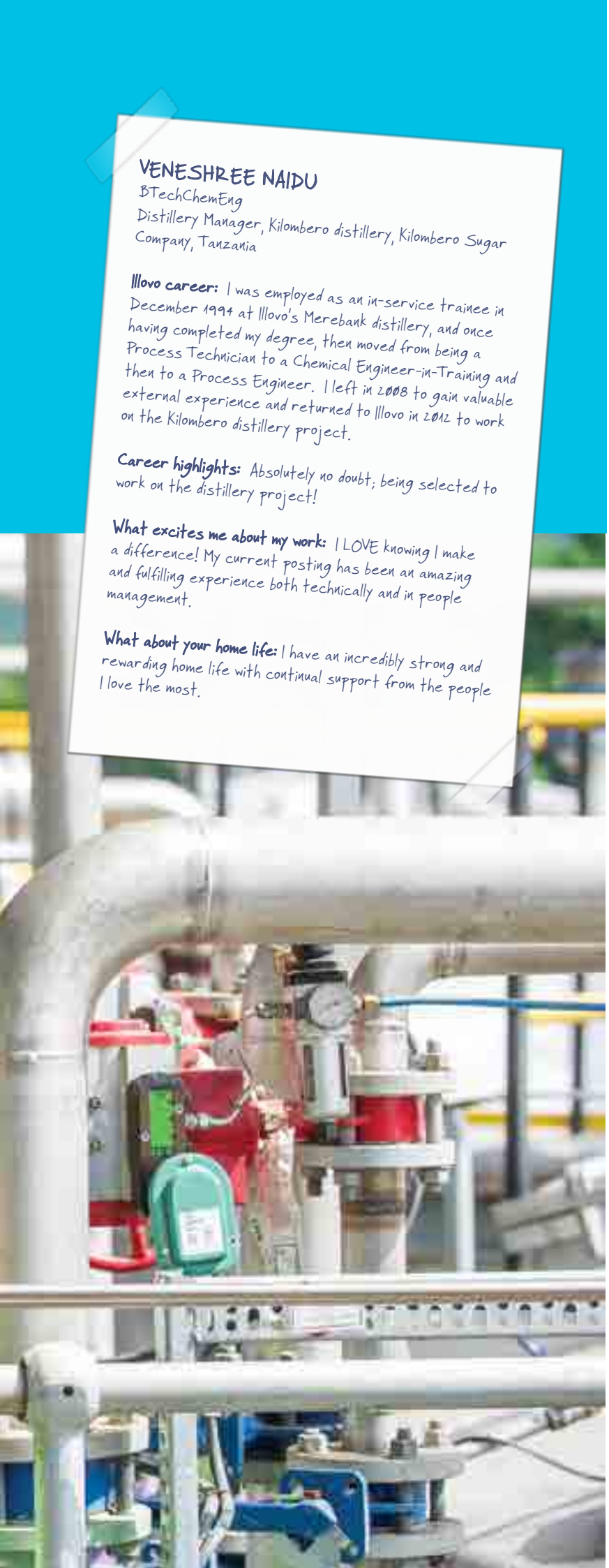
for the year ended 31 March 2014

More than sugar....

Illovo annually employs around 12 500 permanent and as many as 19 000 seasonal employees, extending over a wide geographic footprint from the central regions of Tanzania to the world's southern-most cane sugar factory at Umzimkulu in KwaZulu-Natal. These are the men and women who tend our cane fields, operate our state-of-the-art manufacturing equipment, administer our vast business processes and deliver our sugar and downstream products to domestic, African regional, preferential European and United States and other markets across the globe.

Our 2014 Integrated Annual Report, in addition to accounting for our physical, financial and other performance for the period, recognises the significant contribution that all of our people make towards the long-term economic, social and environmental sustainability of our business, driven by their personal pursuit of excellence and guided by a rich environment of human resource development and well-established organisational culture and values.

Scan this barcode, or go to **www.illovosugar.com** to access our online 2014 Integrated Annual Report, including the full annual financial statements and the GRI Index.



VENESHREE NAIDU
BTechChemEng
Distillery Manager, Kilombero distillery, Kilombero Sugar Company, Tanzania

Illovo career: I was employed as an in-service trainee in December 1994 at Illovo's Merebank distillery, and once having completed my degree, then moved from being a Process Technician to a Chemical Engineer-in-Training and then to a Process Engineer. I left in 2008 to gain valuable external experience and returned to Illovo in 2012 to work on the Kilombero distillery project.

Career highlights: Absolutely no doubt; being selected to work on the distillery project!

What excites me about my work: I LOVE knowing I make a difference! My current posting has been an amazing and fulfilling experience both technically and in people management.

What about your home life: I have an incredibly strong and rewarding home life with continual support from the people I love the most.

Contents

Scope of report

This Integrated Annual Report **continues our journey** towards **effective integrated reporting** and aims to provide our stakeholders with a **comprehensive perspective** of past and current performance, as well as giving **insight** into our business strategy and future prospects.

The report covers the Illovo group's economic, social, governance and environmental performance for the year ended 31 March 2014, and provides a review of the cane, sugar and downstream operations of each of the company's subsidiaries in six African countries: Malawi, Mozambique, South Africa, Swaziland, Tanzania and Zambia. Information regarding our agricultural, manufacturing and marketing activities is included in order to promote understanding of the group's primary processes and to provide an informed assessment of the group's risks and opportunities and its ability to create and sustain value in the long term, for the benefit of all our stakeholders (most notably, our shareholders, investors, employees, trade unions, customers, our sugar cane growers and other suppliers, service providers, and the local communities in which we operate).

There has been no change to the structure of the business in the year under review and accordingly this report builds on, and is comparable to, the company's Integrated Annual Reports for the 2012 and 2013 reporting periods. However, in line with our aim to move toward a more integrated reporting process, we have restructured this year's report, taking cognisance of the guidance given by the International Integrated Reporting Framework published in December 2013.

This includes the ongoing process of identifying, disclosing and prioritising the group's material issues. These issues, and their potential positive or negative impacts upon the group's sustainable value-creating ability, are more fully described on pages 105 to 107.

In line with our sustainable business strategy, we are guided by the principles of the United Nations Global Compact and our Social and Ethics Committee Report provides an overview of our journey toward incorporating these principles into our business practices in all of our operations.

In relation to our corporate social responsibility initiatives, during 2013 we initiated an independent socio-economic impact assessment of our business by an internationally recognised global corporate responsibility consultancy, the results of which are included in this report and in more detail on our website at www.illovosugar.com.

Reporting standards and assurance

In compiling this report, we have adhered to the applicable legislative and regulatory requirements for reporting, including:

- the Companies Act 2008 and the Companies Regulations 2011;
- the Listings Requirements of the JSE; and
- the requirements of King III.

We have also been guided by relevant national and international frameworks, including:

- the International Integrated Reporting Framework;
- the Global Reporting Initiative's (GRI) G3 Guidelines and the JSE's Socially Responsible Investment (SRI) Index 2013; and
- ISS Proxy Advisory Services' assessments, GES Investment Services' ESG assessments, and other best practice integrated report frameworks.

Assurance in relation to our annual financial statements has been provided by the independent external auditors, Deloitte & Touche. The sustainability aspects of the report have been externally assured by Integrated Reporting & Assurance Services (IRAS), confirming that it meets the GRI's Application Level B requirements (B+ with its assurance). A summary of the assurance statement is provided on page 96, with the full statement appearing on our website. Other sections of the report, such as Illovo's B-BBEE rating, have been audited by relevant accredited external verification agencies.

This report is available on our website at www.illovosugar.com, as is an index of the GRI sustainability performance indicators, and the full annual financial statements.

Approval of Integrated Annual Report

The board acknowledges its responsibility to ensure the integrity of this report. The directors have collectively assessed the content and believe the report addresses all material issues and presents fairly the integrated performance of our group and have authorised the release of this report. The board has authorised the release of this report for 2014.

Don MacLeod
Chairman

Gavin Dalgleish
Managing Director

23 May 2014

Illovo is a **leading sugar producer** and a significant manufacturer of **downstream products**.

The group is Africa's biggest sugar producer and has extensive agricultural and manufacturing operations in six African countries. The group produces raw and refined sugar for local, regional African, European Union (EU), United States of America (USA) and world markets from sugar cane supplied by its own agricultural operations and independent outgrowers who supply cane to Illovo's factories. High-value products manufactured downstream of the sugar production process are sold internationally into niche markets. Installed electricity generating capacity, fuelled by renewable resources, provides 90% of the group's energy requirements. Illovo is listed on the JSE Limited and is a subsidiary of Associated British Foods plc which holds 51.4% of the issued share capital.

The group's countries of operation provide good climatic and soil conditions, which, accompanied by irrigation from secure and sustainable water sources, are ideal for the cultivation of high-yielding and high-quality sugar cane, with 6.1 million tons of sugar cane having been harvested by our own operations in the 2013/14 season. Combined with cane supplied by independent outgrowers in all six countries of operation, the group has the capacity to produce more than two million tons of sugar annually.

The group is a major supplier of sugar to the consumer and industrial markets in its own countries of operation and to neighbouring regional African markets, using an extensive network of distribution and logistics channels. It also exports sugar to the EU and USA and, through the South African sugar industry, sells sugar into the world market. Syrup and speciality sugars are produced in South Africa and Zambia mainly for domestic consumption, while speciality sugars made in Malawi and Zambia are produced for preferential markets in the EU and in the case of Malawi, also for the USA.

The majority of our downstream production is sold internationally into high-value, niche markets. Furfural and its derivatives are produced at the Sezela mill complex on the south coast of KwaZulu-Natal while high-quality ethyl alcohol, from which various grades of alcohol are made, is produced at the Glendale distillery on the north coast and at our Merebank plant in Durban, which also manufactures lactulose. In Tanzania, the newly-commissioned distillery adjacent to our Kilombero mills, supplies potable alcohol to the local and regional beverage industry. In addition to the production of potable and denatured alcohol from molasses in South Africa, opportunities to expand Illovo's involvement in this area of operation are being explored across the group.

Illovo aims to ensure reliable cost-effective energy supply utilising bagasse and biomass generated from its operations, and where attractive, to export power into the national grids of the countries in which we operate.

As a major private investor in Africa, Illovo operates and markets its products in countries which face considerable challenges in the form of poverty, unemployment, inequality and disease. The United Nations (UN) classifies Malawi, Mozambique, Zambia and Tanzania as among the world's least developed countries. The group has a significant positive impact on the rural communities in the areas in which we operate, inter alia, by creating valuable jobs and economic opportunities, and providing accommodation, healthcare, educational assistance and basic services to employees. In addition, where no such facilities exist, the group provides medical care to communities, assists in education delivery, provides municipal and civic services and access to water and sanitation, and participates in community outreach programmes. Considerable training and other support is provided to local small and medium-scale growers in order to promote sustainable agriculture and economic development activities. The total cane supplies from these growers and community-based co-operative schemes amounts to approximately 3.6 million tons annually.

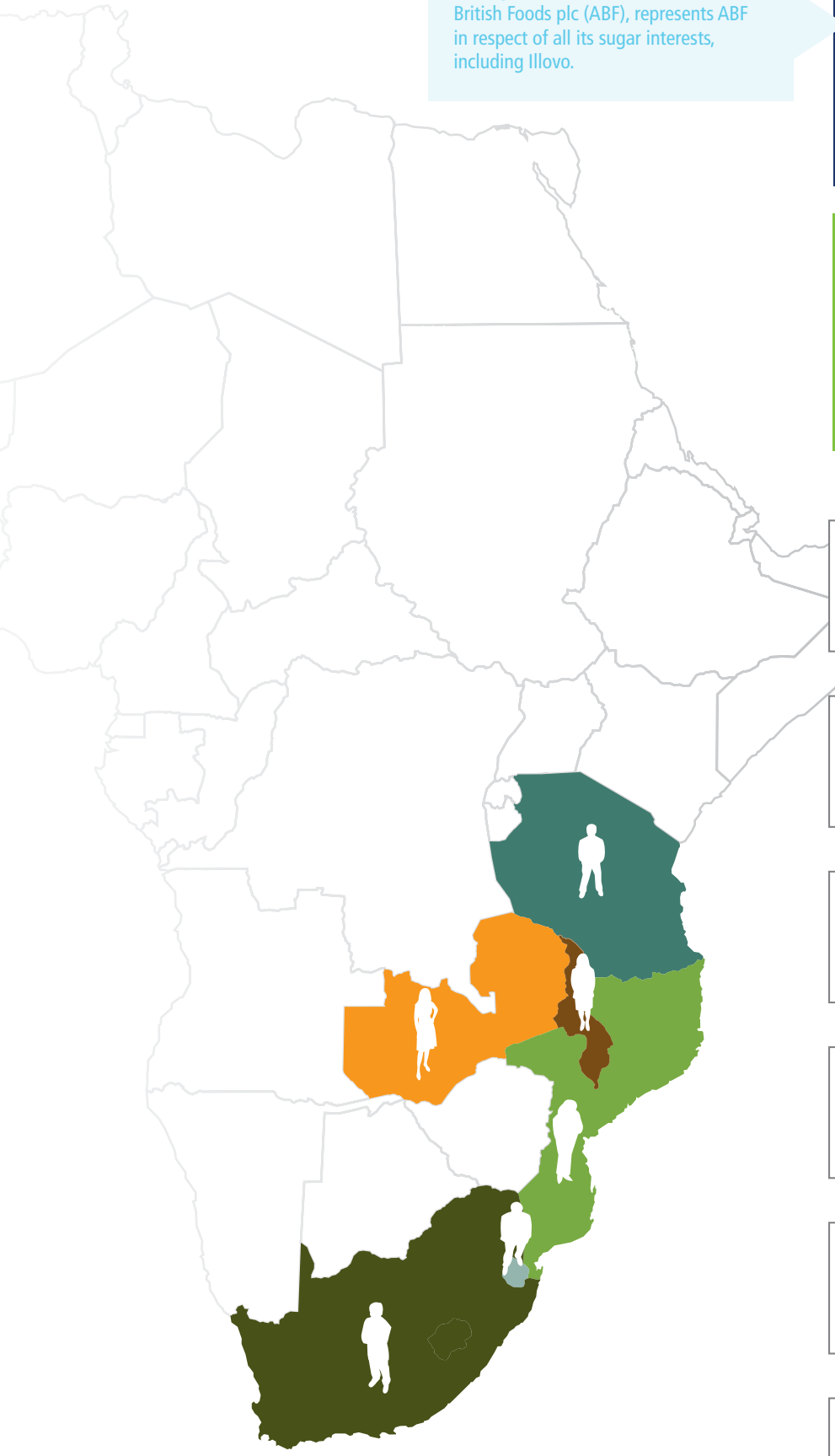
Group structure and locations

AB Sugar, as a division of Associated British Foods plc (ABF), represents ABF in respect of all its sugar interests, including Illovo.

ASSOCIATED BRITISH FOODS

51.4%

ILLOVO SUGAR LIMITED



MALAWI	
Illovo Sugar (Malawi)	76%

MOZAMBIQUE	
Maragra Açúcar	90%

SOUTH AFRICA	
Illovo Sugar SA	100%

SWAZILAND	
Ubombo Sugar	60%

TANZANIA	
Kilombero Sugar	55%

ZAMBIA	
Zambia Sugar	82%

MALAWI

KEY ELEMENTS	PRODUCTION OF:	CONTRIBUTION TO GROUP OPERATING PROFIT
• Irrigated sugar cane estates • Two sugar factories and refineries • Internal electricity generation	• Sugar cane • Raw and refined sugar • Speciality sugar	39%

MOZAMBIQUE

KEY ELEMENTS	PRODUCTION OF:	CONTRIBUTION TO GROUP OPERATING PROFIT
• Irrigated sugar cane estates • One sugar factory • Internal electricity generation	• Sugar cane • Direct consumption raw sugar	2%

SOUTH AFRICA

KEY ELEMENTS	PRODUCTION OF:	CONTRIBUTION TO GROUP OPERATING PROFIT
• Three rainfed sugar cane estates • Four sugar factories, one including a refinery and 30% share in managed operation (including a refinery) • Three downstream plants and 50% share in ethanol distillery • Central warehouse and distribution facility • Internal electricity generation	• Sugar cane • Raw and refined sugar • Speciality sugar • Downstream products: furfural, furfuryl alcohol, diacetyl 2,3-Pentanedione, Agriguard products, ethanol, lactulose, syrup and treacle, CMS	14%

SWAZILAND

KEY ELEMENTS	PRODUCTION OF:	CONTRIBUTION TO GROUP OPERATING PROFIT
• Irrigated sugar cane estates • One sugar factory and refinery • Internal electricity generation • Electricity exports	• Sugar cane • Raw and refined sugar	14%

TANZANIA

KEY ELEMENTS	PRODUCTION OF:	CONTRIBUTION TO GROUP OPERATING PROFIT
• Irrigated sugar cane estates • Two sugar factories • Potable alcohol distillery • Internal electricity generation	• Sugar cane • Direct consumption raw sugar • Ethanol	1%

ZAMBIA

KEY ELEMENTS	PRODUCTION OF:	CONTRIBUTION TO GROUP OPERATING PROFIT
• Irrigated sugar cane estates • One sugar factory and refinery • Internal electricity generation	• Sugar cane • Raw and refined sugar • Speciality sugar • Syrup	30%

Vision and values

The **vision** of the group is to be a **world-class**, **low-cost** and highly efficient organisation, operating on the African continent, **adding value** to its core products of fibre, sugar and molasses.

We seek to enhance shareholder wealth and optimise growth, achieving a sustainable, balanced and integrated economic, social and environmental performance, while taking cognisance of the interests of our stakeholders.

The **values** we seek to embed in **all** our **business operations**

INCLUSIVENESS
embracing diversity

EMPOWERMENT
empowering our people

COMMITMENT
working collaboratively

INTEGRITY
upholding our values

ACCOUNTABILITY
delivery-focused

Strategic intent

* To be the leading sugar and downstream products operation in Africa, an increasing global supplier and a world-class organisation
* To be the lowest-cost producer in every country in which it operates and among the lowest-cost producers in the world
* To optimise the return on every stick of cane by adding value to its core commodity products – fibre, sugar and molasses. It will focus on its core business and develop material niche operations which add value
* To provide a safe working environment for all employees, contractors and stakeholders
* To be the market leader, meeting and proactively anticipating customer needs
* To increase profits in real terms on a sustainable basis and maximise the return on capital employed through cost leadership, the use of innovative technology and the participation of all of its employees
* To be a moral, performance-focused organisation that people are proud to work for, where they are challenged to "go the extra mile", feel they can make a difference and know that good performance is recognised
* To be welcomed in the communities in which it operates because of what it does, how well it does it and be accepted as a progressive company by all communities; aligning strategies to meet changing circumstances in the various countries in which the group operates
* To be cognisant of the rural locations of the group's operations and the impact that it has on job creation and poverty alleviation in such areas

Goals and objectives

Primary objectives

* To achieve sustainable, balanced and integrated economic, social and environmental performance
* To provide all employees with a working environment that is safe and without risk to their health

Growth

* To expand the group's sugar and cane production profitably
* To consolidate and improve the profitability of downstream products and develop new applications where appropriate
* To maximise usage of bagasse and biomass to generate electricity for own operations and to supply power into national grids
* To seek new opportunities for sugar and downstream products nationally and internationally

Profitability

* To achieve a competitive rate of return on shareholders' funds and increase profits on an ongoing basis in real terms
* To maintain a distribution/dividend cover of at least two times

Asset management

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

Product development

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

Human resources

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

Corporate governance

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

Production and market statistics for the year ended 31 March 2014

Revenue increases by **20%**

Headline earnings per share growth of **4%**

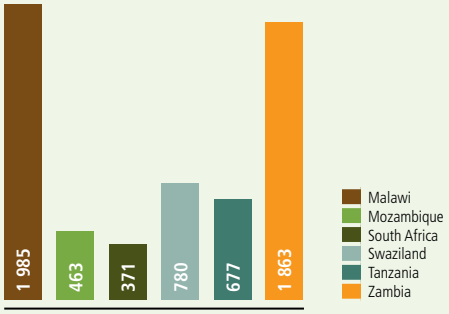
Total distribution of **97** cents per share

Sugar production increases by **5%** to **1.83 million tons**

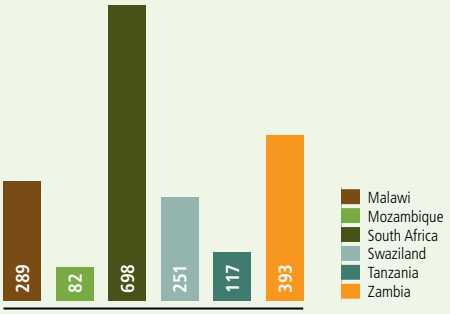
Production increases across downstream sector

Sugar sales volumes increases by **8%**

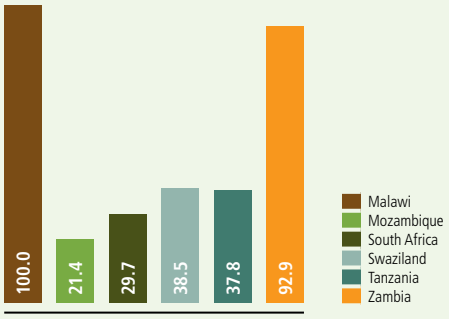
Own cane production 6 139 tons (000s)



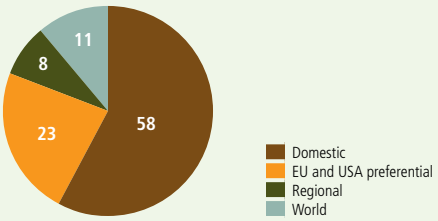
Sugar production 1 830 tons (000s)



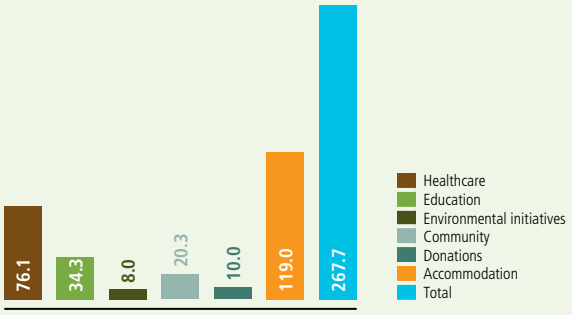
Share of industry sugar production (%)



Group sugar markets (%)



Group employee and social investment spend* (Rmillion)

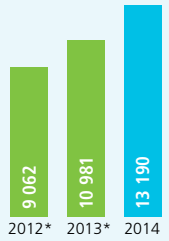


Downstream production		
Furfural	(tons)	19 695
Furfuryl alcohol	(tons)	9 338
Diacetyl	(kg)	131 000
Lactulose	(tons)	8 386
Ethanol	(kℓ)	63 215
Syrup	(tons)	6 307
Agriguard	(kℓ)	550
Swaziland co-generation	(GWh)	44.80

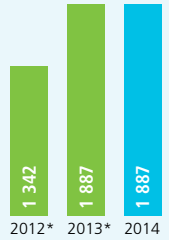
** Includes both company expenditure on employee benefits and community social investment spend.*

Financial and non-financial indicators for the year ended 31 March 2014

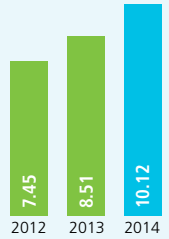
Economic



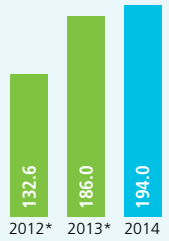
Revenue (Rmillion)*



Operating profit (Rmillion)*



Average exchange rate (R/US$)



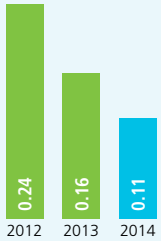
Headline earnings per share (cents)*

Year-end market price (cents per share)

* *Restated*

Social

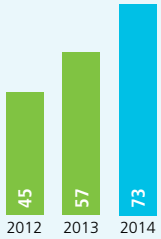
Total number of employees (permanent and seasonal)



Safety statistics: Target 0.35 (DIFR)

Employee turnover (% of complement)

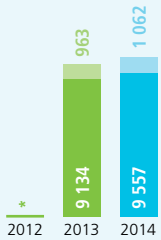
Local citizens employed in senior management (%)



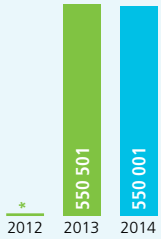
Training and employee development spend (Rmillion)

Environmental

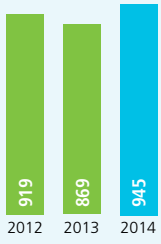
Energy: Group energy requirement produced from renewable resources (%)



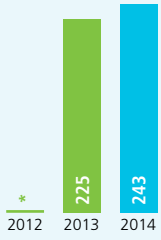
Total energy: Consumption by fuel category: renewable/ non-renewable (GWh)



Emissions: Group GHG emissions (tCO_2e)



Water footprint: Water abstraction (million litres)



Waste: Effluent produced** (million m^3)

* *Not comparable; previous basis of calculation.*

** *Includes cooling water but excludes effluent re-used for irrigation.*

Illovo's integrated business sustainability model

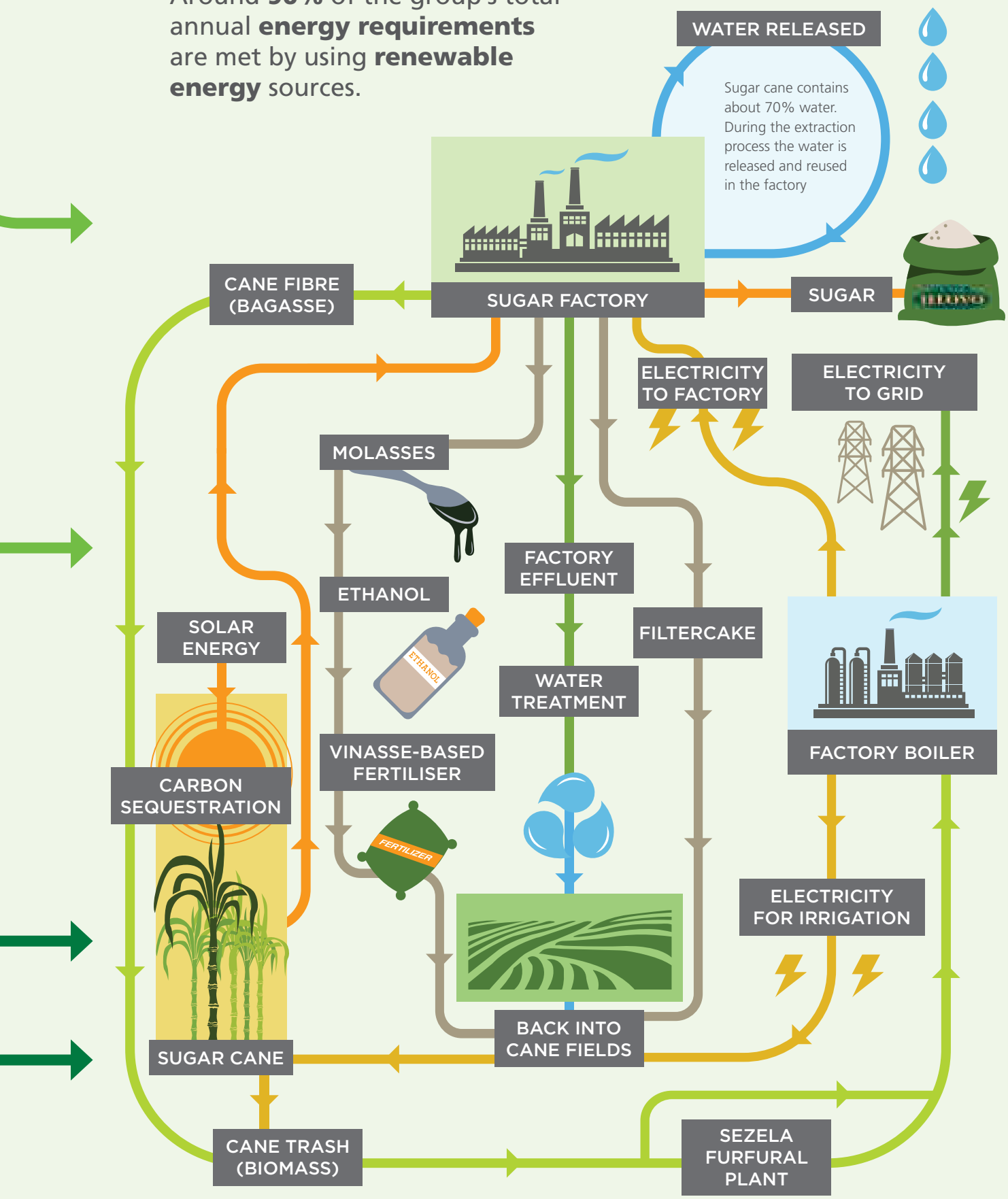
Integrated sugar cane processing

1. Illovo's sugar milling complexes maximise the use of all input materials with very few waste products
2. Sugar cane contains between 13% and 15% sucrose, which is used in sugar mills to produce granulated brown and refined sugar
3. Cane fibre or bagasse, the fibrous residue following the sugar extraction process, is used as a bio-renewable fuel source in the factory boilers to produce steam for processing requirements and to generate electricity. Illovo aims to be power self-sufficient for factory and estate irrigation before exporting to national grids. In 2013/14, 90% of the group's power requirements were produced by the group's own installed electricity-generating capacity
4. At Illovo's operations in Swaziland and Malawi, cane trash is blended with bagasse to increase the volume of fuel feedstock for the boilers, thereby providing for increased electricity generation
5. Water contained in sugar cane amounts to between 68% and 72% of total content. During the extraction process, this water is released and recycled for use within the factory, reducing reliance on external water resources
6. At the Sezela downstream plant in South Africa, plant material in the bagasse is extracted to produce furfural and its derivatives. The resulting furfural reactor residue is returned to the sugar mill boilers as fuel:
   - Electricity from the sugar mill is then used to produce hydrogen by electrolysing water, after which the hydrogen is used to catalytically convert furfural to furfuryl alcohol
   - A furfural process side stream of natural solvents is further refined through a process of freeze crystallisation to produce food flavour chemicals
   - Furfural is also used as the active ingredient in our Agriguard, nematicide products
   - This core activity of the group produces low-volume, high-value products which contribute significantly to our total revenue stream
7. Organic and non-organic impurities captured in the form of "filtercake" during the manufacturing process are returned to the cane fields for use as a fertiliser
8. Molasses is a by-product of the sugar manufacturing process which Illovo ferments and then distils to produce potable alcohol for use as a neutral spirit for beverages and denatured spirits for the pharmaceutical, cosmetic and printing industries:
   - The vinasse by-product from ethanol fermentation is then evaporated to make a CMS liquid fertiliser that is applied on sugar cane and a variety of other crops including bananas, pastures and maize. Significantly, the application of CMS recycles important and increasingly expensive minerals back into the soils from which they were extracted

Sugar cane

1. Sugar cane is a large grass variety which grows well in tropical and sub-tropical climates across the globe absorbing around 18 tCO_2 per hectare per annum
2. Harvesting in the southern hemisphere takes place between April and December when the cane is 12 to 24 months old
3. Once harvested, the cane commences a new growing cycle from its existing roots; this re-growth is called a "ratoon". Replanting takes place only every seven to 10 years, minimising soil disturbance and exposure to wind and water erosion
4. Rainfed cane in South Africa, with industry yields of around 65 tons of cane per hectare, minimises the impact on subterranean water supplies
5. In the rest of Africa, where irrigated cane yields exceed 100 tons of cane per hectare, water for irrigation is sourced from secure and sustainable water resources such as large rivers, lakes and dams within permitted rights of use

Around **90%** of the group's total annual **energy requirements** are met by using **renewable energy** sources.



Sustainability practices

Our existing business model and our robust growth strategy on the African continent are focused firmly on the need to deliver ongoing value to shareholders and maintain the financial sustainability of the group. At the same time we remain conscious of the **strong interdependence** with the **communities and natural environments** in the regions in which we operate and subscribe to the principles of **sustainable development**. Through our business strategies, we aim to ensure that sound, **sustainable practices** are developed and maintained, following the guidance provided by **internationally recognised frameworks**. Further information in this regard is provided in the Social and Ethics Committee report and the Socio-economic impact report.

In line with our integrated business approach, our reporting process is guided by the GRI guidelines on sustainability reporting, the requirements of the JSE's SRI Index, local socio-economic and environmental issues, and key stakeholders' requirements.

In 2013, we qualified for inclusion in the JSE's SRI Index for the seventh consecutive year, being named amongst the six companies which met its "best performer" threshold. Illovo was one of the "best performers" in the High Environmental Impact category.

Integrated Reporting & Assurance Services (IRAS) has provided independent third party assurance over the sustainability information contained within this report, confirming that it meets the GRI's Application Level B requirements (B+ with its assurance). A summary of this assurance statement is provided on page 96, with the full statement appearing on our website.

Our management is assisted in the sustainable development of the group business by the Risk Management Committee, which, in conjunction with the Audit Committee and the Social and Ethics Committee, ensures effective governance of risks that may have a potential impact on the achievement of sustainable development, such as safety and health, environment, regulatory, market and financial performance, as well as reputational issues and community relationships.

Economic and social

Illovo strives to support the advancement of all communities where its operations are located and our corporate social investment (CSI) strategy entrenches this philosophy. Sustainable community development is achieved, inter alia, through employment, procurement and supply chain development.

Driven by the contribution we can make to the economic development and wellbeing of our stakeholders and the communities in which we operate, Illovo plays a significant economic role as a creator of wealth, contributing to the empowerment of emerging markets in the six African countries in which we operate, as reported in our Socio-economic impact report. We create value, not only by transforming raw materials into products for our customers and providing much needed employment, but also through the wealth creation provided by the substantial revenue created for our suppliers, contractors, distributors, service providers, and the returns provided to our shareholders and investors. Significant economic benefits accrue to governments through direct and indirect taxes and also through the provision of infrastructure, education and healthcare, thereby directly and indirectly benefiting the surrounding communities, and generally providing much needed social benefits and supply opportunities in the developing regions of Africa.

Accordingly, over and above the usual costs of production which would typically be found in the more developed sugar-producing countries, in the year under review, Illovo:

- provided social benefits to our employees, amounting to approximately R245 million;
- provided revenue to the local farmers who supply sugar cane to its factories across the group, aggregating approximately R1.6 billion, benefiting these growers directly and indirectly and leading to significant multiplier effects within the associated communities; and
- procured 54.1% of its supply requirements from local suppliers in the countries in which it operates, valued at R4.4 billion.

The group's Socio-economic impact report on page 71 and the Socio-economic impact assessment within this report, together with the Value-added Statement on page 19, and our Five-year Review of financial performance and statistics on page 20 provide further information on the considerable positive economic impact our operations have on the socio-economic development of the regions in which we operate and the wealth we have been able to create for our shareholders through manufacturing, trading and investment and our subsequent distributions to shareholders and reinvestment in the business.

Human capital

Illovo strives to be an employer of choice within the agri-business sector in which we operate. We recognise the importance of our own human capital in the delivery of Illovo's stated goals and objectives, and the broader long-term sustainability of the African sugar industry. Our philosophy for human excellence extends to providing meaningful employment and safe environments within which to work, promoting equal opportunity, an environment which promotes talent development and the continual pursuit of excellence. Staffing and targeted manpower succession planning is a key pillar for the development of our existing employees whose continued growth and good performance is recognised, irrespective of race or gender. Further information in this regard is provided in the Human Capital Report.

Human rights and ethics

Our Code of Conduct and Business Ethics embodies our key principles and values, and prescribes the conduct required of all employees to achieve these values. The Socio-economic impact report on page 71 provides further information in this regard and demonstrates our application of:

- the United Nations Global Compact Ten principles and other internationally accepted human rights principles;
- the Organisation for Economic Co-operation and Development (OECD) recommendations regarding corruption; and
- the International Labour Organisation (ILO) standards.

Environment

Illovo's direct **environmental impacts** are primarily associated with our agricultural and manufacturing operations. As the largest sugar producer in Africa, Illovo has a **substantial agricultural footprint.** It uses intensive manufacturing processes that consume water, generate solid waste and result in emissions to air and discharges to water bodies. We have **identified energy, water, air emissions, effluent and waste, and biodiversity** as the most material environmental indicators throughout the group's operations.

Our environmental sustainability reporting, guided by the GRI, is structured to reflect the inputs, outputs and modes of impact the organisation has on the environment. Materials, energy and water represent three standard types of inputs used by all of our operations. These inputs result in outputs of environmental significance, which are captured under the parameters of emissions, effluent and waste. Land and biodiversity are also regarded as inputs to the extent that they can be viewed as a natural resource. Our underlying environmental strategy is continually to investigate means to reduce the environmental impact of our operations. We are particularly mindful of the possible impacts of our operations on the use of natural resources and strive to minimise our impacts through efficient use in a responsible and sustainable way and through committing ourselves to continuous improvement. We strive to comply with all applicable in-country environmental regulations. Further information in this regard is contained in the Climate Change Report on page 79.

Stakeholder engagement

In a **dynamic** and **complex** operating environment, **proactive** and **measurable** stakeholder engagement is fundamental to our ability to **create value**.

We are aware that our corporate reputation is based on the extent to which we meet the legitimate interests and expectations of stakeholders. We appreciate the benefits derived from stakeholder dialogue and endeavour to maintain active and productive relationships, identifying and addressing relevant issues on an ongoing basis. This transparent approach allows us to mitigate risks, identify new business opportunities, deliver on our commitment to the communities in which we operate and maintain our integrity as a responsible corporate citizen that does not profit at the expense of the environments in which we operate.

Our stakeholder engagement programme is based on the following principles:

IMPACT

Focusing on those issues of material concern to our stakeholders and how to best address them in a collaborative and constructive manner, while embracing the concept of free, prior and informed consent

CONTEXT

Understanding the views, needs, performance expectations and perceptions associated with these material issues

ACCESSIBILITY

Responding expeditiously to stakeholder interventions and engaging proactively to provide expedient, comprehensive and beneficial feedback

Stakeholder engagement in action

As a response to changing circumstances, our stakeholder identification model was broadened during the year to include local and international NGOs and environment, social and governance ratings agencies in order to highlight consistency between Illovo's Code of Conduct and Business Ethics which drive our own and the group's vast array of supply chain integrity practices, and key aspects of the UN Global Compact. We also conducted an externally-managed communications perceptions audit among key internal and external stakeholders, including Illovo management, outgrowers, customers, suppliers, NGOs, unions, government agencies, community members and others. The results of the audit are being utilised to refresh the group's communications strategies and management, with a view to enhancing our communication of the positive socio-economic benefits which we bring to communities across our countries of operation and thereby, to develop and improve existing stakeholder relationships.

The board retains oversight of stakeholder management, while implementation and monitoring of stakeholder engagement is undertaken at both group and country levels.

EMPLOYEES	Internal communication channels are used to share information and engage with employees across the group, communicating *company news and developments, business strategy together with training and personal development initiatives.* Common internal communication channels are used with increasing use of electronic media to reach all employees
TRADE UNIONS	In 2013/14, around 90% of all Illovo employees were unionised and to ensure ongoing collaborative relationships, the group engages across a range of labour forums, eg regular union meetings, collective bargaining forums and others to promote sound employee interaction and compliance with internationally recognised labour practices. *Subject matter typically includes conditions of employment, remuneration, safety initiatives and other issues of mutual concern*
RAW MATERIAL SUPPLIERS: PROVIDERS OF SUGAR CANE	Ongoing communication at both industry and local level with grower associations and member groups; operational discussions of mutual concern; contact through industry structures, eg SASA, SA Cane Growers' Association, Swaziland Sugar Association, Sugar Producers' Association of Zambia, Maragra Outgrowers' Association, Tanzania Sugar Producers' Association, etc
SHAREHOLDERS; INVESTORS; INVESTMENT ANALYSTS	At both group and country-level where Illovo is listed on country stock exchanges, we undertake annual investor and analyst road shows to present interim and final results, one-on-one meetings, site visits to view company developments of interest, regular operational and financial communications and host annual general meetings. *This is undertaken to communicate the physical and financial performance of the group, focused on the continued value-creation capacity of the group*
REGULATORS: JSE; LUSAKA STOCK EXCHANGE; MALAWI STOCK EXCHANGE AND OTHER REGULATORS	The company and its subsidiaries comply with the various regulatory requirements in the countries in which we operate, and includes *regular contact and interaction with these regulators and relevant government departments to remain abreast of listings requirements, compliance matters and regulatory issues*
CUSTOMERS	Trade market: Ongoing interaction with supermarket chains and wholesalers; promotion of sugar distribution and depot systems among existing/potential entrepreneurs; direct consumer stakeholder contact; involvement in community-based initiatives; support of annually-sponsored sporting events. Industrial market: Customer interaction in respect of both sugar and downstream products; *focus on specific product-and service related technical, logistical and operational requirements of the customers with ongoing liaison through various channels*
MEDIA	Regular interaction with all forms of media *to communicate developments, successes, strategy, financial results and to deal with issues which are reported in the public domain. Interaction includes one-on-one interviews, site visits, media statements, SENS announcements, the group website and general contact to promote understanding*
SUPPLIERS AND SERVICE PROVIDERS	Support of local industry suppliers; development programmes *to identify and maintain strategic group suppliers; annual recognition of top-performing suppliers via awards programmes; business and operational update meetings; negotiation of service level agreements*
GOVERNMENTS	Ongoing discussion at industry and company level with government departments and industry bodies relating to sugar cane growing and milling across the group together with, for example, departments dealing specifically with land reform and rural development in South Africa, etc; regular contact *to update government representatives on the state of ongoing business, strategy, capacity expansions, etc; and ongoing interactions/communications with development initiatives and agencies such as the New Partnership for Africa's Development (NEPAD), together with African trading blocs such as the SACU, SADC, Common Market for Eastern and Southern Africa (COMESA) and Eastern African Community (EAC) Customs Union*
NON-GOVERNMENT ORGANISATIONS; ESG RATINGS AGENCIES	As a major agri-business operating in Africa, Illovo recognises the growing initiatives by NGOs and other stakeholders for public companies to assist them in promoting their human rights and other agendas by helping to increase public awareness (eg through integrated reporting and other publications), supply chain auditing and government/stakeholder engagement. For these and other reasons, *we regularly communicate with national and international NGOs, external ratings agencies and other agencies on social/human rights and environmental issues of mutual concern*
COMMUNITIES; TRADITIONAL AND CIVIL SOCIETY	Strong identification and communication with communities surrounding operations relating to *cane development, community/company projects of mutual interest; support of community-based social investment requirements; provision of community infrastructure; and advocacy of community issues. This communication is undertaken through various community-based charity and outgrower organisations, land reform forums and other community-based structures*

Materiality assessment

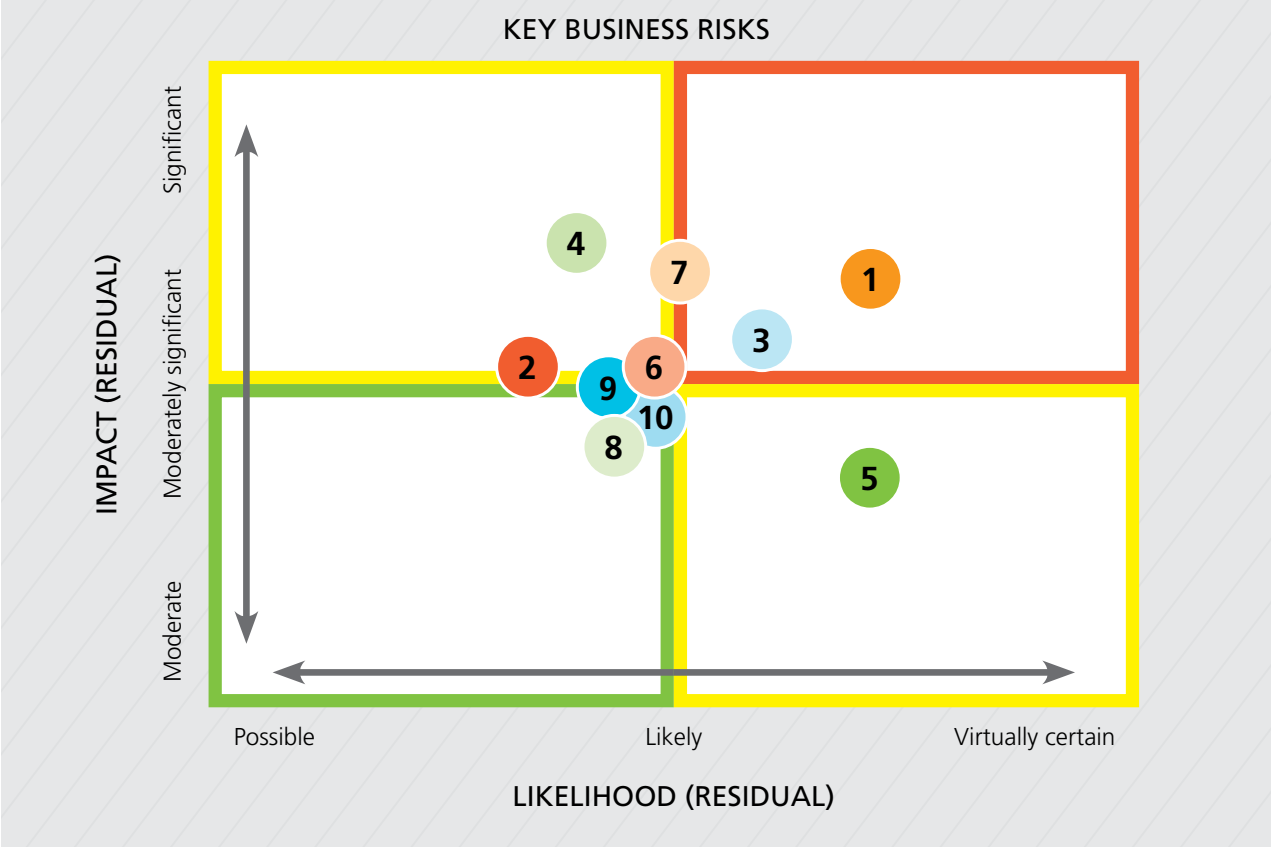
Our Risk Management Committee drives an **ongoing risk assessment** process to **identify** and **rank** our **key risks and opportunities** according to their probability and **potential** to materially **impact** our operations.

This process informs the prioritisation of various material issues affecting all operations within the group, ensuring a dynamic and responsive business strategy.

We acknowledge the importance of a robust, continuous materiality assessment process to ensure that matters impacting upon the organisation's ability to create value over the short, medium and long term are identified. Through materiality analysis we identify, quantify, prioritise and respond to important stakeholder issues, both positive and negative. A wide range of factors, both external and internal and encompassing regulatory, economic, social, political and global influences on the group, together with legitimate stakeholder expectations, impact our daily business operations. These are deliberated upon at both the operational and board levels across the group, feeding into our strategic framework and the identification of risk impacts on the organisation.

Business risks

The following risks were identified in the year under review as being the top strategic, financial and operational risks considered as potentially having the most material impact upon the group, if realised (fully explained on pages 105 and 106):



CURRENT RESIDUAL RANK	1	2	3	4	5	6	7	8	9	10
RISK CATEGORY	Strategic	Political	Market	Environment	Legal and regulatory	Stakeholders	Strategic	Infrastructure	Financial and treasury	Financial and treasury
PRIORITY RISK	Sugar imports	Country/ investment	Price market risk	Weather	Direct and indirect tax exposure	Advocacy and stakeholder relations	Cane supply	Bulk water supply	Access to restructuring of funds	Currency exposure

Forward-looking statement

As **Africa's leading sugar and downstream producer**, we remain **fully committed** and on track to maintain our status as a **world-class** and **highly efficient organisation**.

This is evidenced by further progress last year with increased sugar and downstream production as well as increased electrical co-generating for export.

There is an increasing demand for sugar in the emerging markets and in Africa, where growth is expected to be about 3.3% annually over the next 15 years. We are building our business on the strength of the growing African demand by realising prospects to expand our existing operations and by seeking out new opportunities. Most recently we completed a large expansion at our Ubombo mill in Swaziland, commissioned a new ethanol plant in Tanzania, and constructed a custom-designed central warehouse in South Africa. We have undertaken detailed assessments across 16 countries in Africa to establish new prospects. In addition to our investigations, there are a number of project opportunities that are currently being explored or developed.

Additionally, we are focused on advancing our capability to drive down costs, thus enhancing efficiencies, as well as delivering products further up the value chain, such as non-crystal sugar products, and the development of our sales mix which includes speciality sugars, fairtrade sugar and retail packs.

We have also further progressed with our ongoing continuous improvement programme, the objectives of which are to improve working practices, increase plant optimisation and reduce costs and waste. There are currently some 200 initiatives in the programme.

Illovo's long-term sustainability through an integrated business approach is non-negotiable. As part of our social commitment, we will continue to advance the collaboration we have with local communities in the areas where we operate and thus be welcomed by those communities because of what we do.

In the respect of the environment, we will further reduce our greenhouse gas emissions and improve our water management system, relative to which a group water foot-printing exercise was completed in 2013/14, further details of which are incorporated in the Climate Change Report on page 79. We seek to retain our inclusion in the JSE's SRI Index, and our position as one of the "best performers" in the High Environmental Impact category.

Illovo remains fully committed to providing a safe working environment for all employees. Details of our safety statistics may be found in the Human Capital Report on page 66.

Illovo's overall prospects derive from our practical and responsible response to market conditions and opportunities. We remain well positioned to continue leveraging growth through our strong financial position, resilient cash generation and Strategic Intent.

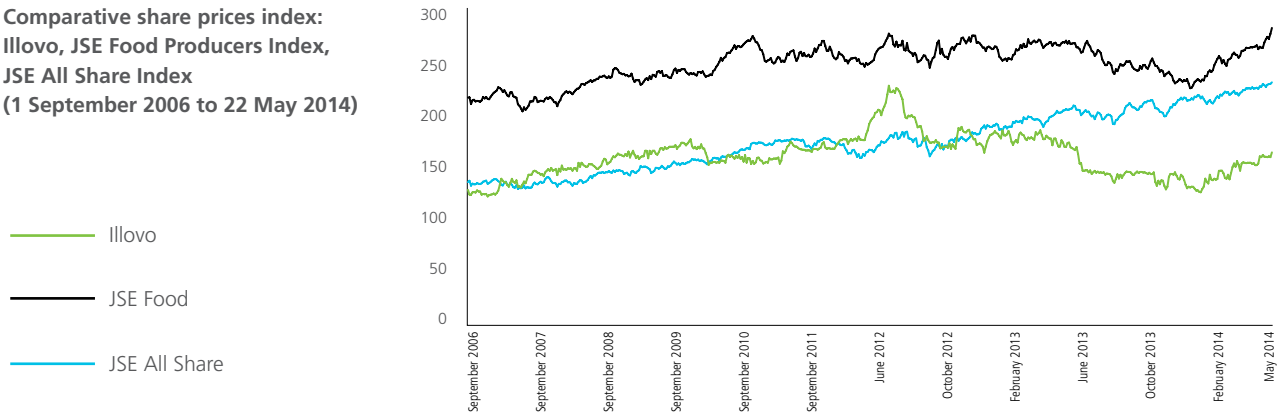
Investment case

Illovo is Africa's leading and largest sugar producer, comprising agricultural estates and 16 manufacturing sites across six southern African countries, with the first origins of the group's history dating back to 1891.

The primary objective that drives our investment case is to enhance the wealth of our shareholders by optimising the long-term returns and growth of the business, against the background of achieving a sustainable, balanced and integrated economic, social and environmental performance.

CLEAR VISION AND STRATEGIC FOCUS WITH PROFITABLE GROWTH OPPORTUNITIES	• To be a world-class, low-cost and highly efficient organisation, operating on the African continent • Driving down costs and repositioning products higher up the value chain • Diversification of revenue streams • Positioning for long-term growth demand through expansion of existing operations and acquisition opportunities
PEOPLE ARE OUR STRENGTH	• 14 top-level independent and non-independent directors with combined Illovo board experience of 112 years and direct sugar experience of 145 years • Proven ability to execute strategies and deliver financial performance • 12 972 permanent employees and 18 965 seasonal employees with embedded capabilities
PRODUCTS AND MARKETS THE KEY	• Quality and cost effective production of raw and refined sugar, speciality sugars and syrups together with high-value, niche-market downstream furfural and ethanol products • Strong and high-growth domestic, preferential and regional markets with proven expertise for outbound logistics
SUSTAINABILITY – PROTECTING OUR FUTURE AND THAT OF OUR STAKEHOLDERS	• High community impact, core values aligned to social and environmental responsibility • Continued development of Illovo's cane sugar sustainability model, making maximum use of all input material with minimum waste products • 90% of group's energy requirements produced from own generating capacity from renewable resources • Best performer in the High Environmental Impact category and inclusion in the JSE's 2013 Socially Responsible Investment Index
STRONG FINANCIAL POSITION AND PROSPECTS	• Quality of earnings, strong cash generation, high interest cover • Strong balance sheet with low gearing – positioned for growth • Attractive dividend yield • Significant economic, operational and market scale – inherent leverage • Illovo's presence in African sugar production is widely recognised and is the company of choice among governments wishing to develop/expand their own sugar industries

Comparative share prices index: Illovo, JSE Food Producers Index, JSE All Share Index (1 September 2006 to 22 May 2014)



Value-added statement

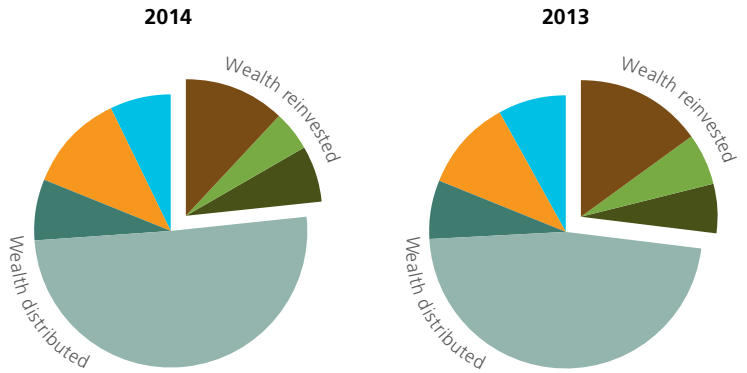
The value-added statement shows the wealth the company has been able to create through manufacturing, trading and investment and its subsequent distributions to shareholders and reinvestment in the business.

During the 2014 financial year, wealth of R4 695 million was created, which is 11% more than in 2013. Of this amount, R3 593 million was distributed to employees, providers of capital and to governments. Of the wealth created, 51% was paid to employees.

The balance of the wealth created was retained and reinvested in the company for the replacement of assets and the development of operations.

	March 2014 Rm	Restated March 2013 Rm
Wealth created		
Revenue	**13 190**	10 981
Dividend income	**5**	2
Paid to growers for cane purchases	**(3 994)**	(3 386)
Manufacturing costs	**(4 506)**	(3 365)
	4 695	4 232
Wealth distributed		
To employees as salaries, wages and other benefits	**2 373**	1 990
To lenders of capital as interest	**336**	295
To shareholders as distributions	**557**	458
To governments as taxation	**327**	337
	3 593	3 080
Wealth reinvested		
Retained profits in holding and subsidiary companies	**562**	640
Depreciation	**309**	258
Deferred taxation	**231**	254
	4 695	4 232
Analysis of taxes paid to and collected on behalf of governments		
Central and local governments		
Current taxation (including secondary tax on companies)	**256**	252
Rates and taxes paid to local authorities	**7**	5
Customs duties, import surcharges and excise taxes	**64**	80
Net contribution to central and local governments	**327**	337
The above amount contributed excludes the following:		
Employees' taxation deducted from remuneration paid	**293**	283
Net VAT amount collected on behalf of governments	**206**	232
Withholding taxation	**58**	49
	557	564

(Rm)	**2014**	2013
Retained profits	**562**	640
Deferred taxation	**231**	254
Depreciation	**309**	258
Employee costs	**2 373**	1 990
Finance costs	**336**	295
Distributions	**557**	458
Taxation	**327**	337



Five-year review

	Ten-year compound annual growth % 2004 to 2014	**2014 Rm**	Restated 2013 Rm	Restated 2012 Rm	2011 Rm	2010 Rm
Consolidated income statement						
Revenue	7	**13 190.1**	10 980.7	9 062.2	8 107.9	8 467.9
Operating profit	6	**1 886.9**	1 887.0	1 342.3	1 029.3	1 498.6
Net financing costs		**336.4**	295.4	244.1	95.5	139.0
Profit before taxation and non-trading items		**1 555.6**	1 593.9	1 107.7	935.9	1 363.5
Profit attributable to ordinary shareholders		**916.3**	859.9	443.1	546.2	662.0
Headline earnings	7	**893.6**	855.9	609.8	516.1	702.5
Reconciliation of headline earnings						
Profit attributable to ordinary shareholders		**916.3**	859.9	443.1	546.2	662.0
Adjusted for:						
Profit on disposal of property		**(0.8)**	(0.9)	(6.8)	(10.3)	(1.7)
(Profit)/loss on disposal of business		**–**	–	–	(19.8)	27.9
Impairment of investments		**–**	–	173.5	–	14.3
Profit on disposal of previously impaired assets		**(0.1)**	(3.1)	–	–	–
Disposal and deregistration of businesses		**(1.3)**	–	–	–	–
Gain on bargain purchase		**(2.2)**	–	–	–	–
Proceeds received from insurance claim		**(18.3)**	–	–	–	–
Headline earnings		**893.6**	855.9	609.8	516.1	702.5
Consolidated statement of financial position						
Property, plant and equipment		**6 783.3**	6 209.5	5 312.5	4 984.5	4 262.7
Intangibles assets		**288.0**	266.1	218.1	174.0	179.1
Cane roots		**1 531.0**	1 260.0	1 216.3	1 087.9	1 100.2
Investments and loans		**248.6**	202.1	174.3	163.0	180.8
Current assets		**4 327.7**	4 093.1	3 067.5	2 678.5	2 579.7
Cash and cash equivalents		**597.1**	453.5	1 381.7	717.8	1 345.4
Total assets		**13 775.7**	12 484.3	11 370.4	9 805.7	9 647.9
Equity attributable to shareholders of Illovo Sugar		**6 340.3**	5 968.5	5 562.6	5 191.2	5 502.6
Non-controlling interest		**1 128.3**	1 006.2	902.7	784.1	812.1
Total equity		**7 468.6**	6 974.7	6 465.3	5 975.3	6 314.7
Deferred taxation		**1 145.8**	872.7	821.8	687.6	685.8
Borrowings		**2 683.0**	2 326.4	2 113.8	1 230.0	1 132.2
Interest-free liabilities		**2 478.3**	2 310.5	1 969.5	1 912.8	1 515.2
Total equity and liabilities		**13 775.7**	12 484.3	11 370.4	9 805.7	9 647.9

		Notes	2014 Rm	Restated 2013 Rm	Restated 2012 Rm	2011 Rm	2010 Rm
Consolidated statement of cash flows							
Operating profit before working capital movements			**1 922.4**	1 551.9	1 340.9	1 132.9	1 419.9
Working capital movements			**105.2**	(516.5)	(243.9)	146.3	(183.2)
Cash generated from operations			**2 027.6**	1 035.4	1 097.0	1 279.2	1 236.7
Net financing costs			**(336.4)**	(295.4)	(244.1)	(95.5)	(139.0)
Taxation paid			**(298.6)**	(193.5)	(211.0)	(186.4)	(304.2)
Dividend and deferred income			**5.1**	2.3	113.5	42.1	3.9
Distributions/dividends paid			**(556.9)**	(458.0)	(370.3)	(455.9)	(490.2)
Net cash inflows from operating activities			**840.8**	90.8	385.1	583.5	307.2
Investment in future operations			**(379.4)**	(679.7)	(206.4)	(1 274.5)	(897.6)
Replacement of property, plant and equipment			**(342.6)**	(291.0)	(237.0)	(199.8)	(181.1)
Acquisition of business			**15.6**	–	–	–	(249.9)
Proceeds on disposal of businesses			**9.5**	–	–	130.9	118.7
Other movements			**(8.4)**	51.0	(122.5)	(78.6)	(82.6)
Net cash outflows from investing activities			**(705.3)**	(919.7)	(565.9)	(1 422.0)	(1 292.5)
Net cash inflows/(outflows) before financing activities			**135.5**	(828.9)	(180.8)	(838.5)	(985.3)
Long-term borrowings (repaid)/raised			**(175.3)**	(245.7)	1 356.7	(366.9)	(200.0)
Short-term borrowings raised/(repaid)			**226.9**	215.6	(541.5)	629.9	(1 226.6)
Issue/(repurchase) of share capital net of associated costs			**1.3**	3.1	1.9	(26.7)	2 956.7
Other financing activities			**–**	–	–	–	255.8
Net cash inflows/(outflows) from financing activities			**52.9**	(27.0)	817.1	236.3	1 785.9
Net increase/(decrease) in cash and cash equivalents			**188.4**	(855.9)	636.3	(602.2)	800.6
Earnings and distribution per share							
Earnings	(cents)	1	**199.0**	186.9	96.4	118.8	161.4
Headline earnings	(cents)	2	**194.0**	186.0	132.6	112.2	171.2
Distribution (interim – paid; final – declared)	(cents)	3	**97.0**	95.0	66.0	56.0	86.0
Distribution cover on headline earnings	(times)	4	**2.0**	2.0	2.0	2.0	2.0

Five-year review

		Notes	2014	Restated 2013	Restated 2012	2011	2010
Profitability and asset management							
Operating margin	%		**14.3**	17.2	14.8	12.7	17.7
Return on average shareholders' equity	%	5	**14.0**	14.6	8.1	10.1	14.8
Return on net assets	%	6	**16.1**	19.6	16.0	13.8	21.9
Return on total assets	%	7	**14.3**	16.3	13.0	11.1	16.8
Working capital per rand of revenue	cents	8	**16.7**	19.1	13.6	9.8	12.6
Liquidity and borrowings							
Net debt:equity ratio		9	**27.9**	26.9	11.3	8.6	(3.4)
Gearing	%	10	**21.8**	21.2	10.2	7.9	(3.5)
Total liabilities to total equity	%	11	**85.0**	79.8	76.4	64.6	53.2
Current ratio	times	12	**1.6**	1.4	2.0	1.2	1.8
Interest cover	times	13	**5.6**	6.4	5.5	10.8	10.8
Employee statistics							
Total number of permanent employees at year-end		14	**12 972**	12 645	12 456	12 159	12 031
Average number of permanent employees			**12 835**	12 636	12 423	12 189	12 338
Total number of peak seasonal employees			**18 965**	18 021	17 055	17 000	24 000
Revenue per average number of industrial employees	R000		**1 977.4**	1 623.2	1 407.9	1 275.0	1 251.8
Net assets per average number of employees	R000		**581.9**	552.0	520.4	490.2	511.8
Headline earnings per average number of employees	R000		**69.6**	67.7	49.1	42.3	56.9
JSE Limited statistics							
Ordinary shares in issue	'000		**460 623**	460 447	460 011	459 763	460 160
Weighted average number of shares	'000		**460 541**	460 193	459 863	459 787	410 279
Net asset value per share	cents	15	**1 621.4**	1 514.8	1 405.5	1 299.6	1 372.3
Total volume of shares traded	'000		**93 641**	63 791	53 961	86 462	119 117
Total value of shares traded	Rm		**2 903.7**	1 843.8	1 389.1	2 347.2	3 650.4
Ratio of shares traded to issued shares	times		**20.3**	13.9	11.7	18.8	25.9
Headline earnings yield at year-end	%	16	**6.9**	5.8	5.2	4.2	5.8
Distribution yield at year-end	%	17	**3.5**	3.0	2.6	2.1	2.9
Price:headline earnings ratio at year-end	times	18	**14.4**	17.1	19.1	23.9	17.3
Market price per share							
– Year-end	cents		**2 801**	3 180	2 533	2 685	2 970
– Highest	cents		**3 952**	3 260	2 902	3 270	3 700
– Lowest	cents		**2 500**	2 476	2 221	2 420	2 499

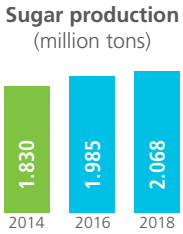
Note: *Agricultural employees are excluded from the calculation of revenue per average number of employees.*

Notes

1. **Earnings per share**
   Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.
2. **Headline earnings per share**
   Headline earnings divided by the weighted average number of ordinary shares in issue.
3. **Distribution/dividend per share**
   The distribution per share includes capital distributions out of share premium.
4. **Distribution cover on headline earnings**
   Headline earnings per share divided by distribution per share (interim – paid; final – declared).
5. **Return on average shareholders' equity**
   Profit attributable to ordinary shareholders expressed as a percentage of average shareholders' equity.
6. **Return on net assets**
   Operating profit expressed as a percentage of average net operating assets.
7. **Return on total assets**
   Operating profit expressed as a percentage of total average assets excluding cash and cash equivalents.
8. **Working capital per rand of revenue**
   Average of inventories and trade and other receivables less trade and other payables, divided by revenue.
9. **Net debt:equity ratio**
   Interest-bearing liabilities (net of cash and cash equivalents) divided by total equity. A negative net debt:equity ratio indicates that the group is in a net cash position.
10. **Gearing**
    Interest-bearing liabilities (net of cash and cash equivalents) expressed as a percentage of total equity and interest-bearing liabilities (net of cash and cash equivalents). A negative gearing ratio indicates that the group is in a net cash position.
11. **Total liabilities to total equity**
    Interest-bearing liabilities and other liabilities expressed as a percentage of total equity.
12. **Current ratio**
    Current assets divided by current liabilities.
13. **Interest cover**
    Operating profit divided by net financing costs.
14. **Total number of permanent employees at year-end**
    The total number of permanent employees excludes those employed by associate companies and joint ventures.
15. **Net asset value per share**
    Total assets less total liabilities divided by the number of shares in issue.
16. **Headline earnings yield at year-end**
    Headline earnings per share as a percentage of year-end market price.
17. **Distribution yield at year-end**
    Distribution per share (interim – paid; final – declared) as a percentage of year-end market price.
18. **Price:headline earnings ratio at year-end**
    Year-end market price divided by headline earnings per share.
19. **Change in accounting policy**
    Where a change of accounting policy is implemented with retrospective application the relevant previous years are restated where required.

Strategic overview

STRATEGIC INTENT	KEY PERFORMANCE AREA	2013/14 KPIs INCLUDE:	
• Be the **leading sugar and downstream products operation in Africa,** an increasing global supplier and world-class organisation • Be the **lowest-cost producer** in every country in which it operates and among the lowest-cost producers in the world	**Operational performance**	**5%** increase in group sugar production **Record production** from current installed capacity Operating margin declined **2.9%** to **14.3%**	
• Optimise the **return on every stick of cane** by adding value to its core commodity products: fibre, sugar and molasses. It will focus on its core business and develop material niche operations which add value • **Increase profits in real terms** on a sustainable basis and **maximise the return on capital employed** through cost leadership, the use of innovative technology and the participation of its employees	**Cost reduction and revenue growth**	Headline earnings growth of **4.3%** to 194.0 cents per share **22%** increase in downstream revenue	
• **Provide a safe working environment** for all employees, contractors and stakeholders	**Safety, health and environment**	All operations accredited with a **minimum Four-star NOSA rating** in 2013/14. Both agricultural operations and distilleries in SA received **Occupational Health and Safety Management System OHSAS 18000:2007 accreditation**	TARGET ZERO
• Be the **market leader**, meeting and proactively anticipating customer needs	**Product quality and service**	Successful completion of the **Pietermaritzburg sugar distribution centre,** leading to improved customer service and food grade handling standards	
• Be a **moral performance focused organisation** that people are proud to work for, where they are challenged to "go the extra mile", feel they can make a difference and know that good performance is recognised	**Human resource development**	**Employee development spend** 45 (2012), 57 (2013), 73 (2014)	
• Be **welcomed in the communities** in which it operates because of what it does, how well it does it and be accepted as a progressive company by all communities; aligning strategies to meet changing circumstances in the various countries in which the group operates • Be **cognisant of the rural locations** of the group's operations and the impact that it has on job creation and poverty alleviation in such areas	**Sustainability and governance**	**90%** of energy requirements from renewable resources using own installed capacity Social benefits to employees and our neighbouring communities amounted to **R268 million** (2013: R197 million)	

GROUP GOALS	SPECIFIC OBJECTIVES AND AMBITIONS INCLUDE:
• Enhance shareholder wealth by optimising long-term returns and growth of the business, as a world-class organisation • Profitably expand the group's sugar and cane production • Evaluate opportunities to invest further in downstream operations, and consider footprint expansion as attractive opportunities arise	• Reach production level of two million tons of sugar by 2017 • Improve overall time efficiency and yields via speed-profiling and lost opportunity analysis • Establish a Sugar Centre of Excellence and Training Academy • Extend downstream contribution to the group, possibly via new ethanol and furfural operations 
• Achieve a competitive rate of return on shareholders' funds and increase profits on an ongoing basis in real terms • Maintain a distribution/dividend cover of at least two times • Manage investments and working capital to achieve efficient usage of funds employed • Undertake research and development to maximise value added from core products	• Embed a culture of continuous improvement across the business, to lead to improved working practices, increased plant optimisation and enhanced operating profit • Bring operations at recently commissioned distillery at Kilombero to steady state • Gearing not to exceed 40%, and interest cover to be maintained above five times
• Provide a safe working environment for all employees, contractors and stakeholders	• Drive to further decrease workplace injuries by focusing on behavioural performance and entrenching further rigid health and safety standards • Continuous improvement and increased prominence of group safety, environmental and quality performance
• Be proactive in identifying the needs of customers • Consistently deliver quality products and services to customers	• Optimise distribution networks to minimise cost to serve • Move further along value chain, via improved packing capability and sales mix • Continuous product delivery within specification and on time
• Promote the ongoing development of all employees so that they reach their maximum level of competence and participate fully to achieve the group's objectives • Offer equal opportunity to all employees	• Develop desired leadership behaviours through the values-driven leadership initiative • Continuously improve human resource productivity metrics, including number of employees per thousand tons of sugar produced • Integrated talent management programme including succession planning at operational and management level • Provide support and training to encourage development of local employees at all operations
• Be socially responsible, and maintain and develop appropriate ethical, environmental and risk management standards as an integral part of the business • Ensure the company is managed in an efficient, accountable, responsible, transparent and moral manner • Take cognisance of all stakeholders' interests in the group's business • Maximise usage of bagasse and biomass to generate electricity	• Objective to ensure reliable cost-efficient energy supply to our operations and strive for 100% renewable energy use • Implement Sustainability Policy and Framework • Compliance with all JSE and King III requirements

Strategic and operational accountability

	MALAWI	MOZAMBIQUE	SOUTH AFRICA
BUSINESS PROFILE	• Illovo Sugar (Malawi) Limited, listed on Malawi Stock Exchange • Two agricultural estates: two factories with refineries • Produces raw and refined sugar, speciality sugars • 5 679 permanent employees • 5 063 seasonal agricultural workers at peak • DIFR: 0.11 (2013: 0.14)	• One agricultural estate and factory • Produces raw sugar, marketed domestically by industry marketing association • 1 015 permanent employees • 4 414 seasonal agricultural workers at peak • DIFR: 0.09 (2013: 0.09)	• Three agricultural estates; four sugar factories; one refinery, three wholly-owned downstream plants; 50% share in distillery; 30% investment in a further sugar factory and refinery • Produces raw and refined sugar, syrup, and downstream products • 2 224 permanent employees; • 1 804 seasonal agricultural workers at peak • DIFR: 0.15 (2013: 0.54)
AREAS	**Corporate office – Limbe** **Dwangwa – Mid-central region** **Nchalo – Southern region**	**Manhiça district, north of Maputo**	**KwaZulu-Natal** **Group head office**
2013/14 OBJECTIVES	• Optimise cane growing performance through irrigation upgrades and improved husbandry • Secure additional estate land to enable future expansion • Increase sugar production to above 300 000 tons • Evaluate milling optimisation for further growth • Deliver value from continuous improvement initiatives	• Support expansion of outgrowers' area under cane • Increase sugar production to above 100 000 tons • Implement further factory initiatives to reduce costs and increase efficiencies • Introduction of syrup storage to mitigate rain delays and steady factory throughput	• Continue to secure increased cane supply • Initiatives to support commercial and small-scale growers • Increase sugar production to above 650 000 tons • Logistics savings from the new central warehouse and distribution centre
PERFORMANCE	• Difficult economic climate including currency devaluation • Sugar production 289 000 tons (2013: 299 000 tons) • Lower export prices, particularly in the EU • Average cane yield 101 tons per hectare, declining from 104 tons per hectare in the prior year due to power interruptions and unseasonal rainfall at Nchalo • Average factory capacity utilisation 77% (2013: 83%)	• Lower estate cane yields due to adverse weather conditions • Sugar production 82 000 tons (2013: 84 000 tons) • Average cane yield 80 tons per hectare (2013: 91 tons) • Average factory capacity utilisation 78% (2013: 64%) • Concluded Power Purchase Agreement with Mozambican Power Authority	• Sugar production 17% higher at 698 000 tons (2013: 596 000 tons) • Successful full year of operations of new centralised warehouse • Average cane yield 72 tons per hectare (2013: 71 tons) • Average factory capacity utilisation 75% (2013: 66%) • Substantial increase in world exports to 209 000 tons (2013: 60 000 tons) in the face of high-level of duty-free imports • Record alcohol production
PROFIT	**39%** Contribution to group operating profit	**2%** Contribution to group operating profit	**14%** Contribution to group operating profit
RISK AREAS	• Slow economic growth and high inflation may impact negatively on domestic demand • Impact of lower world sugar price on regional export prices • Forex shortages and/or further Kwacha devaluation	• Weather and flooding • Greater industry production increasing export exposure • Adverse currency impacts	• Weather and ongoing growth in cane supply • Sugar industry review and tariff protection • Resolution of land claims • Lower world market prices • Volatility in markets for downstream products
2014/15 OBJECTIVES	• Increase volume of speciality sugar supplied to the EU • Implement Nchalo agriculture improvement plan • Increased sugar production	• Yield improvements supported by irrigation upgrades • Increased sugar production • Agric investment including land preparation and replant	• Continue to extract additional supply chain benefits from new warehouse • Maintain sugar production levels • Introduce continuous improvement initiative • Evaluate energy-efficiencies to continue reducing coal usage

	SWAZILAND	TANZANIA	ZAMBIA
BUSINESS PROFILE	• One agricultural estate, factory and refinery • Produces raw and refined sugar, direct consumption sugars marketed by Swaziland Sugar Association • Commissioning in April 2011 of major factory expansion and power co-generation project • 1 213 permanent employees • 1 619 seasonal agricultural workers at peak • DIFR: 0.12 (2013: 0.18)	• Two agricultural estates: two sugar factories, treated as one enterprise • Produces raw sugar • Commissioning of new ethanol distillery mid-2013 • 908 permanent employees • 2 034 seasonal agricultural workers at peak • DIFR: 0.03 (2013: 0.03)	• Zambia Sugar Plc, listed on Lusaka Stock Exchange • One agricultural estate: largest capacity factory in Illovo group; one refinery • Produces raw and refined sugar, speciality sugars, syrup • 1 917 permanent employees • 4 031 seasonal agricultural workers at peak • DIFR: 0.18 (2013: 0.18)
AREAS	**South-eastern region**	**Centre-south region**	**Corporate office – Lusaka Nakambala – South-western region**
2013/14 OBJECTIVES	• Support the development of increased outgrower cane supply • Continue to improve factory performance • Increase sugar production to above 270 000 tons • Explore opportunities for increasing biomass availability for power co-generation	• Increase sugar production to above 135 000 tons • Ongoing improvement in cane yields • Increased pre-pack volumes to counter bulk sugar imports • Commission the potable distillery project as planned	• Outgrower programme expansion resulting in increased hectares under cane • Increase sugar production to over 410 000 tons • Improvement in milling yields • Complete evaluation of molasses beneficiation potential • Cost reduction through continuous improvement initiative
PERFORMANCE	• Record sugar production 251 000 tons (2013: 233 000 tons), supported by a record cane crop of 2.2 million tons • Average cane yield 96 tons per hectare (2013: 104 tons) • Average factory capacity utilisation 79% (2013: 69%) • Increased power co-generation and 21% increase in exports into the national grid	• Disappointing factory performances compounded by interruptions from unseasonal rainfall • Sugar production 117 000 tons (2013: 130 000 tons) • Low-priced sugar imports limit domestic sales volumes and prices • Average cane yield 84 tons per hectare (2013: 78 tons) • Average factory capacity utilisation 77% (2013: 86%) • Successfully commissioned potable alcohol distillery	• Sugar production 393 000 tons (2013: 404 000 tons) • Reduced cane from both own crop and outgrowers due to poor climatic conditions, erratic power supply, and cane age • Average cane yield 111 tons per hectare (2013: 122 tons) • Strong factory performance despite reduced cane • Lower export prices, particularly in the EU • Average factory capacity utilisation 88% (2013: 85%)
PROFIT	**14%** Contribution to group operating profit	**1%** Contribution to group operating profit	**30%** Contribution to group operating profit
RISK AREAS	• Sugar industry review and restructuring • Delays in agricultural initiatives supporting outgrower development • Lower EU and world sugar prices	• Long-term cane supply from outgrowers • Uncontrolled sugar imports • Wet weather negatively impacting cane recently replanted	• Lower EU prices • Impact of low world sugar price on regional export prices • Currency rate volatility • Regional sales reliant on required permits and customs clearance from neighbouring countries
2014/15 OBJECTIVES	• Increased sugar production • Implementation of further conversions to pivot irrigation • Increase power exports to 50 GWh	• Full-year, efficient operation of distillery • Review distribution network and expand pre-pack domestic market • Increased sugar production • Ethanol production above 12 million litres	• Continue to progress project for increased refining capacity and addition of ethanol production • Increased sugar production • Improvement of cane yields

Illovo board and leadership

Cane growing

Total cane production from our own agricultural operations in 2013/14 amounted to 6.1 million tons (2013: 6.5 million tons), while cane from independent farmers increased to 9.4 million tons (2013: 8.4 million tons), driven mainly by the full recovery from the recent years' drought conditions in South Africa.

Chairman's statement

Don MacLeod
Chairman

The past year was a challenging one for Illovo with low world sugar prices and significant imports of sugar into South Africa and Tanzania which disrupted domestic markets. I am, however, glad to report a solid set of results due to the increased sugar production and a strong performance from our downstream businesses. The company is in good shape with a strong balance sheet, healthy cash generation and sound cane, sugar and downstream assets across Africa. The completion of a number of strategic projects was most pleasing. In particular, the new warehouse in South Africa and the distillery in Tanzania will have a significant positive impact on the business in the years to come.

Operating challenges

The world continues to be an uncertain place in which to do business and the operating environment in southern Africa is challenging with high levels of unemployment, lack of infrastructure and extreme poverty. The continuing devaluation of the Malawian Kwacha and its impact on the local people is a particular worry to the group. Rising costs in a market place which is under pressure has negatively impacted on margins despite continued focus on cost management. The trend for unions to make demands for wage increases well in excess of inflation is of concern and will need to be met by increased productivity across the board if the business is to be world competitive. However, Illovo has well-articulated values and will continue to grow in line with its vision to be a world-class, highly-efficient organisation operating on the African continent and adding value to its core products of fibre, sugar and molasses.

The level of sugar imports into South Africa and Tanzania had a significantly negative impact on our market off-take in these countries. We are pleased that following discussions with the government in South Africa a new level of tariff was implemented in April 2014. Discussions with the authorities in Tanzania continue with the objective of obtaining better import protection. It must be stressed that while our operations are low-cost in world terms, we have been heavily impacted by the dumping of low-priced surplus sugar from other parts of the world. The world market price of sugar is one of the most volatile of all commodities and it is further distorted by subsidies, whether direct or indirect, granted to major sugar producers around the world.

Focus on domestic markets

Illovo is Africa's leading sugar and downstream producer with 16 operations across six countries, with strong domestic, regional and preferential markets. African annual sugar consumption growth continues to increase with demand expected to grow by six million tons by 2020. The current world price is low and is below the costs of production of most sugar producers due to a fourth year of a global sugar surplus. The reform of the EU Sugar regime from 2017 is expected to impact negatively on prices in that market and as a result we will be focusing on growth in our domestic markets and on the opportunities available in the growing African regional markets. In addition, strategic downstream investments will be pursued to enhance and diversify future revenue streams. The focus on energy efficiency projects and the achievement of electricity self-sufficiency and power co-generation will be important areas of cost reduction and revenue growth.

We are very conscious of the need to provide safe and healthy work places for our employees. I am pleased to advise that our safety record in respect of both disabling injury and total injury frequency continues to improve with the past year reflecting a 31% improvement over the previous year. I regret that we had five fatalities in the past year, three Illovo employees and two external contractors. Our objective remains, to eliminate any such occurrence by focusing on behaviours and more rigid health and safety standards and so nurture a safe operating culture across the group.

People development

Our people are key to achieving our Strategic Intent. Illovo employs in excess of 32 000 people, 13 000 on a permanent basis and another 19 000 as seasonal employees. Attracting and developing our people is vital to achieving our objectives. Transformation of top management both in South Africa and in our other areas of operation remains below our aspirations but this is being addressed by training, development and mentorship of the pool of talent in middle management so as to meet our goals through targeted succession plans.

I am very pleased that in South Africa we have achieved a Level-3 contributor status in terms of the Codes of Good Practice in respect of the Agri-B-BBEE rating.

Chairman's statement

The group continues to evaluate opportunities for further footprint expansion in Africa and to grow its downstream business in line with its business objectives. Increased furfural production at Sezela in 2013/14 amounted to 19 695 tons.

Illovo has a significant impact on the communities and countries in which it operates, particularly as most of our operations are situated in rural areas. The UN classifies Malawi, Mozambique, Zambia and Tanzania as among the world's least developed countries. The group's businesses form the economic and social backbone of the local communities in the areas in which we operate providing infrastructure, healthcare facilities, schools and other community benefits amounting to R268 million in 2013/14. A recent independent socio-economic impact assessment conducted across our countries of operation provided a clear picture of Illovo's contribution to the economies, communities and individual livelihoods in these rural communities. In addition, it confirmed that the group was a material contributor to socio-economic development of the regions concerned, spanning support of strategic government initiatives to providing the most basic of human needs.

The group adheres to the highest standards of corporate governance as it believes that good governance practices are fundamental to creating, protecting and sustaining shareholder value. Illovo's directors and employees strive to ensure that the company is managed in an efficient, accountable, responsible and ethical manner and its governance structures are in line with the JSE Listings Requirements, King III and the Companies Act. The Enterprise Risk Management Policy and combined assurance framework are bedding down and this should ensure that the key risks facing the business are managed in such a way so as to provide reasonable assurance that Illovo's objectives are achieved.

Future growth

The group continues to evaluate opportunities for further footprint expansion in Africa and to grow its downstream business in line with its business objectives. Careful assessment of the risks will remain crucial to any new opportunity being progressed but the group continues to make steady progress to increase its sugar production to more than two million tons per annum and to optimise the return on every stick of cane. The next few years will see the group also focus on existing capacity utilisation and productivity improvements. Illovo is among the lowest cost and most efficient sugar producers in the world, is an efficient supplier into the domestic markets in which it operates and through its marketing and distribution expertise, will maximise value into the export markets available to it.

The group is focused on achieving its Strategic Intent, vision and objectives and although profit growth was below expectations, the base business is sound and the physical performance of its assets continues to improve. The contribution of the downstream businesses was commendable in the past year and reflects the benefits of the group philosophy to progress this area of the business.

Appreciation

I would like to thank my fellow board members for their commitment, guidance, valuable input and wise counsel throughout the past year. Graham Clark resigned as Managing Director during the past year and I thank him for his contribution to Illovo over a long period of time. I congratulate Gavin Dalgleish on his appointment as Managing Director and wish him and his executive team well in leading the group to higher levels of achievement in the years ahead. I also welcome John Hulley to the board as Operations Director and wish him every success in his new role.

My thanks to the executive management team for their hard work and leadership in what has been a challenging year.

On behalf of the board I wish to extend my appreciation and thanks to the employees of Illovo across the operations for the considerable effort and commitment during the past year.

Don MacLeod
Chairman

Directorate

Non-executive independent chairman

Don MacLeod (67) #^+

Chairman of Nomination Committee
BCom, AMP (Oxford)
Joined the sugar industry 1971
Appointed to the board 10 August 1983
Previous Managing Director of Illovo

Independent non-executive directors

Mike Hankinson (65) *#^

Chairman of Remuneration Committee
BCom, CA(SA)
Appointed to the board 20 May 2008
Director of companies

Len Konar (Dr) (60) *

Chairman of Audit Committee
CA(SA), MAS (Illinois), DCom
Appointed to the board 10 July 1995
Director of companies

Phinda Madi (Prof) (50) #+

Chairman of Social and Ethics Committee
BProc, EDP
Appointed to the board 29 November 2002
Director of companies

Nosipho Molope (49) *+

BSc (Medical Sciences),
BCompt (Hons), CA(SA)
Appointed to the board 10 September 2008
Director of companies

Ami Mpungwe (63) ^ (Tanzanian)

BA (Hons)
Appointed to the board 1 September 2009
Director of companies

Trevor Munday (64) *#^+

Chairman of Risk Management Committee
BCom
Appointed to the board 9 March 2010
Director of companies

* Member of Audit Committee | # Member of Remuneration/Nomination Committee | ^ Member of Risk Management Committee | + Member of Social and Ethic Committee | a Member of Executive Committee

Directorate

Executive directors

Gavin Dalgleish (48) ^+[a]
BScEng(Chem), MScEng(Chem)
Joined the sugar industry 1988
Appointed to the board 16 September 2011
Managing Director

Mohammed Abdool-Samad (43) ^[a]+
BCom, CA(SA)
Joined the sugar industry 2011
Appointed to the board 16 September 2011
Financial Director

John Hulley (54) ^+[a]
DipMechEng, MDP
Joined the sugar industry 1978
Appointed to the board 1 September 2013
Operations Director

Larry Riddle (54) +[a]
BCom, CA(SA)
Joined the sugar industry 1986
Appointed to the board 1 April 2009
Commercial Director

Non-executive directors

Mark Carr (Dr) (51) # (British)
BSc, PhD, MBA, CertEng, FIMechE
Appointed to the board 5 September 2006
Chief Executive Officer, AB Sugar

Paul Lister (50) (British)
LLB
Appointed to the board 5 September 2006
Director of Legal Services and Company Secretary, Associated British Foods

Graham Rhodes (52) (British)
ACMA, CGMA, BScEng(Chem) (Hons)
Appointed to the board 1 September 2013
Financial Director, AB Sugar

Directors' condensed curricula vitae appear on pages 137 and 138.

The diversity status of the board is six white South African males, three white and one black non-South African males, three black South African males and one black South African female (four designated).

Executive Committee

Executive Committee

Gavin Dalgleish (48) ^+[a]
BScEng(Chem), MScEng(Chem)
Joined the sugar industry 1988
Joined the group 1988**
Managing Director
Responsible to the Illovo board and shareholders for the delivery of the group's strategic goals and objectives, providing leadership across operations.

Mohammed Abdool-Samad (43) ^+
BCom, CA(SA)
Joined the sugar industry 2011
Joined the group 2011
Financial Director
Responsible for group financial, business development, treasury and corporate finance functions, internal audit, information technology, performance analysis (operational and financial), risk management and insurance.

John Hulley (54) ^+[a]
DipMechEng, MDP
Joined the sugar industry 1978
Joined the group 1978 **
Operations Director
Responsible for group operational performance relating to all agricultural and manufacturing operations, group operations support, risk and safety management, continuous improvement.

Larry Riddle (54) +
BCom, CA(SA)
Joined the sugar industry 1986
Joined the group 1986
Commercial Director
Responsible for group commercial operations relating to sugar and downstream operations, new business opportunities, export marketing, group procurement, outbound logistics, industrial affairs and advocacy.

Company Secretary

Jennifer Kunst (60) +
BA, LLB, DipMarLaw
Joined the sugar industry 2011
Joined the group 2011
Corporate Affairs
Responsible for all statutory and regulatory company secretarial functions, governance, and overseeing the legal, secretarial, compliance, sustainability and corporate citizenship functions.

Human Resources Executive

Nigel Hawley (57) +
BCom (Hons)
Joined the sugar industry 1978
Joined the group 1978
Human Resources
Responsible for group and corporate human resources policies, staffing and talent management, human resource development and training, industrial relations, retirement funding, compensation and benefits, human resource administration and payrolls, employee welfare and medical services.

^ Member of Risk Management Committee | + Member of Social and Ethic Committee | ** Includes periods of broken service

The diversity status of the executive directors who comprise the Executive Committee is three white South African males, and one black male.

Managing Director's interview

Gavin Dalgleish
Managing Director

Appointed to the position of Group Managing Director on 1 September 2013, Gavin Dalgleish has spent his first six months at the head of Africa's biggest sugar producer and downstream products manufacturer. Gavin was first appointed to Illovo in 1988 as a post-graduate student under Illovo's Engineer-in-Training programme, and rose through the ranks gaining internal and external experience including a three-year posting to Australia, at the helm of an ABF subsidiary. He returned to Illovo in 2011 and soon after was appointed to the position of Group Operations Director, and then to his present position to lead Illovo's African cane, sugar and downstream business operations. His thoughts on the current state of the business, its opportunities and challenges, and his aspirations for the future, are captured in this summarised account of a one-on-one interview…

This is my first report to shareholders as Managing Director. Since my appointment, I have spent considerable time reviewing the business and I'm pleased to say, as expected, that the company is in great shape thanks to my predecessor and the excellent executive team that he had put in place. I have also been looking at possible new growth opportunities as well as current projects to see if these could be accelerated in response to a dynamic commercial environment in sugar. This review is ongoing.

Our vision for the business remains as before – to be a world competitive and highly-efficient African company, adding value to every stick of cane. Critical drivers for Illovo's financial and operational performance in 2014 included the resilient domestic markets in most countries in which we operate, geographic diversity and in South Africa, a strong industrial customer base and significant downstream business. Despite headwinds facing the global sugar market, Illovo's growth strategy of adding value to every stick of cane remains fundamental – we will continue to accelerate investment in our downstream operations, maximise production and optimise our sales mix to increase revenue and margins, and continue the relentless drive to take out costs.

External factors

Lower sugar prices are prevalent in the world market largely due to a fourth year of global production surplus, a depreciating Brazilian Real and also soft pricing in the EU as a result of market positioning by major sugar producers ahead of quota abolition in 2017. The EU currently applies production quotas to create a structural deficit and in turn, least developed countries are allowed preferential access to that market to close the deficit gap. While the preferential access will remain after the quota abolition in 2017, we believe the market will be commercially less attractive.

The lower world price does not directly affect Illovo as we are sustained by our strong domestic markets, and the only direct exposure we have to world markets is in our share of export proceeds in South Africa. The increase in the Dollar-based tariff import reference price has recently slowed down imports into South Africa and, consequently, the amount exported from the country, further reducing our exposure to global prices. We do experience the indirect impact of lower world sugar prices in our regional African markets. These markets are attracting increasing focus from many producers as one of the last remaining large deficit markets. Based on strong consumption growth, current projections indicate a six million ton deficit on the continent by 2020. Illovo is extremely well placed to meet the escalating demand from our operating footprint in Africa.

The recent publicity linking sugar consumption to obesity has concerned Illovo. Illovo understands that obesity is a complex world-wide issue that needs to be addressed through a collaboration of all relevant stakeholders from government to the private sector. Illovo advocates the promotion of a balanced lifestyle, with AB Sugar leading the way to find an industry-wide, partnership approach to solving this complex problem. In addition, Illovo is a long-standing sponsor of a number of sporting events, raising awareness about the importance of physical activity.

Investment, innovation and shareholder value

Illovo has made some major investments recently, including our state-of-the-art distribution centre, located in Sobantu, just outside of Pietermaritzburg in KwaZulu-Natal, South Africa. The centre serves as a central distribution point between Illovo's production facilities in the province and its retail and industrial customers across the country, driving down outbound logistics costs. Our co-generation project at Ubombo Sugar in Swaziland currently provides an alternative source of revenue for the company and will ultimately supply around 15% of that country's total power requirements. Another investment, the new potable alcohol distillery constructed adjacent to the Kilombero sugar mill in Tanzania, is a template for future Illovo plans to replicate in other countries of operation to meet the growing demand for potable alcohol and potentially fuel ethanol.

Kilombero's new "best-in-class" potable alcohol distillery is a template for future Illovo plans to replicate in other countries of operation. Annual ethanol production capacity is 12 million litres.

Our distillery in Tanzania boasts best-in-class fermentation and distillation design technology. Furthermore, we are excited to see the development of a number of new innovations across our areas of operation which will significantly reduce costs. These include new precision farming techniques and satellite tracking systems for vehicle utilisation. We have also added unique soil mapping methods for fertiliser applications. We will continue to look for other workable investment prospects and will always seek out ways to continually improve on our current processes – Illovo's focus remains on enhancing efficiencies, lowering costs and boosting shareholder value and returns.

Accountability

At Illovo we want our people to feel engaged in the business, feel confident they have the means and ability to execute their tasks and then feel accountable to produce the required results.

The development of our people is a critical component to Illovo's sustainable growth plan. Our vision for our employees is to make them feel personally empowered to drive performance improvements, equipping them with the tools and skills to deliver and be recognised for their valuable contribution to the group's goals. Consistent engagement is an important pillar of our continuous improvement initiative, now being implemented across the group, and our values driven leadership approach underscores that it is not only "what you achieve" but also "how you do it".

It's all about integrity

Going forward, we have even more opportunities to examine our impact on the environment and on the communities where we operate. Not only do sustainable practices make business sense, they also reflect our responsibility for and accountability to the environment and our surrounding communities. We aim to continue building on the exemplary safety record of our factories and fields, our employee well-being programmes, our partnerships with local and international non-governmental organisations and the reduction of water usage and carbon emissions. Our strategic ambition is to ensure reliable cost-efficient energy supply to our operations, strive towards 100% renewable energy use and where attractive, to export power to national grids. Currently, we are meeting 90% of our own energy requirements from renewable bagasse fibre combustion and as previously mentioned, we sell surplus power into the Swaziland national grid in excess of the contractual obligations entered into with that country's power utility – another template to be replicated across our business where economically effective.

Integrity is synonymous with our organisation and our employees embrace this value and the principles of sustainability in everything they do. Integrity is also leveraged within our supply chain – a key differentiator for our industrial customer base. The 2013 World Economic Forum Global Competitive Survey rated South Africa first in corporate governance regulations. Through our listing on the JSE, investors are assured of the highest level of governance. Illovo is proud of its ongoing inclusion on the JSE's Socially Responsible Investment (SRI) Index and in 2013, was among the six companies who met the JSE's SRI Index "Best Performer" threshold. Also in 2013, our Zambian subsidiary was awarded the Corporate Governance award by the Lusaka Stock Exchange (LuSE), which recognises companies that adhere to good corporate governance standards exhibited through its reporting to stakeholders.

What's next?

We are very optimistic about our future and are currently in a strong financial position to capitalise on numerous branding opportunities on a retail level in first-world markets and to strengthen our downstream product offering, benefiting from the success of our distillery commissioning in Tanzania. Ethanol is a valuable growth area for us, with plans in the pipeline to expand ethanol and furfural production in Zambia, South Africa and Swaziland. Our differentiated speciality sugars will be another important area of focus and growth. We have direct access into EU and UK markets, and there has also been a shift away from EU sales to regional markets where we believe we will realise better returns.

Of course, the reforms in EU markets and the global production surplus will present short-term challenges. However, we see abundant opportunity in the deficit regional markets in neighbouring countries. Our footprint gives us a comparative advantage in supplying these markets and the short-term outlook is responsible cost reduction and margin growth, with a long-term goal of driving revenue diversification. Through increased downstream production we are confident that our strategic focus areas, as well as our continuous improvement programme, will bring about positive changes across the group, sustain our growth and ensure momentum going forward into 2015.

Gavin Dalgleish
Managing Director

Commentaries

BRIAN BWALYA
CIMA-UK, CGMA-UK, AICPA, AZICA
Tax and Treasury Manager, Zambia Sugar Plc, Zambia

Illovo career: With previous experience in the accounting field, I joined Zambia Sugar in June 2005. My career at the company so far has naturally been accounting-related and I have been fortunate enough to rise through the ranks of the company to my present position, reporting to the Finance Director.

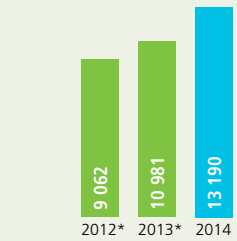
Career highlights: There are many! But probably being awarded the Overall Best Student in the ZICA Accounting programme in the year 2001 was one achievement which will always remain in my memory. My goal going forward is to become a financial controller and naturally, I have my eyes on the top job!

What excites me about my work: What I love most about my job is that there are new challenges nearly every day. It gives me an opportunity to be creative, conceptual and analytical. I also get thrilled at the thought of accomplishing a task perfectly; and most importantly, I really enjoy motivating others to accomplish superior results.

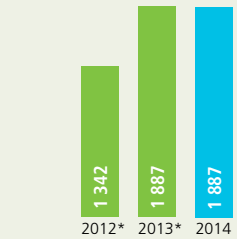
What about your home life: I am married to Patricia and we have three children. She is also a Chartered Accountant. Our children are very interesting characters; they are constantly asking questions, telling stories or reporting something - they just can't keep quiet. They are so much fun.

Financial Director's review

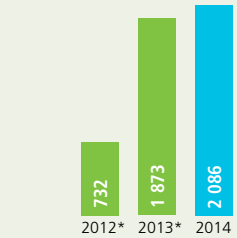
Mohammed Abdool-Samad
Financial Director



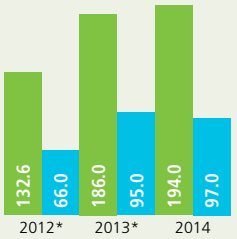
Revenue
(Rm)



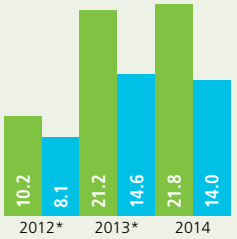
Operating profit
(Rm)



Net borrowings/ (cash)
(Rm)



Headline earnings and distribution/ dividend per share
(cents)



Gearing and return on shareholders' equity
(%)

* *The comparatives have been restated, as explained in the Accounting Policies paragraph.*

Salient features

- Revenue increased by **20%**
- Operating profit flat at **R1.887 billion**, impacted by low-priced imported sugar and an unfavourable fair value adjustment
- Operating margin decreased from **17.2%** to **14.3%**
- Headline earnings per share up **4.3%** to **194 cents**
- Total distribution of **97 cents per share**
- Return on net assets decreased to **16.1%**

Purpose

The purpose of this review is to provide insight into the financial performance and financial position of the group and should be read in conjunction with the summary financial statements presented on pages 117 to 127, together with the notes to the financial statements on the Illovo website at www.illovosugar.com.

Key financial risks

Exchange rates

As the group enters into purchase and sale transactions denominated in foreign currencies, it is subject to transactional exposure from fluctuating foreign currency exchange rates. To protect the business from the effects of transactional exchange rate volatility, forward exchange contracts are utilised, enabling more effective management of export realisations and cash flows. All forward exchange contracts are entered into in accordance with the Group Treasury Policy and individual contracts are approved by the Treasury Committee.

The group is further exposed to currency fluctuations with respect to the translation of profits into Rand, with 86% of the group's operating profit being derived from operations outside South Africa. During the current year, the Malawian Kwacha began to stabilise with year-on-year devaluations of 29% and 9% against the US Dollar and the Rand respectively, compared to 83% and 60% in the prior year. The benefit of a stronger Zambian Kwacha, Tanzanian Shilling and Mozambique Metical on translation offset the impact of the weaker Malawi Kwacha. The table below summarises the average translation exchange rates for the relevant currencies:

Average translation exchange rates	**2014**	2013
Rand/Euro	**13.58**	10.97
Rand/US Dollar	**10.12**	8.51
Malawian Kwacha/Rand	**37.52**	34.53
Zambian Kwacha/Rand	**0.544**	0.609
Tanzanian Shilling/Rand	**160.41**	187.48
Mozambican Metical/Rand	**3.01**	3.42

Financial Director's review

World sugar prices

The South African business is the only operation that exports sugar on the world market and is exposed to the world sugar price directly. World sugar exports, together with the related hedging activities, are undertaken on behalf of the sugar milling companies by SASA. The company participates in all decisions made by SASA relative to its pricing and hedging activities.

Low-cost imported sugar has placed South Africa's domestic market under pressure which, combined with increased production, has led to an additional 149 000 tons being sold on the world market, increasing the group's world market exposure to 11% of total sales (2013: 4%). The world sugar price remained depressed with average price realisations of US18.1 cents/lb being achieved compared to US22.9 cents/lb achieved in 2013. The world sugar price is currently trading at around US17.5 cents/lb and is expected to remain under pressure during the 2014/15 season following expectations of a fourth year of surplus in the world sugar market.

While high inland transport costs continue to protect pricing in certain of the group's regional markets, pricing in other regional markets began to feel the effect of competing with an abundance of low-cost, duty-free imported sugar. Domestic prices and volumes in Tanzania continued to be impacted by competition from low-cost, duty-free imported sugar.

The impact of inflation and cost containment

Inflation in most countries in which the group operates has been relatively stable in the past year, except in Malawi where inflation at 27%, albeit lower than the 38% in the prior year, continued to have a substantial impact on input costs. The high inflation in Malawi was largely mitigated by domestic price increases to protect operating margins.

Illovo maintains focus on its continuous improvement programme to reduce costs through efficiency and productivity improvements. Where possible, purchasing contracts are negotiated for bulk commodities.

Interest rate risk management

The group is exposed to interest rate risk with respect to variable rate loans and short-term cash investments. During the year, the external debt in Zambia was refinanced using internal funding to maximise the group's arbitrage opportunity of funding operations in high-interest rate environments from low-interest rate jurisdictions. While an interest saving was realised in the current year, the full benefit will be realised next year.

If interest rates applicable to existing borrowings increase by 50 basis points, the group's profit before tax will reduce by R13.3 million.

Accounting policies

The financial statements are prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa. During the current year, the group adopted *IAS 1 Presentation of Financial Statements, IAS 19 Employee Benefits, IFRS 11 Joint Arrangements and IFRS 13 Fair Value Measurement. The comparative results and disclosures have been restated.*

The revised provisions of IAS 19 Employee Benefits relate to the accounting for defined benefit pension obligations. Under the revised standard, operating profit for 2013 reduced by R6.6 million to reflect a change in the treatment of fund administration costs, while finance income reduced by R16.5 million as a lower rate of return is required to be applied to fund assets. Taxation decreased by R6.5 million. As a result of this restatement, profit attributable to equity holders reduced by R16.6 million while headline earnings per share reduced from 189.6 cents per share to 186.0 cents per share.

IFRS 11 Joint Arrangements requires all joint ventures to be equity accounted, eliminating the proportionate consolidation option which the group previously adopted. The change from proportionate consolidation to equity accounting resulted in a change to various asset, liability, income, expense and cash flow line items, but had no impact on equity, the profit attributable to equity holders or headline earnings per share.

The adoption of the other two standards has resulted in additional disclosures.

Acquisitions, disposals and investments

On 30 April 2013, the group acquired 51% of the equity in Mitra Sugar Limited from ABF Investments plc, a subsidiary of Associated British Foods plc, for a purchase consideration of €1. The acquisition increases the group's interest in Mitra Sugar Limited, a sugar export agent, from 49% to 100%. The bargain purchase price resulted in a gain of R2 million which is reflected as a material item in the income statement.

The new potable alcohol distillery in Tanzania was successfully commissioned within budget with extra-neutral alcohol first produced in August 2013. Total capital spend was R309 million.

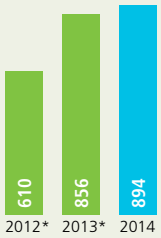
Material items and impairment

Insurance proceeds of R19 million were received as compensation for damage to a boiler at South Africa's Noodsberg operation.

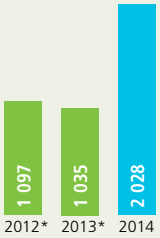
Financial performance

The financial performance of the group is measured in terms of various key financial ratios which include the operating margin, headline earnings growth, gearing and cash flow generation, as set out overleaf.

Operating margins (%)



Headline earnings (Rm)



Cash generated from operations (Rm)

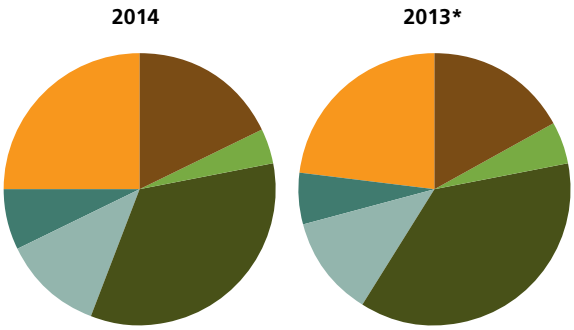
Operating performance

Revenue increased by 20% due to higher sales volumes and inflationary domestic price increases being achieved in all operations except for Tanzania and Malawi. Malawian domestic prices continued to increase above inflation with a 36% increase necessary to mitigate inflationary cost pressure and maintain a US Dollar equivalent sugar price. In Tanzania, the continued presence of low-cost, duty-free imported sugar resulted in sugar sold at prices below that of the prior year to generate cash flow. The group continued to grow its European speciality sugar market out of Malawi and enhance its distribution channels in Tanzania. Downstream revenue benefited from higher sales volumes and improved pricing in both the furfural and alcohol businesses, as well as additional ethanol sales following the commissioning of the distillery in Tanzania. A weaker Rand exchange rate improved export realisations for all the South African downstream operations.

However, growth in revenue did not translate to operating profit, which remained in line with the prior year, resulting in the operating margin decreasing from 17.2% to 14.3%. An unfavourable growing cane fair value movement, resulting from the stability of the Malawian Kwacha relative to the prior year and the negative outlook on 2014/15 sugar pricing, contributed considerably to the lower operating margin. Low-cost imported sugar has also impacted upon South Africa's domestic market and had an adverse effect on profits as large volumes of domestic-designated sugar were sold on the low-margin world market. While production and sales volumes increased, the overall impact on the group was negative, with growth mainly achieved in lower-margin sugar operations like South Africa and Tanzania. Production decreased in higher-margin sugar operations like Malawi and Zambia. The group maintained its focus on its continuous improvement programme and realised material cost savings, most notably the benefit of the central distribution warehouse in South Africa. The benefits of these cost savings, helped negate the impact of declining regional and EU export pricing.

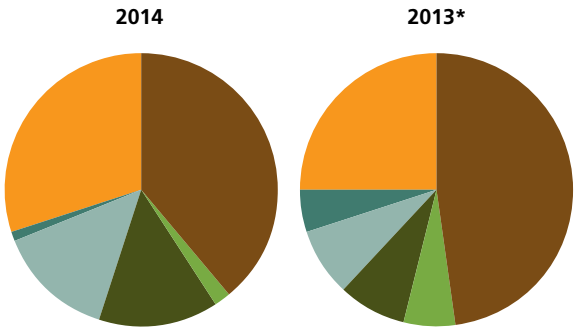
The downstream and co-generation businesses performed exceptionally well with profits increasing by 94% on the back of higher furfural and alcohol revenue, energy efficiency saving initiatives at the Merebank distillery as well as additional power being exported to the Swaziland national grid.

Revenue by country (Rm)



(Rm)	2014	%	2013*	%
Malawi	2 341	18	1 830	17
Mozambique	553	4	536	5
South Africa	4 504	34	4 081	37
Swaziland	1 601	12	1 315	12
Tanzania	925	7	699	6
Zambia	3 266	25	2 520	23

Operating profit by country (Rm)



(Rm)	2014	%	2013*	%
Malawi	762	39	899	48
Mozambique	33	2	109	6
South Africa	266	14	150	8
Swaziland	257	14	156	8
Tanzania	11	1	94	5
Zambia	558	30	479	25

Financial director's review

Operating profit over the previous year is graphically depicted in the waterfall chart below.

Finance costs

Rm	2014	2013*	Variance
Malawi	**(48)**	(44)	(4)
Mozambique	**(8)**	(17)	9
South Africa	**(78)**	(73)	(5)
Swaziland	**(80)**	(97)	17
Tanzania	**(65)**	(31)	(34)
Zambia	**(228)**	(233)	5
Group operations	**193**	200	(7)
Translation	**(22)**	n/a	(22)
Total	**(336)**	(295)	(41)

Despite strong cash generation and improved working capital management, finance costs increased by R41 million compared to 2013. In Tanzania, the successful commissioning of the potable alcohol distillery resulted in the cessation of finance costs being capitalised while higher sugar stocks throughout the year, due to the continued presence of low-cost imported sugar, weighed heavily on the group's increased finance costs. At the group level, finance costs were affected by the full-year impact of funding the new central distribution warehouse. Translation losses arose from a stronger Zambian Kwacha and Tanzanian Shilling against the Rand. Finance costs in Swaziland and Mozambique reflect the full-year interest saving from restructuring external debt in the prior year, while Zambia's external debt restructuring realised an interest saving, with the full-year benefit to be realised next year.

Taxation

The effective tax rate decreased marginally from 31.7% to 31.3% in the current year.

EFFECTIVE TAX RATES (%)	2014	2013*
Current tax	**13.3**	12.7
Deferred tax	**14.8**	15.9
Withholding tax	**3.2**	3.1
Effective tax rate	**31.3**	31.7

Headline earnings

Headline earnings increased by 4% to R894 million (2013: R856 million). The weighted average number of shares in issue increased by 175 500 shares to 460.5 million as a result of the issuance of shares in terms of the Illovo Sugar 1992 Share Option Scheme.

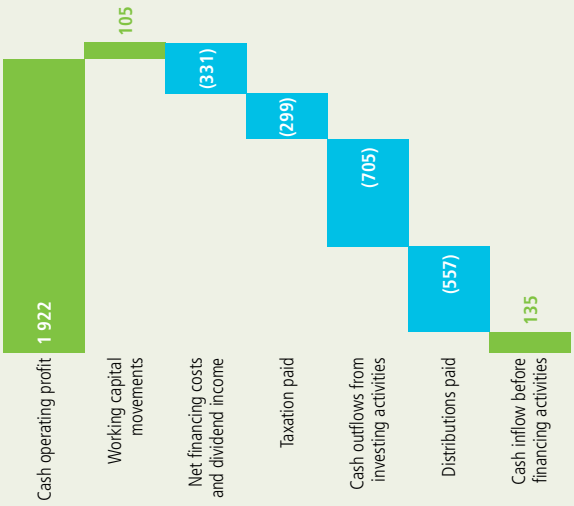
Cash flow

The group continued its focus on operating cash flows with the objective of ensuring that operating profit is largely covered by cash. With fair value movements stabilising, cash operating profit showed a substantial increase of R370 million to R1 922 million, representing an improvement in the cash conversion ratio from 82% to 102% of operating profit. Management continues to focus on revenue enhancements, cost reductions and continuous improvement initiatives across the group to maximise cash flow generation, optimise working capital requirements and minimise financing costs.

The group invested R379 million in expansion capital projects which primarily relate to the construction of the potable alcohol distillery in Tanzania, a packed sugar warehouse in Malawi and a packing station in South Africa. In addition to

Operating profit (Rm)

Free cash flow (Rm)



this, R343 million was spent on ongoing replacement capital and minor capital projects. Distributions to shareholders totalled R557 million (2013: R458 million).

Borrowings

At year-end, the group had banking facilities totalling R4 807 million of which R2 683 million was drawn down. Committed facilities totalled R2 943 million while the group has access to R1 864 million of uncommitted facilities. Cash-on-hand at year-end totalled R597 million, resulting in a net borrowings position of R2 086 million.

The net borrowings position at year-end was made up as follows:

Rm	2014	2013*
Long-term borrowings	**1 825**	1 164
Current portion of long-term borrowings	**151**	744
Short-term borrowings	**297**	223
Bank overdraft	**410**	195
Total borrowings	**2 683**	2 326
Less: Cash and cash equivalents	**(597)**	(453)
Net borrowings	**2 086**	1 873
Increase in funding	**213**	1 141

Net borrowings increased from the prior year largely as a result of a R349 million loss that arose on translation of obligations into Rand. If translation losses are excluded, this would result in a reduction of net borrowings of R136 million which is attributable to stronger cash generation and improved working capital management, particularly in Zambia and Malawi. In Tanzania, long-term borrowings increased following the completion of the potable alcohol distillery, while bank overdrafts increased to fund higher sugar stocks. Zambia's external debt was refinanced with internal funding.

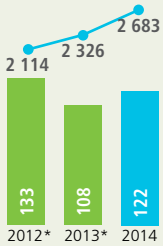
The borrowings profile is largely long-term in nature which reflects both the capital investment programme and working capital requirements of the business. Capital projects are largely funded by each of the individual businesses, primarily in the currency of that business' operations. Any residual funding is financed through group treasury which in turn is financed by the local debt markets. Capital expansion projects are financed by floating rate long-term debt and are repaid from project cash flows.

The external borrowings exposure at 31 March is analysed by currency:

Rm	2014	%	2013*	%
Rand	**24**	**1**	–	–
US Dollar	**1 959**	**73**	913	39
Euro	**–**	**–**	205	9
Malawian Kwacha	**–**	**–**	5	-
Zambian Kwacha	**20**	**1**	791	34
Tanzanian Shilling	**656**	**24**	412	18
Mozambican Metical	**24**	**1**	–	–
Total borrowings	**2 683**	**100**	2 326	100
Translational exposure	**2 659**	**99**	2 121	91
Transactional exposure	**–**	**–**	205	9
No currency exposure	**24**	**1**	–	–

The group manages transactional exposure on external borrowings by ensuring that the businesses borrow in their local currency. The group's treasury operation may borrow in a currency other than its local currency, provided the exchange exposure is appropriately hedged. Where internal financing is utilised for long-term funding and is designated as part of the investment in the operation, foreign exchange gains and losses are recorded directly in reserves.

Gearing increased to 22% which is within the group's objective limit of 40%. The low level of gearing is expected to be maintained in the short term, however, over the medium to long term, in anticipation of large capital expansion projects, this gearing level is expected to reach the objective limit.



Borrowings
(Rm)
Debt to EBITDA
(%)

Financial Director's review

	CAPITAL EXPENDITURE			CAPITAL COMMITMENTS		
	2014			2015		
Rm	**Expansion**	**Ongoing**	**Total**	Expansion	Ongoing	Total
South Africa	**77**	**104**	**181**	70	125	195
Malawi	**72**	**104**	**176**	100	131	231
Zambia	**16**	**64**	**80**	38	93	131
Swaziland	**–**	**23**	**23**	44	38	82
Tanzania	**133**	**6**	**139**	5	51	56
Mozambique	**12**	**15**	**27**	10	40	50
Group	**69**	**27**	**96**	272	25	297
Total	**379**	**343**	**722**	539	503	1 042

Shareholding and return

Trading activity by volume of shares traded on the JSE increased by 47% year-on-year. The share price decreased by 12% from 3 180 cents to 2 801 cents at year-end.

The group has maintained its policy to pay a distribution to shareholders twice a year (interim and final), in aggregate twice-covered by headline earnings. The board believes that this distribution cover ratio is appropriate given current and forecast cash generation, planned capital expenditure and gearing levels.

An interim capital distribution, in lieu of dividend, of 37 cents per share was paid and a final capital distribution, in lieu of dividend, of 60 cents per share has been approved. The total distribution of 97 cents per share is marginally higher than the 95 cents per share distributed in 2013. In accordance with International Financial Reporting Standards, no liability has been raised for the final distribution. As the source of the distribution is a reduction of contributed tax capital, the cost of the final distribution of R276 million has been transferred from share premium to a separate distribution reserve.

Return on net assets

The return on net assets for the group decreased from 19.6% to 16.1% year-on-year. This reflects the investment in the potable alcohol distillery in Tanzania and other expansion projects which are not yet fully utilised, combined with higher sugar stocks during the year due to the slowdown in the sales profile in key markets. A currency gain of R165 million arose on the translation of the group's foreign currency denominated net assets into Rand.

Capital expenditure and commitments

A summary of the group's capital expenditure and approved capital commitments as at 31 March is set out above.

The group continued to apply the following hurdle rates to new expansion capital projects:

Internal rate of return	**>20%**
EBIT/capital at steady state	**>20%**

The hurdle rates ensure that capital is applied to expansion projects that give the best return on investment. However, these hurdle rates do not apply to ongoing replacement capital and environmental capital where it is not always possible to demonstrate the financial returns. Equity injections into the operating subsidiaries are considered from time to time, as appropriate, in order to maximise shareholders' returns.

Financial controls and risk management

The internal control systems are designed to provide reasonable assurance against material losses and misstatement of financial results, and are intended to manage all significant risks. The safeguarding and prevention of misuse of assets is an important aspect of internal control. An internal financial control framework has been developed, in line with King III, to improve the identification of financial reporting risks and to provide additional assurance that controls are adequate to address the risk of material misstatements of financial results. During 2014, internal control frameworks were tested by the internal audit division at numerous locations. Areas of non-compliance were reported and discussed with management, following which action plans were implemented to address the risk of material misstatement of financial results.

Going-concern assertion

The board has formally considered the going-concern assertion for the Illovo group and is of the opinion that it is appropriate for the forthcoming year.

Mohammed Abdool-Samad
Financial Director

Operations Director's review

John Hulley
Operations Director

The 2013/14 operating season was once again characterised by strong physical performance with the production of a record 1,830 million tons of sugar from the 11 sugar factories currently forming part of our group operations. The downstream operations also performed well with new production records being achieved at Merebank and Glendale distilleries and Lacsa operations. The sale of electrical power generated from renewable energy and exported into the national grid in Swaziland exceeded the volumes required by the Power Purchase Agreement with the Swaziland Electricity Company for the third year in succession.

The sugar cane crop in South Africa continued to increase in volume on a year-on-year basis, assisted by favourable climatic conditions during the peak growing period in the previous season. The South African milling operations generally performed well, and assisted by above average cane quality, contributed significantly to the favourable group sugar production performance. In spite of a strong performance from the Dwangwa operation, Malawi's sugar production was negatively affected by a reduction in cane yields and interruptions resulting from unseasonal rainfall experienced at the Nchalo operation, which contributed to a difficult season.

Our operations in Swaziland produced solid results, with a consolidation of factory performance following the expansion project demonstrating the ability to consistently achieve the designed sugar milling parameters. The Zambian factory performed well, but ended the season early due to a significant reduction in miller-cum-planter cane yields experienced towards the end of the season due to irrigation water shortages experienced during the 2013/14 growing season.

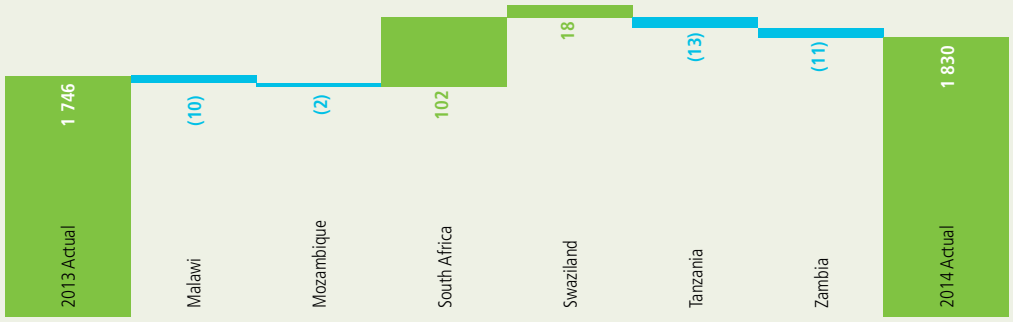
Tanzania experienced a difficult year due to unseasonal rainfall which affected factory operations and due to plant reliability challenges experienced at our Ruembe factory. Mozambique's factory ran well, demonstrating the ability to operate consistently at above rated sugar milling capacity. The cane crop in Mozambique was, however, negatively affected by lower than normal climatic potential and this affected the operation's sugar production for the season.

Health and safety

Regrettably, we recorded five fatalities during the season, all of which were rigorously investigated and measures employed to prevent re-occurrences of the same or similar incidents. Against this background, however, the trend in improving the 12-month rolling group DIFR performance continued with a rate of 0.11 being achieved to 31 March 2014. South Africa performed particularly well in improving their health and safety performance, with the Eston mill, Eston Beaumont farm, Eston syrup plant, Umzimkulu mill, Umzimkulu agriculture, Merebank and Glendale distilleries all achieving DIFR performances of 0. The number of disabling lost time injuries in the group reduced by 41% from the 2011 milling season.

The group TIFR (total injury frequency rate) trend, which records minor work-related injuries as well as the lost-time injuries, and which are also captured under the DIFR statistics, has also continued to demonstrate a steady reduction since May 2010, to achieve a 12-month rolling group DIFR performance of 2.17 in March 2014.

Sugar production ('000 tons)



Operations Director's review

The positive health and safety performance is further demonstrated by the following safety milestones achieved by the group over the past 12 months:

OPERATION	Disabling injury-free milestones
Kilombero (agriculture)	18.14 million man-hours
Dwangwa (agriculture)	12.88 million man-hours
Nchalo (agriculture)	5.58 million man-hours
Maragra (factory)	4.13 million man-hours
Eston (agriculture)	2.51 million man-hours
Ubombo (agriculture)	2.34 million man-hours
Merebank (distillery)	2.17 million man-hours
Kilombero (factory)	2.08 million man-hours
Dwangwa (factory)	1.88 million man-hours
Nakambala (factory)	1.65 million man-hours
Eston (factory)	1.00 million man-hours

The continued improvement in performance is indicative of a successful management strategy to implement and maintain a common health and safety standard across all the operations in the group. The intention of shifting employees' behaviour towards personal and workplace safety issues has been complimented by focusing on lead indicators and managing health and safety risks, by analysing and responding proactively to near-miss and minor incident trends.

Continuous improvement

Illovo's continuous improvement (CI) programme has extended further across the group with the initiative implemented at Ubombo, Maragra, Umzimkulu, Sezela and Noodsberg during the 2013/14 season. The two remaining sites, Kilombero and Eston are currently in the process of commencing implementation. Nakambala has entered a second phase of development, extending the process further across the operation and introducing new strategies around asset care and reliability-based maintenance. Learnings from this implementation will be rolled out across all sites upon completion.

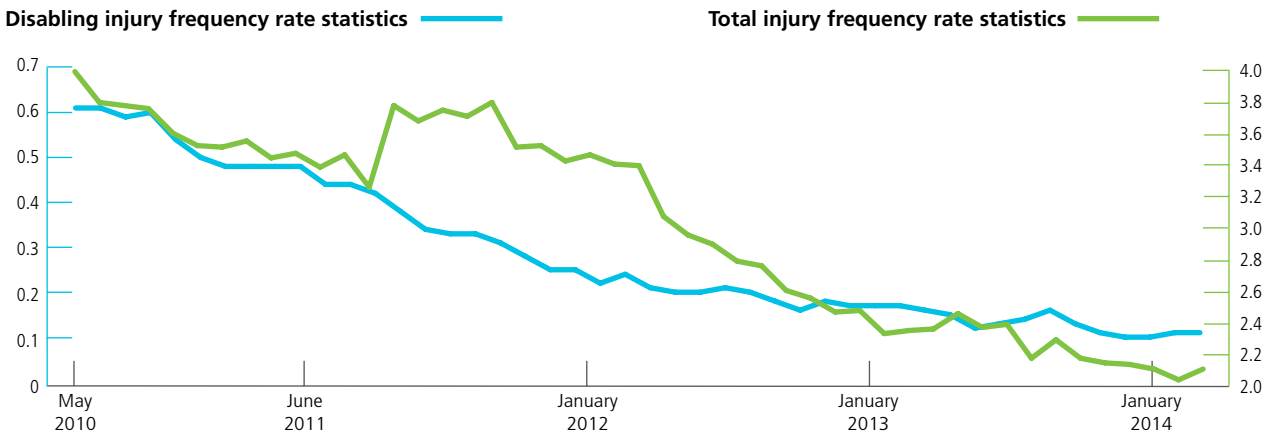
Speed Profiling and Lost Opportunity Planning (LOP) continues to gain momentum, with the Nakambala project rolling into a second year and with Ubombo having implemented this process to identify and address opportunities to improve production performance and capacity utilisation. During 2014, Noodsberg will implement LOP and the process will also be used to train local resources in its use and application.

Internal capability was further developed with full-time CI managers appointed to most of the operations outside South Africa, as well as the appointment of teams of facilitators within each site. Further support is provided at a group level with three CI practitioners working across all of the sites, providing support from both an implementation perspective as well as a dedicated financial resource whose focus is on greater application of financial rigour as part of the improvement project selection process.

The CI Register, which documents all current and potential improvement programmes, has been further enhanced in order for it to become a "live" document that can be filtered and sorted, in order to ensure the selection of the most appropriate initiatives from both an individual and group perspective.

The TRACC® system continues to be used to monitor implementation of the CI practices and all sites are planning their implementation against specific maturity targets covering the financial year.

The extended implementation, along with the associated development of internal capacity, is expected to continue with improving returns, over and above the R211 million contributed to group operating profit derived from CI projects in 2013/14.



Operations review

Malawi

Sugar cane production for the year amounted to 2.4 million tons which included 416 000 tons produced by Malawian out growers. Two new out grower schemes, namely the Phata and Kasinthula phase 4 schemes came on stream during the 2013/14 season and the co-management by Dwangwa agricultural staff of a number of outgrower farms at Kazilira yielded positive results.

Cane yields and sucrose content at Nchalo were below that achieved in 2012/13 due to power interruptions from the national grid which affected irrigation supplied to both the miller-cum-planter and outgrowers' cane. Unseasonal rainfall during the first half of the milling season also affected cane quality negatively and resulted in numerous interruptions in cane supply which in turn, contributed to poor factory performance for the 2013/14 milling season. Dwangwa performed well, achieving improvements in cane yields and sucrose content, together with new cane crushed and sugar production records in the factory during the 2013/14 season. Malawi's sugar production was 3.5% lower than 2012/13 at 289 000 tons.

Mozambique

Lower than average sunshine hours and radiation levels also resulted in cane yields falling by around 11% compared to 2012/13 in Mozambique. Our own agricultural operations produced 463 000 tons of cane while Maragra's outgrowers supplied 215 000 to the factory. Year-on-year, the outgrower cane production crop increased by almost 27 800 tons as a result of Maragra-assisted cane development initiatives.

A number of strategic initiatives involving both the company and our outgrowers, are continuing and are aimed at increasing total cane supply to the Maragra factory from 678 000 tons harvested in 2013/14 to 940 000 by 2017/18.

The upgraded flood protection undertaken at Maragra after the catastrophic floods in February 2000 was tested during the past season with the Inkomati River reaching similar levels. All the dykes on the estate held, with no flooding damage having being suffered by our own operations.

Milling performance during 2013/14 was pleasing with the factory demonstrating the ability to operate at its designed crushing throughput rates and most notably, achieving a very good overall recovery of sugar from cane. The season ended early due to the reduction in cane supply, resulting in a

Illovo's continued improvement in safety performance is indicative of a successful management strategy to implement and maintain a common health and safety standard across the group.

sugar production of 82 000 tons, being 3% lower than that achieved in 2012/13.

Maragra concluded a Power Purchase Agreement with the Mozambican Power Authority, being the first agreement of its kind in Mozambique within the sugar sector. This agreement enables Maragra to export surplus electrical power generated from renewable fuel in the form of excess bagasse, for sale into the national grid. It also reduces electricity imported from the national grid for irrigation purposes and improves stability of our factory operations. The benefits from this initiative will be realised in the 2014/15 season.

South Africa

Excellent growing conditions during the spring and summer periods in 2012/13, coupled with an increase in the area harvested, resulted in a 19% improvement in the amount of cane harvested by our own operations in 2013/14. Outgrower cane production increased by 13% compared to last year. Drier than normal weather conditions during the 2013/14 spring and summer months resulted in improved sucrose content in cane, and the factories capitalised on both cane volume and quality to produce 698 000 tons of sugar, representing a 17% improvement on the 2012/13 season's performance.

The Noodsberg factory was negatively affected by high dextran levels in cane towards the end of the season. However, the Eston, Sezela and Umzimkulu factories performed well, with Sezela and Umzimkulu achieving sugar recovery and efficiency performances which ranked amongst the highest in the South African sugar industry.

Logistics

The purpose-built finished goods warehouse in Pietermaritzburg which commenced operations in March 2013, and having the ability to store 170 000 tons of sugar in a variety of pack configurations, has performed extremely well. This initiative has delivered a contribution in excess of R65 million to the group profits in 2013/14 resulting from improved efficiencies and reduced costs.

Downstream

New season production records were set at Merebank and Glendale distilleries and Lacsa. Sezela's downstream operations also performed well with furfural production ending the season at just under 20 000 tons.

Swaziland

Lower than average sunshine hours and radiation levels and the absence of carry-over cane for harvesting in the 2013/14 season, resulted in our own estate production of 780 000 tons of cane, representing a 9.4% reduction compared to the previous season. Cane delivered by our Swaziland outgrowers, including the Ubombo-managed estate, increased by 11% to 1.447 million tons, benefiting from increased land under cane.

Total cane delivered from outgrowers under the Lower Usuthu Smallholder Irrigation Project (LUSIP) amounted to 235 000 tons, representing an 11% increase compared to the previous year. During the season, Ubombo Sugar was granted €7.56 million by the EU to develop a further 826 hectares of smallholder land, which will bring the total LUSIP scheme area under cane to 3 461 hectares by April 2015. It is expected that the development of the remaining 1 539 hectares of land under irrigated cane, in order to reach the original target of 5 000 hectares, will be developed by 2017. Mitigating steps employed by Ubombo to plant up other land to cane has resulted in 2 000 hectares being developed to date.

A reduction in crop age from 12.6 months for the 2012/13 season to 11.3 months for the 2013/14 season due to the late end to the season in 2012/13 and very good factory crushing performance resulted in a reduction in cane yields. The harvesting season has, however, been brought back into line with normal start and end dates for the operation and will contribute positively to 2014/15 crop and cane quality.

The phased implementation of improvements to our estate irrigation systems by converting from flood irrigation to centre pivots continued with a further 516 hectares transformed in 2013/14, totalling 3 612 hectares converted to date. This programme has resulted in a 20% reduction in water usage on the converted area and is delivering a yield improvement in the order of 14 tons cane per hectare.

The factory crushed a record crop of 2.227 million tons of cane and produced a record sugar production of 251 000 tons of sugar. During the season, 13 other production records were achieved. The co-generation operation also performed well with 44.80 GWh of electrical power being exported to the Swaziland national grid on a commercial basis, an improvement of 21.4% on the power exported to the grid in the 2012/13 season.

Tanzania

Operations were characterised by disappointing performances from both sugar factories. Reliability challenges at both factories and specifically Ruembe, were compounded by unplanned interruptions due to unseasonal rainfall during the season. Compared to the previous season, there was a reduction in both estate and outgrower cane production, resulting in 117 000 tons of sugar being produced, a 10% reduction from 2012/13. A significant amount of cane has been carried over for processing in the new season, while improvements are being undertaken at both factories to improve reliability performance in order to capitalise on this opportunity.

Downstream – distillery

The potable alcohol distillery at the Kilombero sugar mill was successfully commissioned in August 2013. The plant consistently demonstrated the ability to produce extra neutral potable alcohol of high quality and the capability to exceed design capacity parameters.

The local Tanzanian plant operators and supervisors who completed their operations training at the group's Glendale and Merebank distilleries in South Africa and the distillery management team who completed plant-specific training at two distilleries in India, performed very well to commission and consolidate plant operations.

Management at Kilombero are currently focusing on improving the reliability of steam and electrical power services supplied to the distillery from the Ruembe sugar factory, in preparation for the 2014/15 season.

Zambia

Zambia Sugar's agricultural operations in 2013/14 produced 1.863 million tons of cane compared to the previous season's 1.942 million tons. Poor climatic conditions, erratic power supply from the grid and cane age in the second half of the season, contributed to a 4% reduction in our own crop. The outgrowers' production was also not at the same level as the 2012/13 season, producing 1.290 million tons of cane. Sucrose content for both company-owned and out-grower cane was also slightly below the level achieved in the 2012/13 season.

The factory performed well, achieving new refined sugar production and overall time efficiency records, together with an improvement of overall recovery of sugar compared to last year. The reduction in aggregated cane production resulted in a lower sugar output of 393 000 tons, representing a 2.6% decline compared to 2012/13.

During the year, our Nakambala operation achieved FSSC 22000 Certification (Food Safety Certification) for the refinery and was accredited with the Kenyan Bureau of Standards (KEBS) Diamond Mark certification for household sugar. Both of these accreditations are important differentiators for accessing and maintaining customers in direct consumption markets.

John Hulley
Operations Director

Ubombo's continuing programme to convert its flood irrigated fields to centre pivot irrigation has so far resulted in a 20% reduction in water usage and an increase in yield of up to 14 tons of cane per hectare on the converted area. Generally, growing conditions were variable across the group resulting in the production of 6.1 million tons of cane.

Commercial Director's review

Larry Riddle
Commercial Director

Products

Illovo produces and sells a range of sugar, syrup and downstream products into domestic, preferential, regional and world markets.

Sugar

We sell a wide range of brown and refined sugar products to serve both our domestic and export customers. Our offerings include:

- *Industrial sugar:* Mainly in refined bulk form, sold primarily to soft drink, confectionery, canning and re-packing customers. Most of this sugar is sold into markets in the countries in which we operate.
- *Pre-pack sugar:* Refined and brown sugar which is pre-packed in paper or plastic of various pack sizes for direct consumption in domestic markets. It is sold to retail and wholesale customers and directly to consumers through our wide network of warehouses and distribution channels. In South Africa and Malawi, pre-pack sugar is marketed under the Illovo brand name, and in Zambia and Tanzania, under the Whitespoon and Bwana Sukari brand names respectively. In Swaziland and Mozambique, local market sugar is marketed on behalf of producers by their respective sugar associations.
- *Bulk raw sugar for refining:* Raw sugar which is primarily exported to sugar refineries via preferential access to EU and USA markets, or through world market sales out of South Africa.
- *Specialty sugars:* Sugar which undergoes additional or special processing to meet our customers' unique requirements pertaining to flavour, grain size and colour, which is exported into high-premium niche markets in the EU and USA. An increasing volume of these exports is marketed under the "Fairtrade" label with price premiums returning directly to promote agricultural development among emergent cane farmers in our own countries of operation. Relatively smaller quantities are sold into Illovo's domestic markets.
- *Syrup:* In South Africa and Zambia, Illovo produces a wide range of quality invert syrup products ranging from golden syrup through to the rich-dessert topping range. Illovo's market leading syrups can be found nationally in retail, wholesale and industrial markets while customer-specific inverts are also supplied to many industrial customers and to growing export markets.

Downstream

As part of Illovo's Strategic Intent to optimise the return on every stick of cane, a wide variety of niche, high-value downstream products are produced and marketed from the core commodity products of cane-fibre, sugar and molasses. Downstream products include syrups, ethanol, furfural and furfuryl alcohol, diacetyl, 2,3-Pentanedione, BioMass Sugar®, agricultural nematicides and an increasing supply of electricity. Lactulose is also produced at the Merebank site in South Africa.

Commercial review

Favourable market conditions and higher production levels impacted positively on sales resulting in the group achieving revenues of R13.2 billion, representing a 20% increase in sales compared to that of the previous year. This improved position was aided by an increase in sugar production of 5% compared to last year and better pricing being achieved on average in both domestic and export markets. The impact of low-cost sugar imports that have been flowing into both the Tanzanian and South African markets dampened group revenues in the current year but was mitigated by the improved performance of Illovo's four other operations. In South Africa, duty-free sugar imports amounted to in excess of 460 000 tons (2013: 200 000 tons), while in Tanzania, world sugar imports attracted minimal duties and continues to threaten the viability of the sugar producers in Tanzania. It is pleasing to note that on 4 April 2014, it was announced that the South African Government had accepted the International Trade Administration Commission (ITAC) recommendation to increase import protection for the South African Sugar Industry. In Tanzania and the East African Community (EAC), a number of key stakeholders including influential government departments have in principle agreed to providing support to the industry similar to that of South Africa, and these government organisations will continue to be lobbied until adequate protection is provided against government-subsidised low-cost world sugars.

The downstream operations, which are based primarily in South Africa, have once again grown their combined revenue by 22% year-on-year. The group achieved a new ethanol production record and combined with improved pricing for furfural, are the main reasons for the growth in current-year downstream sales revenue.

Domestic sugar sales provide the foundation of Illovo's marketing strategy and represented 58% of total sales. Sugar surplus to local markets is sold into preferential markets in the EU and the USA, and regional markets in Africa, while in South Africa, bulk raw exports to the world market are sold on behalf of Illovo through SASA. Export revenues from the downstream business represent more than 60% of total downstream revenue.

Sugar

Domestic markets

Sugar revenues continued to be underpinned by strong market shares in each of the domestic markets in which we operate, and in the year under review, domestic market sales represented 58% of total sugar sales volumes, despite the decline in the local sales in South Africa which were impacted by low-cost world imports.

Zambia's per capita consumption of sugar continues to improve in line with buoyant growth of the economy, positively impacting domestic sales, which grew year-on-year. Despite a challenging economic environment in Malawi, with constrained consumer spending, the industry domestic sales volumes improved compared to the previous year. In Tanzania, low cost imports in excess of the normal deficit tonnage resulted in local producers experiencing difficulties in getting volumes away at remunerative prices, with larger than normal volumes held in closing stock over the financial year-end. Pricing for Swaziland sugar in the Southern African Customs Union (SACU) market was depressed due to the effect of cheap imported world sugar entering SACU. Domestic sugar sales in Mozambique were impacted by lower production attributed to difficulties experienced by the agricultural operation. High levels of economic growth in Mozambique did not, however, translate into higher domestic sales.

Export markets

Increased sugar availability due primarily to improved weather conditions in a number of the group's countries of operation resulted in the sales availability of sugar increasing and enabled Illovo to take full advantage of relatively higher regional and preferential market prices. Illovo currently exports sugar to around 28 countries.

Regional markets

World prices declined in the current year with a further global sugar surplus expected in the international sugar season which ends 30 September. However, tight sugar supply conditions in Europe supported firmer African regional market prices with both Zambia and Malawi benefiting from improved market premiums.

Preferential markets

EU prices in the current year were in line with the average prices for the prior year despite the additional supply measures adopted by the EU Commission to improve stock levels, which had reached uncomfortably low levels. The EU sugar supply position for next season has improved significantly, putting pressure on prices as additional sources of supply become available to EU refiners. This oversupply in Europe will likely impact on prices for EU exports by Malawi, Zambia, Swaziland and Mozambique in the 2014/15 season.

Illovo has been successful in lobbying the EU Commission in regard to the further reforms to the EU Sugar regime. The EU Commission has approved that the beet sugar quotas that are currently in place and which limit access for beet sugar into the EU market be abolished in 2017 and not in 2015 as originally intended. This extends the preferential access for Illovo's operations into the EU for another two years

Demand for our premium speciality sugars was strong and record sales were again achieved. During the year, group preferential exports to the EU and the USA reached record levels.

SUGAR MARKET SEGMENTAL ANALYSIS		
% By volume	**2013/14**	2012/13
Domestic markets	**58**	63
Preferential markets	**23**	24
Regional markets	**8**	9
World markets	**11**	4
Total	**100**	100

Downstream

Downstream operations continue to play an important and vital role in our business, with revenues increasing by 22% compared to that of 2012/13. This position is on the back of higher production levels of ethanol at our Merebank and Glendale distilleries where record production levels were achieved. The new distillery in Tanzania also contributed to improved revenue from downstream products in the current year and this is forecast to grow in the 2014/15 year for its first full year of production.

Furfural and furfuryl alcohol revenue improved in the current year due to higher production levels at the Sezela mill and improved prices arising from demand in China and the EU. While the group's range of downstream products is primarily aimed at export markets, the Merebank and Glendale distilleries remain important suppliers of ethanol to the South African beverage, pharmaceutical, personal care, flavour, printing and packaging market segments. Relatively small volumes of furfural and its derivatives, including Crop Guard®, a furfural-based agricultural nematicide under the Agriguard range of products, as well as lactulose, a natural laxative, are sold in the local South African market. Illovo syrup, a well-known brand in the South African domestic market, retained its status as the market leader. Illovo continues to explore downstream opportunities to diversify its product mix as evidenced by the newly built distillery in Tanzania which supplies its full output into the domestic market.

The group exports furfural and its derivatives to more than 70 countries. We continue to explore new markets for MultiGuard Protect®, a furfural-based agricultural nematicide derived from sugar cane, and are in the process of securing registration for access into the USA pre-plant food market, which if successful will provide a further opportunity to commercialise this product.

Commercial Director's review

DOWNSTREAM PRODUCTS	
Products produced	Uses
SEZELA DOWNSTREAM	
Furfural	Mainly for the production of furfuryl alcohol and in lube oil refineries as an extractive solvent in the purification of base oils. It is also used for specialist applications such as the manufacture of grinding wheels, friction pellets for brake pads, crucible manufacture, and to a lesser extent as a flavour ingredient
Furfuryl alcohol	Used to produce a resin used in the foundry industry as a polymeric binder for foundry sands. It is also used for wood treatment, to produce acid-resistant coatings and certain pharmaceuticals, and as a flavour ingredient
AGRIGUARD BUSINESS PRODUCTS	
Crop Guard®	Used as an agricultural contact nematicide, at plant and within the growing season
MultiGuard Protect®	Developed and marketed as an agricultural contact-nematicide in the USA
Protect®	Used prior to planting, as a nematicide and fungicide
BioMass Sugar®	Used as phytofortifiers/soil improvers or as a liquid organic fertiliser
FLAVOURANT PRODUCTS	
Diacetyl	Used as an ingredient in butter flavourings
2,3-Pentanedione	Used as an ingredient in butter flavourings and as an intermediate in the manufacture of pyrazines
Natural methanol	Used in the manufacture of natural flavour ingredients
MEREBANK, GLENDALE AND TANZANIAN ETHANOL DISTILLERIES	
Ethanol Potable extra neutral alcohol (ENA) – 96.4%	A very high quality potable alcohol used by liquor industries for the production of branded alcoholic drinks (eg canes, vodkas, gins, rums, liqueurs and aperitifs)
Anhydrous alcohol – 99.9%	Used in the pharmaceutical industry to produce pharmaceutical intermediaries and products (eg in cough mixtures, alcohol is used to dissolve ingredients not able to be dissolved by water). Also used in surgical spirits, medical disinfectants, and in the production of solvents for use in the printing ink and flexible packaging industries
Rectified extra neutral alcohol (REN) – 96.4%	Also has pharmaceutical applications but mainly used in the personal care industry to produce cosmetics, hair care products, toiletries, fragrances and perfumes. In the food industry, it is used to produce flavours and spirit vinegar which is used in various pickling processes and in the production of condiments (eg tomato sauce, chutney, mayonnaise and salad dressings)
Industrial alcohol – 95%	Used in the production of methylated spirits, solvents and thinners
Lactulose	Mild, natural laxative syrup

The group has a strong local market presence in each of the countries in which it operates with 58% of total sales marketed domestically. Overall, group sugar sales increased by 8% compared to the previous year, while downstream revenues increased by 21.5% on the back of higher production levels.

Country operations – sugar markets

Malawi

During the year, Malawi achieved a strong overall sugar sales performance, with approximately half of total sales sold into the domestic market under Illovo-branded pre-packed refined and brown sugar packs through the company's chain of distribution centres situated throughout the country. The balance of the sugar produced was exported to markets within Europe, the USA and regionally into neighbouring African countries. Malawi's speciality sugar remained in strong demand in both the European and USA consumer markets. Despite a depressed market in Malawi, local market sales grew in the current year and overall there was a strong sales performance domestically.

Mozambique

Sugar sales in Mozambique were impacted by lower production attributed to difficulties experienced in our agricultural operations. Economic growth in Mozambique continues to impress with growth in GDP of 8.1% in 2013, this did not, however, translate into higher domestic sales which from an industry perspective remained flat year-on-year. Export earnings declined in the second half of the year as a result of low prices in Europe which is the main reason for the decline in revenue.

South Africa

Illovo sells raw, brown and refined sugar, speciality brown sugars, syrup, furfural and its derivatives, potable and denatured ethanol, and lactulose into local and international markets. Illovo's domestic market sugar sales' performance in 2013/14 declined despite the increase in production. Duty-free sugar imports amounted to in excess of 460 000 tons (2013: 200 000 tons) and impacted domestic sales considerably, displacing an equal quantity of sugar of South African origin onto the world market.

Illovo's share of raw sugar exports to the world market, undertaken by SASA, amounted to 209 000 tons which was up on the previous year of approximately 60 000 tons. The average price realised by the industry, including hedging activities undertaken by SASA, was US18.1 cents/lb, representing a decrease of 21% compared to the previous season average due to prices coming off high levels as the world sugar market remained in a surplus position.

Swaziland

Demand for Swaziland sugar in the SACU market was affected due to the effect of low-cost imported world sugar entering SACU. Swaziland continued to supply the EU markets with sugar in 2013/14 under duty-free, quota-free access. Revenues from EU sales during the season were impacted favourably by good market prices which benefited Swaziland and Ubombo in 2013/14.

Tanzania

The Tanzanian government awarded import licences at minimal duty in excess of the domestic market shortfall and this resulted in an oversupply of sugar in this market, resulting in local pricing coming under pressure. The business was able to secure export licences and sold 15 000 tons into the EU market. Notwithstanding this initiative the business finished the year-end with higher than normal stock levels. Dialogue with the Government of Tanzania and the East African Community is ongoing to ensure that domestic producers and small growers are fairly protected against dumping of cheap world market sugar.

Zambia

Domestic sales in Zambia increased in the 2013/14 season, building upon the previous year's strong performance and resulting in a new sales record by our marketing team. The year was characterised by strong domestic economic fundamentals, a stable exchange rate and strong regional demand which underpinned good prices, plus increased sales into Europe.

Larry Riddle
Commercial Director

The commissioning of Illovo's custom-designed central sugar warehouse and distribution centre in Pietermaritzburg in July 2013 has brought about meaningful storage and logistical savings in our South African operations.

The international sugar year runs from October to September

Sustainability

The global sugar industry is one of the world's oldest agriculturally-based industries, which is estimated to produce around 184.2 million tons of sugar in the 2013/14 international sugar season.

Whilst many forces continually impact upon annual global production, a major sustainability feature of this industry is its historic and ongoing sugar consumption growth, which on average, increases by around 2% per annum. Africa, with its favourable agronomic conditions, has significant potential to contribute towards the production needed to meet this growing demand. Illovo, as a world-class, cost-competitive, highly-efficient sugar producer, operating in Africa, is well-placed to participate in this ongoing growth opportunity. The following tables, graphs and data are intended to promote a broader understanding of the dynamic international circumstances in which the Illovo group operates.

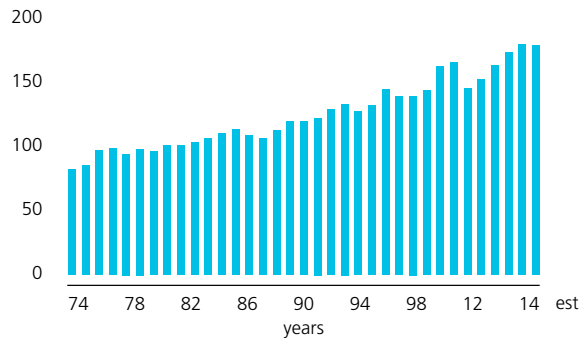
Overview

More than 100 countries produce sugar, about 80% 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, 67% of the world's sugar is consumed in the countries of origin, whilst the balance is traded on world markets.

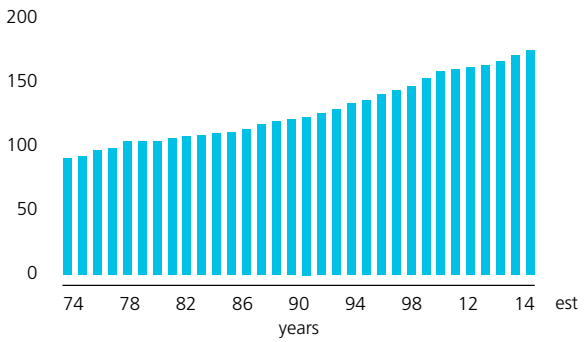
Source: Czarnikow Sugar

World sugar production (million tons)



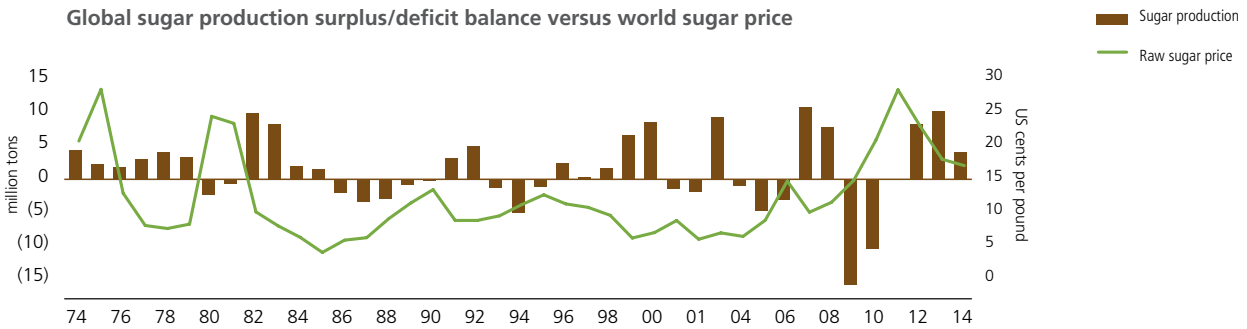
World sugar production levelled off during the 2013/14 international sugar season after four consecutive years of strong growth.

World sugar consumption (million tons)



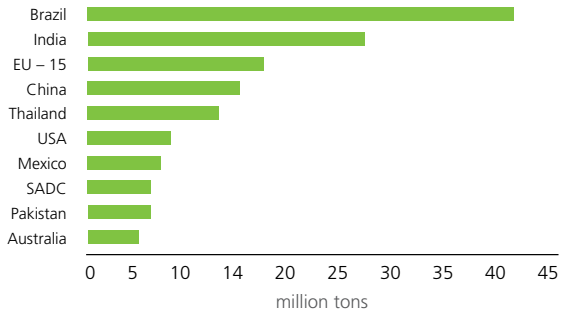
Global sugar consumption growth continues to demonstrate steady growth of approximately 2% per annum.

Global sugar production surplus/deficit balance versus world sugar price



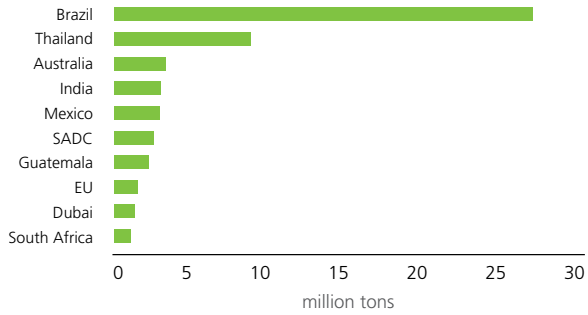
World raw sugar prices have fallen over the past three years in response to a fourth consecutive year of global sugar production surplus. However, future prices are expected to benefit from a possible reduction in global supply, particularly out of Brazil due to drought conditions experienced in the centre-south cane growing region.

Top sugar producers 2013/14 estimate
(South Africa is a member of the SADC)



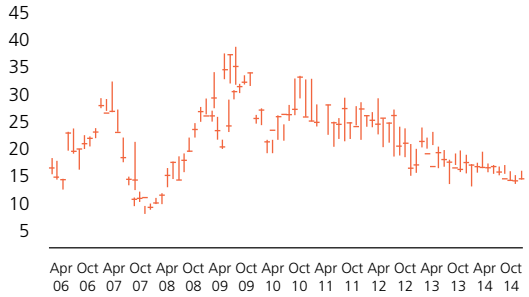
Brazil and India combined account for around 36% of global sugar production which is estimated at 184.2 million tons in the current 2013/14 international sugar season.

Top sugar exporters 2013/14 estimate
(South Africa is a member of the SADC)



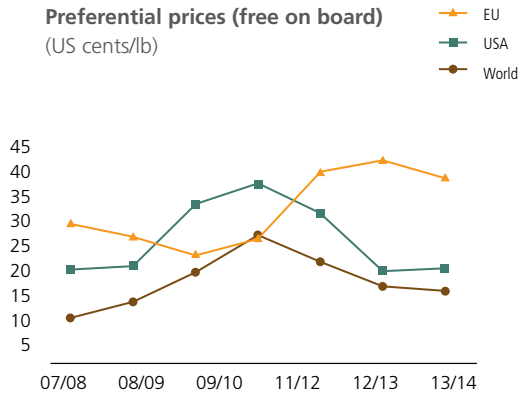
Approximately 70% of total world sugar production is consumed in the country of origin. Brazil represents around 50% of global exports.

World raw sugar price (US cents/lb)



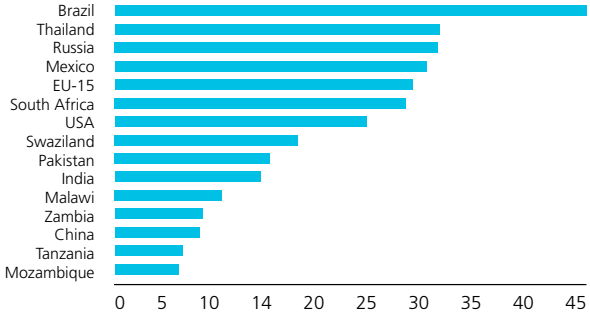
World raw sugar prices have continued to trend downwards as the result of a multiple-year production surplus.

Preferential prices (free on board)
(US cents/lb)



EU refined prices in the current year have corrected downwards in response to an over-supplied market and to a repositioning of EU sugar producers prior to the abolishment of sugar quotas in 2017.

Per capita consumption 2013/14
(kilograms per annum)



As GDP growth across Africa continues to increase at a rate in excess of other developed economies across the globe, the prospect for enhanced levels of consumption growth on the continent remains positive.

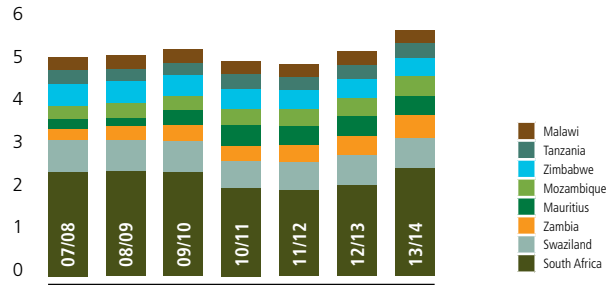
The southern African sugar season runs from April to March

Southern African Development Community statistics

SADC countries

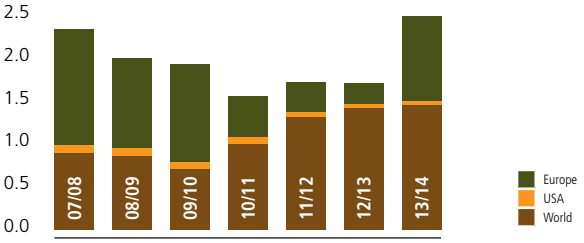
ANGOLA
BOTSWANA
D R CONGO
LESOTHO
MADAGASCAR
MALAWI
MAURITIUS
MOZAMBIQUE
NAMIBIA
SEYCHELLES
SOUTH AFRICA
SWAZILAND
TANZANIA
ZAMBIA
ZIMBABWE

Sugar production by country (million tons)



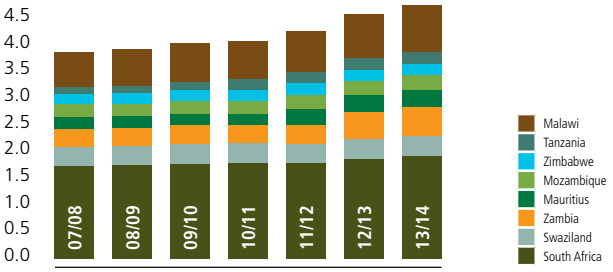
Sugar production across the SADC reflects good growth, with the estimated production of 5.8 million tons in 2013/14 international sugar season.

Export markets (million tons)



Exports from the SADC region to Europe are still growing, while world market imports into the SACU region have displaced a significant quantity of sugar onto the world market.

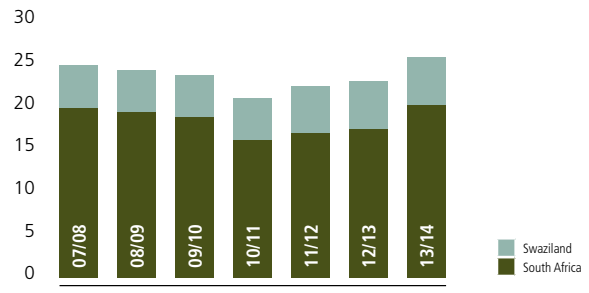
Local consumption (million tons)



Sugar consumption continues to demonstrate good growth with SADC sugar-producing countries contributing to a combined growth of around 3.4%.

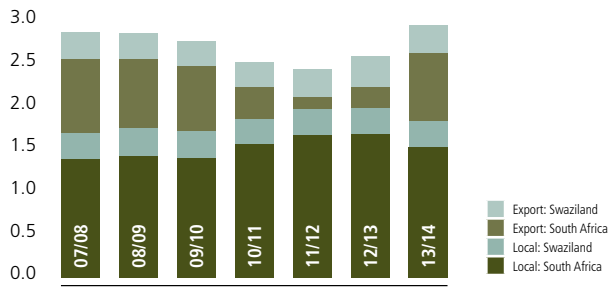
South African Custom Unions statistics

Cane production (million tons)



Cane production in Swaziland remained relatively stable, while improved climatic conditions in South Africa led to a significant improvement in cane yield and sugar production.

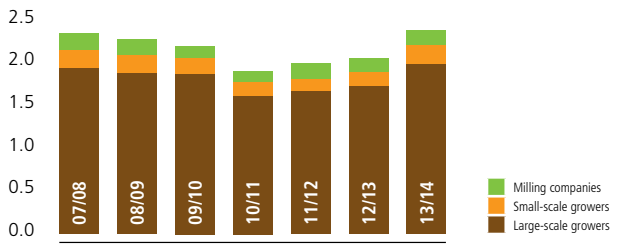
Sugar production and markets (million tons)



On the back of improved weather conditions in South Africa, combined SACU production grew by 14%.

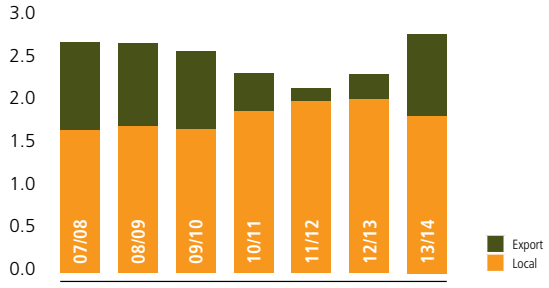
South African statistics

Cane production (million tons)



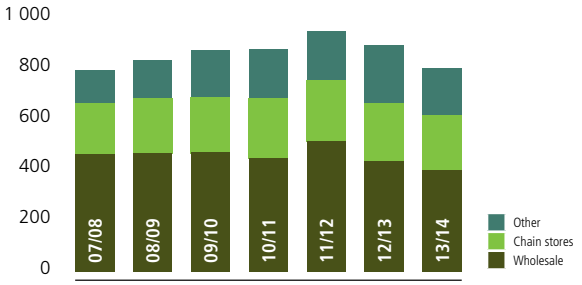
A return to normal growing conditions after an extended period of drought resulted in a production increase of almost 2.8 million tons of cane in 2013/14.

Sugar production and markets (million tons)



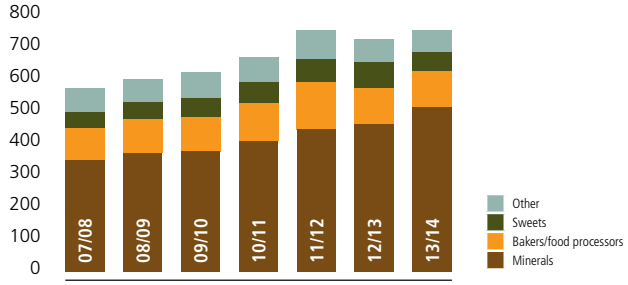
Increased and higher quality cane supplies resulted in total South African production of 2.344 million tons of sugar. The South African sugar industry's domestic market continued to be impacted negatively by increasing imports of sugar entering the country duty-free. It is expected that this trend will be reversed following the imposition of improved SACU customs protection against low-priced imports.

Consumer market sales (000 tons)



Local consumer markets were again negatively affected by the influx of duty-free imports, largely from Brazil.

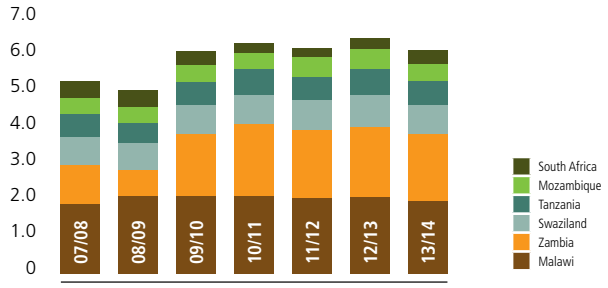
Industrial market sales (000 tons)



Industrial market sales also felt the negative impact of increasing volumes of duty-free imports entering South Africa.

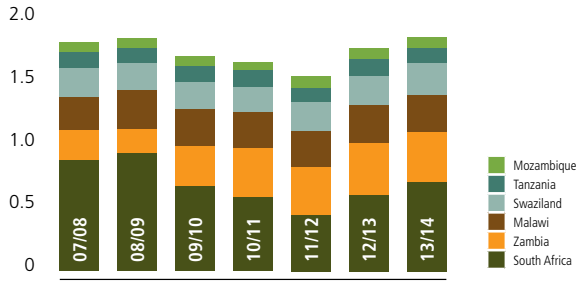
Illovo group statistics

Cane production (million tons)



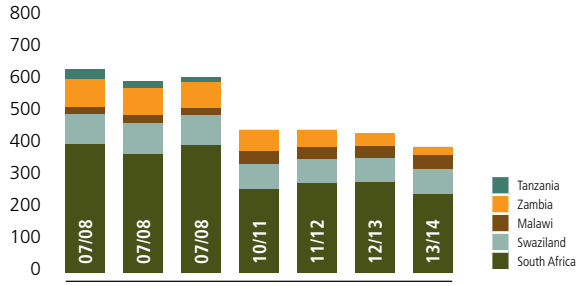
Adverse growing conditions in some areas reduced the cane crop by our own agricultural operations to 6.1 million tons (2013: 6.5 million tons) whilst total cane from independent farmers increased to 9.4 million tons (2013: 8.4 million tons), driven mainly by the full recovery from the recent years' drought conditions in South Africa.

Sugar production (million tons)



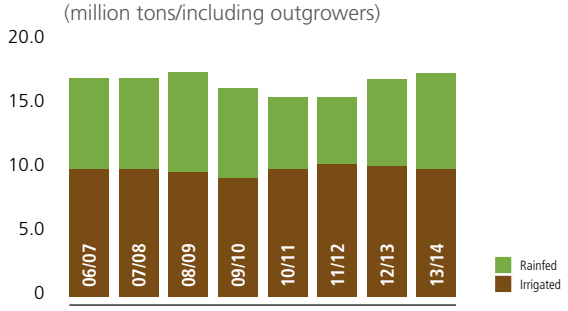
Increased throughput and improved performance in the South African mills and a full season of operation at the expanded capacity in Swaziland resulted in a 4.8% increase in sugar production over that of the previous season to 1.83 million tons, which is a production record from the current installed capacity.

Refined sugar production (000 tons)



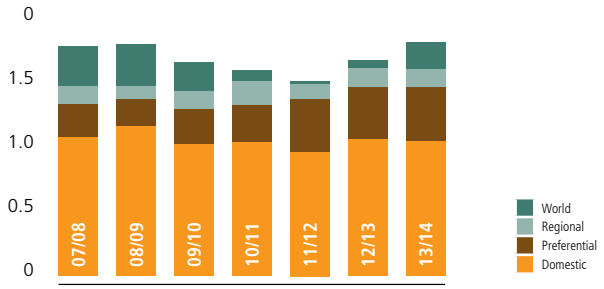
Refined sugar production was lower than that of the previous season, with production in South Africa pulled back to match demand.

Raw material throughput
(million tons/including outgrowers)



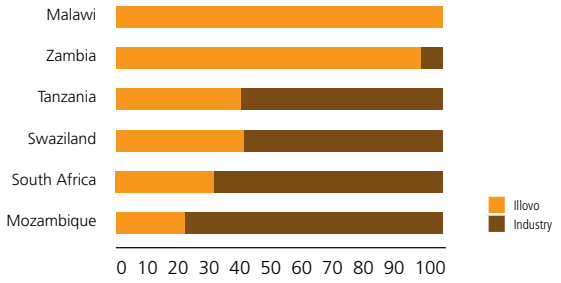
Around 60% of cane throughput provided by the group's own agricultural estates and by private growers is cultivated under irrigation. Excluding South Africa, this proportion increases to 90%.

Group markets (million tons)



Approximately 58% of the group's sales volume continues to be sold into the domestic markets where we produce sugar. In 2013/14, these sales amounted to 1.06 million tons, sold via a range of pre-packed and bulk industrial and direct consumption sugars in brown and refined sugar offerings.

Illovo share of industry production (%)



Illovo remains a significant producer in each of the countries in which it operates.

Human capital

NTOMBIFUTHI SUKATI
BSc (Maths&Chem), BScAgricEng
Agricultural Development Manager, Ubombo Sugar Limited, Swaziland

Illovo career: I joined Ubombo in September 2005 as an Engineer-in-Training and was very fortunate to be mentored by the current Managing Director, Oswald Magwenzi. After being appointed as Assistant Irrigation Engineer in 2007, I moved up through the organisation to my present post which brings me in daily contact with smallholder sugar farmers.

Career highlights: Working in the field of irrigation and using my technical knowledge to overcome problems; also being given the opportunity to contribute to the development of new farmer schemes.

What excites me about my work: Working with different stakeholders, involving the establishment and management of relationships. I get significant enjoyment from seeing how the work that I and others do transforms other peoples' lives - such as the smallholder farmers under the LUSIP scheme. I also get a big kick out of taking on big challenges!

What about your home life: Spending my free time with my daughter and son, and members of my extended family.

Illovo is a major source of employment for the many urban and rural communities in which it operates, offering direct employment through full, part-time and seasonal jobs across the spectrum of its agricultural and manufacturing activities. Our ongoing strategy of striving to be an employer of choice within the southern African agri-business sector is coupled with a commitment to continual investment in our people in order to sustain the business and to maintain our position as an industry leader. Our human resource philosophy is based upon equal opportunity, irrespective of race, religion or gender, and recognises excellence within our existing employee base to favour internal succession management.

TOTAL COMPLEMENT OF PERMANENT AND NON-PERMANENT/FIXED CONTRACT (SEASONAL) EMPLOYEES

	Malawi	
	2014	2013
Permanent	**5 679**	5 480
Non-permanent	**5 063**	4 520
	Mozambique	
	2014	2013
Permanent	**1 015**	1 043
Non-permanent	**4 414**	3 760
	South Africa	
	2014	2013
Permanent	**2 224**	2 150
Non-permanent	**1 804**	1 866
	Swaziland	
	2014	2013
Permanent	**1 213**	1 229
Non-permanent	**1 619**	1 631
	Tanzania	
	2014	2013
Permanent	**908**	870
Non-permanent	**2 034**	2 073
	Zambia	
	2014	2013
Permanent	**1 917**	1 873
Non-permanent	**4 031**	4 171
	Other	
	2014	2013
Permanent	**16**	16
Non-permanent	**–**	–
	Total	
	2014	2013
Permanent	**12 972**	12 645
Non-permanent	**18 965**	18 021

Human resource management and associated 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, with alignment being achieved through the group's Strategic Intent. Ensuring that the operational strategies are met is a work ethic of continuous improvement which encourages focused, skilled employees to realise their full potential and to "make a difference" in their areas of operation.

The group's values-driven leadership forms part of Illovo's strategic advantage by creating a sustainable and vibrant organisation driven by motivated and enlightened leaders. The Illovo Values of Empowerment, Inclusiveness, Commitment, Accountability and Integrity represent what Illovo stands for and informs all that we do, across all our operations. Our leaders are entrusted with emulating and living these values through their behaviours on a daily basis. Since the initial unveiling of the values-driven leadership, numerous workshops, communication sessions and system and process alignment activities have taken place. As we continue to embed the Illovo values throughout the organisation in a process driven by our leaders, we know that they will continue to inspire and motivate others to follow in their footsteps.

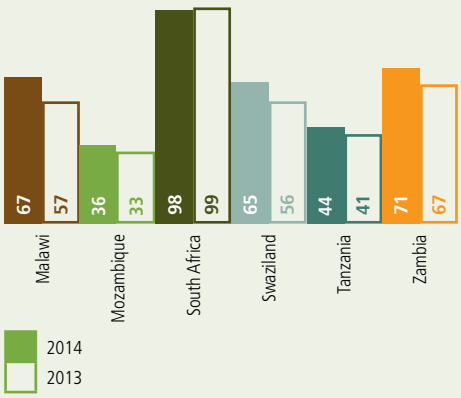
Key areas of human resource focus include workplace safety; continuous improvement benchmarking; targeted manpower succession planning; talent and performance management; the maintenance of collaborative industrial relations; human resource development and business understanding; BEE-linked employment equity and localisation programmes; and the health and welfare of employees and their dependants.

Employment profile and statistics

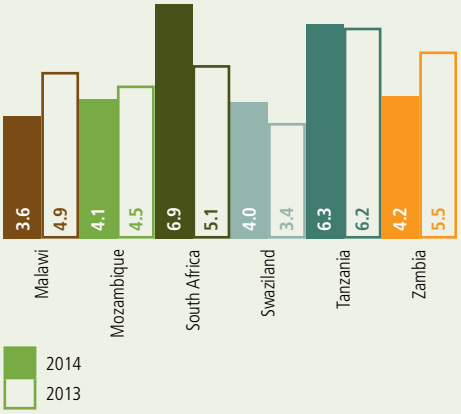
We provide substantial employment with 12 972 people employed on a permanent basis and some 18 965 seasonal employees engaged on a fixed-term contract basis.

Our employment emphasis remains on ensuring diversity within both our local workforce and senior management positions in order to increase internal capacity building and promote the advancement of members of local communities. Members of our senior staff are appointed by executive management according to group policy guidelines and in line with specific country-based local hiring and employment equity/localisation policies.

Percentage of local citizens employed in senior management (%)



Turnover of permanent employees (%)



Talent and skills development

The group's values underpin its people management strategy and define leadership characteristics framing an organisational culture of openness and integrity. Employees are encouraged to participate fully in their areas of expertise and to take ownership of their development opportunities.

Another important area of talent management is the area of performance management as this is one of the key processes to achieve our annual objectives and the Strategic Intent. It requires all employees to take full responsibility of their own career development by ensuring that they establish and achieve their own annual objectives. Illovo has its own custom-made performance management system that helps to drive this process across all its operations. Results from the financial year ending March 2014 indicated that 83.6% of management employees went through a formalised annual performance review. In terms of retaining and deploying employees, a structured approach to career reviews leads to individual career and development plans, contributing to both the succession and retention of key personnel.

We continue to focus on talent management and manpower succession planning to develop and retain managerial and technical skills, especially within our identified key disciplines and positions. This is considered an essential enabler for our business to deliver on its current business targets as well as its longer-term sustainability and growth. The group's talent management programme lends structure to this process and ensures we have a talent pipeline to provide the required number and quality of managers and specialists for operations.

A variety of employee training and development strategies, as represented in the bar chart above right, have been deployed, being an investment across the group of approximately R73 million over the year under review. This represented 3.5% of the group payroll and involved 29 346 permanent and non-permanent employees.

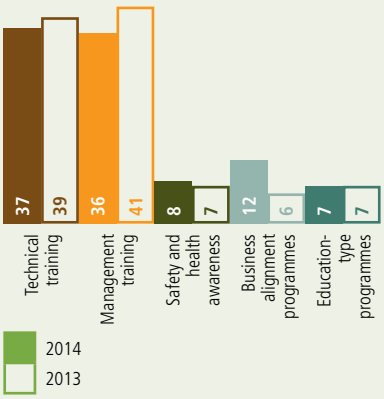
Group-wide programmes during the year under review included:

- structured formal technical trainee programmes and apprenticeships, with 73 and 114 employees respectively enrolled in such programmes across the group;
- management development programmes, aimed at first-line to upper management, with 83 managers having completed these;
- leadership programmes, conducted in partnership with business schools, targeting high potential middle, senior, general and executive managers identified via the succession planning process, with 45 managers having completed these;
- six-month rotation of early and mid-career graduates between Illovo and AB Sugar's other businesses, with four

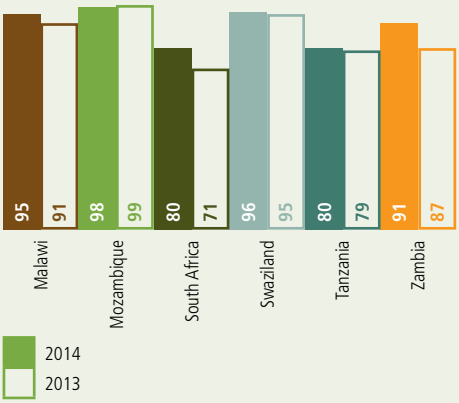
TOTAL COMPLEMENT BY COUNTRY, GENDER AND AGE 2014

Age range	Malawi		Mozambique		South Africa		Swaziland		Tanzania		Zambia	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
<30	615	102	95	16	253	124	72	20	89	16	193	39
30-50	3 892	137	468	119	1 004	316	663	120	448	55	1 205	144
>50	969	24	290	27	468	59	288	50	253	47	310	26
Total	5 679		1 015		2 224		1 213		908		1 917	

Training investment categories (%)
Total spend 2014: R73 million (2013: R57 million)



Trade union membership as a percentage of non-management employees per operation (%)



graduate engineers having been deployed in China, Spain and England, while a number of graduates from those countries experienced development opportunities within Illovo;

- the provision of full bursaries to 37 students to further their tertiary education with a view to inclusion into the Management Trainee Programme upon successful completion of their studies. In the year under review, at any given time, there were some 71 graduates progressing through this programme; and
- successful implementation of assessments and personal mastery workshops aimed at developing our senior managers in line with the values. There were a total of 108 senior managers from across all our operations that went through this process.

Employee relations

Success in a competitive industry cannot be achieved without a motivated, committed and unified workforce that is focused on achieving common objectives. To this end, we strive to create an environment in which our employees feel valued and support the company's values, strategies and priorities.

In Illovo, as a multi-national organisation, communication with our employees is considered an important criterion towards the building of their understanding of the company. To this end, we present an annual group-facilitated Business Understanding Programme to all employees, and in 2013/14, approximately 20 000 of our people were exposed to this programme.

With diverse and widespread senior management teams operating across six countries, regular communication forums and executive-led site visits are also undertaken. At group and country management team level, formal management forums are held, aimed both at reviewing operational performance and engagement in strategic planning processes.

In our observation of the UN Global Compact, and the ILO Declaration on Fundamental Principles and Rights at Work, we comply with internationally recognised labour practices as legislated in our countries of operation, ensuring that sound employee relations prevail. Freedom of association is acknowledged and where our employees have adequate

TRAINING SPEND AS A % OF PAYROLL						
	Malawi	Mozambique	South Africa	Swaziland	Tanzania	Zambia
2014	**4.3**	**2.1**	**3.9**	**4.0**	**2.2**	**3.2**
2013	4.2	3.0	3.9	2.2	1.9	2.9

IN THE DIFFERENT CATEGORIES, EMPLOYEE TURNOVER WAS AS FOLLOWS FOR 2014												
Age range	Malawi		Mozambique		South Africa		Swaziland		Tanzania		Zambia	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
<30	**2.60**	**3.92**	**4.21**	**0**	**0**	**0**	**2.78**	**5.00**	**7.87**	**25.00**	**2.59**	**5.13**
30-50	**2.71**	**2.92**	**3.42**	**2.52**	**6.18**	**8.54**	**3.35**	**0.83**	**3.01**	**5.45**	**2.13**	**2.78**
>50	**7.64**	**16.67**	**4.48**	**22.22**	**12.82**	**6.78**	**7.29**	**4.00**	**11.07**	**2.13**	**13.55**	**7.69**

representation, recognition agreements are put into place. Collective bargaining forums, which determine the levels of wage rates and other substantive employment conditions via negotiated collective agreements, are established in all countries of operation. The management of collaborative relationships with trade unions, along with open communication forums, allows for internal issues to be dealt with as effectively as possible, resulting in the company not losing any days to strike action in 2013/14.

Standard notice periods for employees are covered within the employment policy of each country of operation. Regarding operational restructuring, if applicable, the notice periods of the affected employees are determined with input from relevant employee representative bodies.

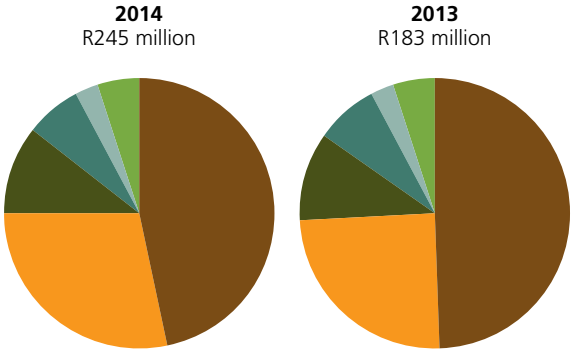
Trade union involvement is a normal part of this process and on average 89% of our non-management employees are unionised.

Remuneration and benefits

Illovo's remuneration packages are merit-based and market-competitive. These packages are reviewed annually, as are the range of short and long-term incentives such as performance-related bonuses, share purchase and phantom share schemes which are also offered to our people.

Aligned with our objective to be an employer of choice, we offer competitive wages, which exceed country-based

Company expenditure per employee benefit category, excluding contributions to retirement funds



(Rm)	2014	%	2013	%
Accommodation	119	49	85	52
Healthcare*	74	30	62	26
Education	27	11	18	11
Community	17	7	13	8
Environmental	8	3	5	3
Total	245	100	183	100

** The calculation of healthcare costs includes employee medical aid contributions paid by the company*

SOME EXAMPLES OF ADDITIONAL BENEFITS OFFERED TO EMPLOYEES	
Retirement funds	• Contribution towards post-retirement benefits (includes risk benefits such as death, disability and critical illness)
Accommodation	• Predominantly on our sugar estates outside of South Africa, combined with associated utilities. The accommodation that we offer our employees and their families varies between formal staff housing, villages and hostel dwellings for fixed-term contract employees. The accommodation includes the provision of utilities such as potable water and electricity, together with day-to-day maintenance, eg sanitation management • The recent introduction of group minimum accommodation standards, as informed by the International Finance Corporation (World Bank) guidelines
Healthcare	• Group-run primary healthcare clinics/hospitals (the use of which extends to employees' direct dependants), or medical aid/insurance • Public health services (provision of potable water and the proactive prevention of communicable diseases, eg malaria via co-ordinated spray and educational programmes)
Educational facilities/assistance	• As part of our ongoing commitment towards social upliftment, our estates embrace community-based educational activities, extending from pre-school through to secondary school levels. This includes support for local projects to upgrade schools, such as classroom-building, and to provide assistance to improve school administration and management. In many instances, these entities are funded entirely by Illovo • Financial assistance with employee dependants' education is available to eligible staff members. An allocation of bursaries, grants and loan funding for higher/further education is also administered in all countries of operation
Utilities	• Includes the provision of amenities such as potable water, sanitation, electrification, sewerage disposal and refuse removal
Community	• Estates provide club and community centres, estate community policing, sport and recreational facilities along with sponsorship

Illovo is a major source of employment for the many urban and rural communities in which it operates, offering direct employment through full, part-time and seasonal jobs across the spectrum of its agricultural and manufacturing activities. Average annual direct employment stands at approximately 32 000 people.

During the year, 29 346 permanent and non-permanent employees received training and/or attended development programmes, the cost of which amounted to R73 million and represented 3.51% of the group payroll.

standard minimum wages, and are determined through negotiations with relevant country labour unions, via collective agreements and bargaining councils. All labour-related practices are framed within the context of the ILO Decent Work Agenda, to which most countries of operation are signatories.

We offer our employees additional benefits based on factors such as performance, or length of service. During the year under review, the group spent approximately R245 million on the provision of benefits to our employees, such as accommodation and amenities, healthcare, educational assistance and community projects.

These benefits, with a number of variations, are available to both permanent and non-permanent employees. The only exception, ie benefits which are not available to non-permanent employees, is educational assistance and membership of retirement funds.

Retirement funding schemes

In addition to the benefits of legislated national retirement funds, we offer membership of a number of provident and defined contribution pension funds. Elected employee trustees represent the interests of members and assist with the prudent management of the various funds. The benefits associated with our retirement schemes include, inter alia, retirement, death, disability, funeral, critical illness and life insurance.

Employee share purchase schemes

A share purchase scheme provides assistance to employees of our South African and Swaziland businesses to purchase shares in the company, providing them with the opportunity to share directly in the continued profitability and growth of the business. A separate share purchase scheme operates in relation to our listed subsidiary in Malawi for the employees of that company.

Employee health and welfare

Managed healthcare

Access to healthcare is provided to all our employees and their dependants, either through the network of group-run primary healthcare clinics and hospitals, or through the provision of medical aid/insurance schemes. Total spend on employee health in 2013/14 amounted to R74 million. Where no other public medical facilities exist, these services are extended to members of our surrounding communities at nominal cost. In support of these activities, the company also provides public health services not supplied by government such as potable water, sanitation and refuse removal, by upgrading these where deficient.

We operate 24 primary healthcare clinics and four hospitals, staffed with 10 full-time and nine part-time doctors, together with other clinical and auxiliary staff. The focus of the healthcare service is on health promotion, preventative services and primary healthcare.

Occupational health

Illovo Sugar operates in Least Developed Countries (LDCs) with significant developmental challenges. Providing a working environment in which our employees can operate in a healthy, energised and engaged manner is vital to maintaining personal development and to our business success. We strive to provide a workplace free from undue health risk emanating from our core activities. We also aim proactively to reduce workplace health risks by anticipating, assessing and managing health risk, and providing access to quality healthcare and educating, informing and empowering our management and staff to take responsibility for their own health and wellbeing.

Occupational health is a primary function of medical services delivered at all of our operating sites. Qualified nursing practitioners and doctors provide occupational health services. Employees who work in demarcated risk areas are subjected to base-line medical examinations on engagement and routinely monitored by the occupational healthcare staff during their career with Illovo. Our group medical consultant is engaged in matters of occupational health and safety and takes particular responsibility for ensuring that the more significant health hazards are appropriately managed in the workplace.

Occupational diseases

Occupational diseases are reported within the NOSA framework and are captured with the general safety statistics.

Communicable diseases

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

HIV and AIDS

Our business strategy is aligned with that of UNAIDS, referred to as the "Triple Zero" strategy of zero new cases of HIV; zero deaths among people living with HIV and AIDS, and zero discrimination. Our efforts are thus aimed at identifying and maintaining the negative status of the majority of our employees, determining which employees are HIV-positive and ensuring that they are on suitable medical management programmes, and work to reduce stigma and discrimination around HIV and AIDS. During the year, 1 498 employees were tested, of which 206 were found to be HIV-positive. This brings to 1 768 the total number of employees who are HIV-positive, of whom the majority are attending Illovo's Wellness Programme and are receiving anti-retroviral therapy.

Tuberculosis

Tuberculosis is a focus of our medical services, particularly in areas of HIV prevalence. Our efforts are directed at prevention in HIV-positive individuals through prophylaxis and the early diagnosis and treatment of tuberculosis in employees. We continue to apply the successful Directly Observed Treatment Short-course (DOTS) strategy, which lends itself very well to workplace health services.

Malaria

Malaria remains a key challenge at our operations in Mozambique, Malawi and Tanzania. We are confident that, building on our successes in South Africa, Swaziland and Zambia where we believe we have virtually eliminated malaria transmission on our estates, we will also achieve the same outcome in these countries. We have reviewed our integrated malaria control strategy at these operations and are implementing new programmes. We have been heartened by the success in Mozambique where we have entered into a public-private partnership with the government of Mozambique to extend the reach of our indoor residual spray programme to the surrounding community.

By way of example, we commenced the new malaria spray programme at Maragra in September 2012, but our impact only became evident in 2013. Using 2012 as the base year, during which 11 149 cases of malaria were recorded, we commenced our new spraying campaign in April 2013 and through to December of the same year, we sprayed 93% out of a possible 3 523 houses in which 10 546 people live.

As shown in the graphs below, the results of the campaign were significant, with recorded cases falling to 4 212 representing a 62% reduction overall. At a total cost of R8.77 per month per person, the results have encouraged us to continue and broaden the campaign, with ongoing support from government and non-government health authorities in Mozambique.

Other public health initiatives

Illovo continues to provide clean water and sanitation to employees living on company estates, thereby reducing the transmission of waterborne diseases. We continue to provide services in respect of maternal and child health, reproductive health and neglected tropical diseases, eg bilharzia.

Non-communicable diseases

Conditions and diseases such as obesity, high blood pressure, smoking, diabetes mellitus and various cancers are emerging healthcare issues in developing countries. We are implementing control programmes at all our operations in this regard.

Health and safety management systems

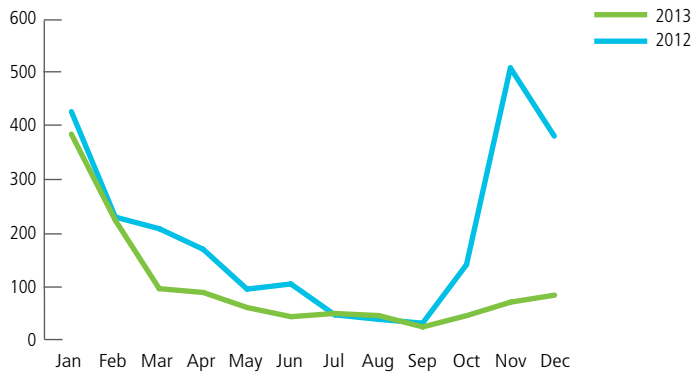
The NOSA Integrated Five-star System covering safety, health and environmental management is implemented at our cane growing and factory operations, all of which were accredited with a minimum Four-star NOSA rating during the year under review. Both Merebank and Glendale in South Africa have received Occupational Health and Safety Management System OHSAS 18001:1999 accreditation.

Occupational safety

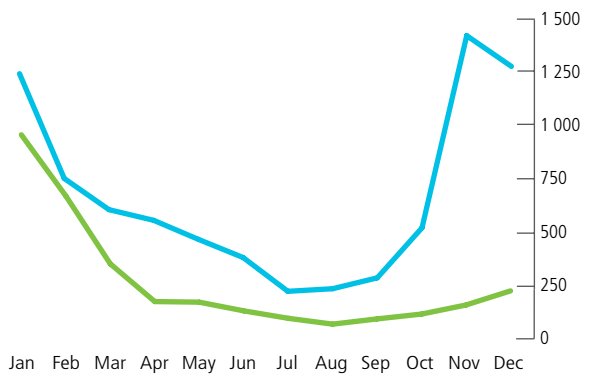
Safety performance improvement remains a core priority focus, with ongoing initiatives around the group. Our goal is to achieve an increasingly safer workplace while promoting a culture of safety among staff so that injuries are reduced and safety rules are understood and upheld. Each operation has developed safety improvement strategies to ensure robust processes are implemented to manage health and safety. These processes are implemented in accordance with the statutory requirements of the relevant in-country occupational health and safety regulations, as well as group policies. Health and safety committees are active at each operation, with full staff representation, reporting directly to senior management to ensure compliance with all internal and legal requirements.

Our overall safety performance has shown a positive downward trend year-on-year with significant improvements achieved at some of our operations. In the 12-month-rolling period to 31 December 2013, the group achieved its lowest

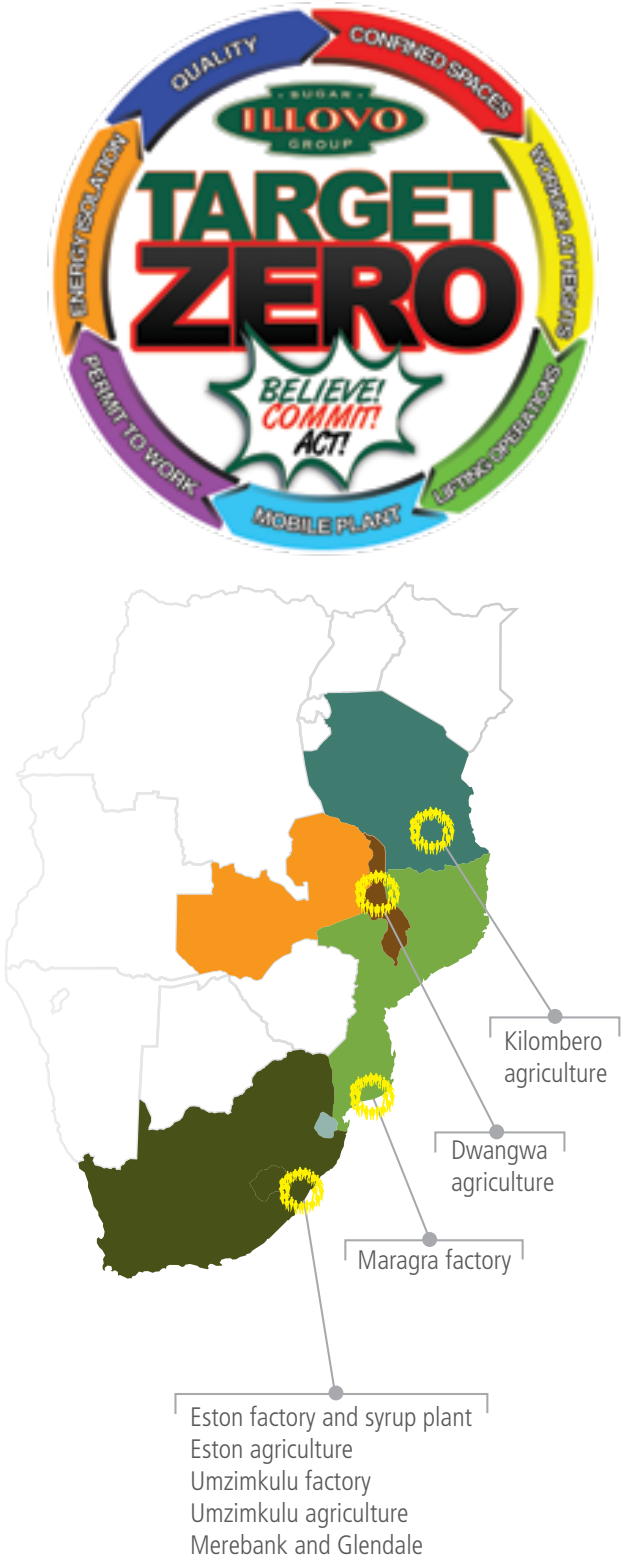
Malaria cases per month, under 5 years of age



Malaria cases per month, older than 5 years of age



Operations that achieved a ZERO 12-month rolling DIFR:



recorded disabling injury frequency rate of 0.10 and total injury frequency rate of 2.17. Overall, in the season under review, the number of disabling injuries reduced by 31% compared to the previous year. Company safety data is calculated on a "person-hours worked" (PHW) basis. In 2013/14, PHW amounted to 76.3 million man-hours as verified by our external safety audit service provider.

Regrettably, three of our own employees and two external contractors died while performing routine activities within our agriculture operations. These incidents, as for every fatality, were reviewed thoroughly in a robust incident-investigation process led by senior management, following which preventative measures were implemented and shared with operations across the group.

Most positively, our South African operations improved their annual 12-month rolling DIFR by 71%, reducing their incident rate from 0.54 in 2012/13 to 0.15 in the year under review. This significant improvement can be attributed to the successful implementation of the "Target ZERO" campaign, together with increased safety awareness and revised risk management structures. Examples of this best practice are being implemented across the group and we strive towards continual improvement and ZERO harm to employees.

We measure our safety performance using the industry standard DIFR, which is based on 200 000 hours worked. The DIFR rate includes lost-time injuries and restricted work cases where employees may not carry out their normal duties. The group DIFR ended at 0.11 which was an improvement from the 0.16 of the previous year and is well within the target of 0.35.

DISABLING INJURY FREQUENCY RATE				
	2014		2013	
OPERATION	**Actual**	**Target**	Actual	Target
Malawi	**0.11**		0.14	
Mozambique	**0.09**		0.09	
South Africa	**0.15**		0.18	
Swaziland	**0.12**	**0.35**	0.18	0.4
Tanzania	**0.03**		0.03	
Zambia	**0.18**		0.18	
Group	**0.11**		0.16	

Diversity and equal opportunity

In line with the UN Global Compact Principle and the ILO Declaration on Fundamental Principles and Rights at Work, Illovo is not only committed to the principle of upholding the elimination of discrimination in respect of employment and occupation, but is also committed to eliminating the effects of past discriminatory practices in this regard.

To realise fully the growth of our organisation, we work towards ensuring that our workforce sufficiently reflects the demographic profile in terms of race and gender of the economically active population of the regions in which we operate. While abiding by local laws and regulations, we actively promote equal opportunity and fair treatment in employment through the elimination of unfair discrimination. We also encourage inclusiveness with regard to human resource practices, irrespective of race, gender, nationality or religious affiliation in an effort to promote global diversity throughout our workforce. For instance, there is no arbitrary distinction on remuneration levels based on any of these grounds and any differentiation is based on objective grounds largely related to performance and market considerations, although in some cases, it is based on length of service as a product of past agreements with trade unions.

In South Africa, Illovo is committed to contributing to, and promoting, social transformation in the interest of nation building, most notably through the continued advancement of B-BBEE initiatives. Employment equity is a socio-economic and business imperative that strives to ensure that South Africans from all cultural backgrounds are able to participate in, and benefit from, the activities of the economy in a fair manner. We submit annual employment equity and income differential reports to the Department of Labour and the Employment Equity Commissioner respectively, which detail progress made in respect of the company's Employment Equity Plan, a key pillar of our B-BBEE programme. Progress is monitored through a group Central Co-ordinating Forum which includes representation from local consultative forums at the various operations.

Relevant statistics in respect of designated employees are shown in the table below for the period under review and the preceding two financial years, with the table on representative areas being the most important as it reflects the current status, particularly with respect to trainees, highlighting a focus on the future.

	Designated %		
REPRESENTATIVE AREAS	**2014**	2013	2012
Senior management (SM) and above	**45**	47	44
Management, all levels	**68**	67	66
Skilled level	**93**	92	92
Management trainees	**73**	64	62
All trainees	**93**	90	84
Recruitment and promotions (SM and above)	**39**	68	63
Recruitment and promotions (management, all levels)	**66**	78	70
Recruitment and promotions (skilled)	**96**	99	89

We continue to give overall focus to designated appointments in the more senior levels of management.

In a new development, our B-BBEE performance in 2013 was measured against the new AgriBEE sector charter which recognises land ownership. Recognising our significant transfers of agricultural land to black people in the mid-1990's, well before the introduction of the Employment Equity Act in 1998 or the B-BBEE Act and codes in 2003, we scored additional bonus points under the new "land ownership" element of the score card, resulting in our overall score rising to 75.30, which increased our rating from a level 5 to a level 3 company.

THE COMPONENT B-BBEE VERIFIED SCORES				
	Score (%)		Maximum possible score (%)	
Element	**2013**	2012	**2013**	2012
Ownership equity	**n/a**	4.69	**n/a**	20
Land ownership	**25**	N/A	**20**	N/A
Management control	**4.81**	4.02	**10**	10
Employment equity	**5.59**	7.27	**10**	15
Skills development	**11.06**	6.84	**20**	15
Preferential procurement	**7.84**	17.27	**20**	20
Enterprise development	**10**	15.00	**10**	15
Socio-economic development	**11**	5.00	**10**	5
Aggregate	**75.30**	60.09	**100**	100

In addition to the improved score, Illovo was also assessed to determine if the company met the status of an "empowering supplier" in terms of the new B-BBEE codes which, although not yet applicable, are already being applied. An empowering supplier is one which meets at least three of the criteria indicated below, of which we met all four:

- at least 25% of cost of sales excluding labour cost and depreciation must be procured from local producers or local suppliers in South Africa;
- 50% of jobs created are for black people, provided that the number of black employees since the immediate prior verified B-BBEE measurement is maintained;
- at least 25% transformation of raw material/beneficiation which includes local manufacturing, production and/or assembly and/or packaging; and
- at least 12 days per annum of productivity spent in assisting black EME (exempt micro-enterprises with annual revenue of R5 million or less) and QSE (qualifying small enterprises with annual turnover between R5 million and R35 million) beneficiaries, to increase their operational or financial capacity.

Human rights

We are distinctly aware of the diverse cultures and the differences in laws, norms and traditions which the business needs to acknowledge and respect. Illovo is guided by the values of the international community, in particular the UN Universal Declaration on Human Rights, the UN Global Compact Principles, the ILO Tripartite Business Declaration of Principles concerning Multinational Enterprises and Social Policy, the ILO Core Conventions on Labour Standards, and the ILO Declaration on Fundamental Principles and Rights at Work.

As reported in the Corporate governance report and the Social and Ethics Committee report, in upholding international norms, Illovo supports and respects the protection of internationally proclaimed human rights and endeavours to ensure that we are not complicit in human rights abuses. We do not tolerate discrimination of any kind, nor any form of forced or child labour. We take measures to address the risk of child and forced labour in our supply chain though engagement with the ILO to provide guidance, by requiring our suppliers contractually to undertake to adopt a zero tolerance approach to these. In the year ahead, educational programmes and awareness initiatives will be implemented with grower associations and other suppliers, to inculcate a culture in our supply chain that promotes human rights and is committed to abolishing child and forced labour and other human rights violations. Fairtrade audits assist us to monitor and embed compliance with these imperatives.

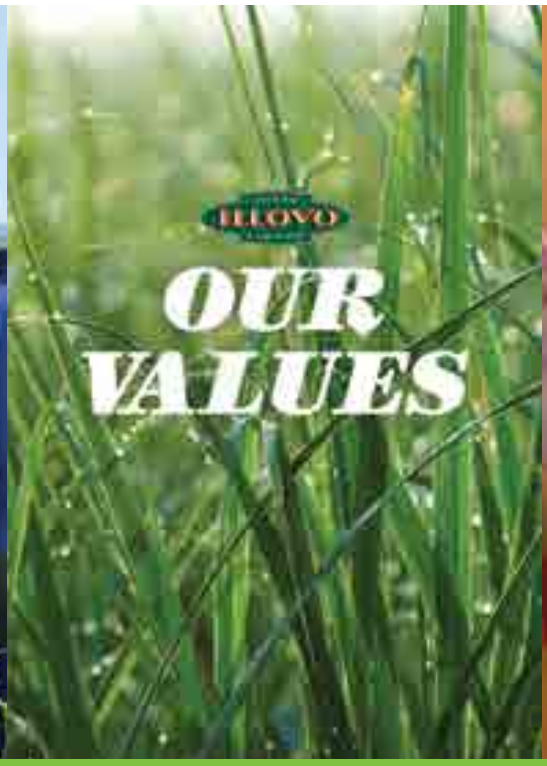
We strive to provide fair working conditions and maintain a safe and healthy working environment. Open communication is encouraged to resolve workplace issues between team members or between our employees and management. Where employee issues cannot be resolved by direct line management, these are taken up through various dispute resolution mechanisms. Permanent employees receive training in these values, which include unfair discriminatory practices and employee and trade union rights, as part of induction upon commencement of service. Human rights principles are also included in Illovo's labour relations policies pertaining to safety, health and environment, and corporate social responsibility.

In South Africa, human rights abuses are monitored by the South African Human Rights Commission, under the auspices of the Human Rights Commission Act, No 54 of 1994. Outside of South Africa, communications relating to human rights abuses are generally directed through the relevant labour unions.

The company has a robust, independently managed anonymous reporting facility, Tip-offs Anonymous, which employees and people outside the group may utilise to report any wrong-doing anonymously.

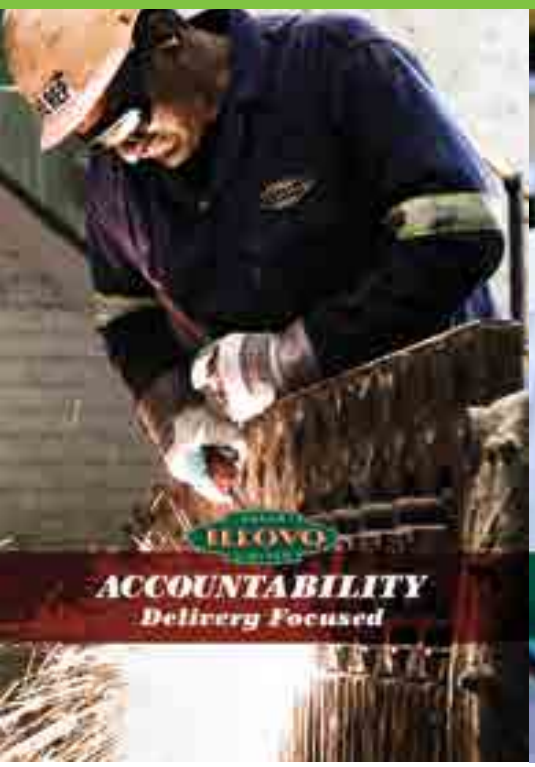
In order to embrace best practices, we participate in the training sessions conducted by the UN Global Network South Africa and the National Business Initiative (NBI) in relation to the implementation of good human rights practices in our operations, business relationships and supply chain. The knowledge acquired from this training is implemented into policy development and practical embedding of human rights practices by the company.

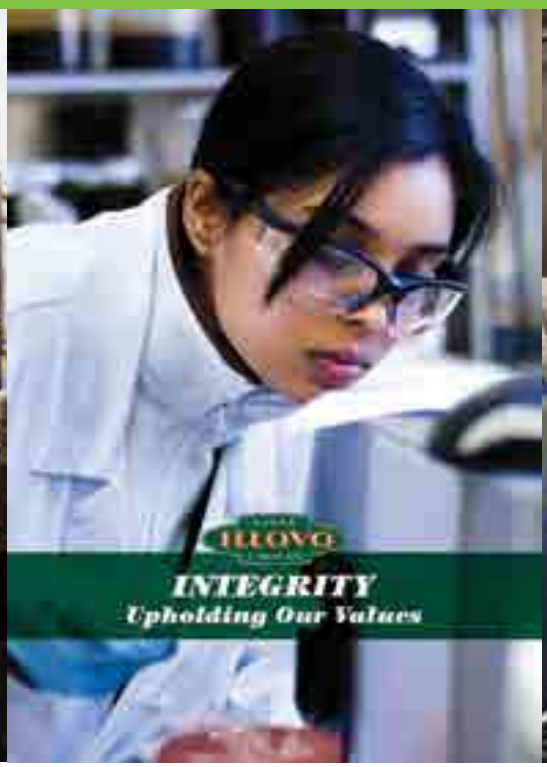
During the year under review, no incidents of discrimination, limitation or violation of employees' rights to exercise freedom of association and collective bargaining, or of forced, compulsory or child labour, were reported by any Illovo employees or any other persons. There were also no violations of the rights of indigenous people, and none of the operations were identified as posing any significant risks in this regard.



Values-driven leadership

The group's values-driven leadership forms part of Illovo's strategic advantage by creating sustainable and vibrant organisation-driven leadership by motivated and enlightened leaders.





Socio-economic impact

Sugar production

Group sugar production of 1.83 million tons, representing a record output from Illovo's current installed milling capacity, increased by 84 000 tons compared to the previous season, largely driven by a 17% increase in South Africa, amounting to 103 000 tons.

As Africa's largest sugar producer, with agricultural and manufacturing operations in six countries in Africa, certain of which rank as the world's least developed countries and face considerable challenges in the form of poverty, unemployment, inequality and disease, Illovo is conscious of the social and economic obligations associated with an organisation of its size, particularly given the rural location of its operations and the challenges faced by communities in rural areas.

One of the key pillars of Illovo's Strategic Intent and sustainability model is to be welcomed in the communities in which we operate, without whose co-operation we would not be able to sustain our businesses. Recognising that the prosperity and sustainability of our business is intertwined with the well-being and advancement of these communities, Illovo creates valuable jobs and economic opportunities in these rural communities, helping to preserve the long-term sustainability and competitiveness of the wider sugar industry in the region, as well as providing various essential health and welfare services (as more fully detailed in the Human capital report on page 59).

The group impacts a wide range of stakeholders in its local communities and wider national economies, through three main channels:

- *Direct impacts,* through Illovo's direct employment of workers on farms and in factories, as well as investments, tax payments, interest spending, shareholder distributions and other payments. The provision of direct and indirect employment in areas where very few other opportunities exist increases the economic security of people in rural areas, helping preserve rural communities in countries where rural to urban migration is often high.
- *Indirect impacts* in the value chain in Africa, through purchasing sugar cane from farmers, payments to suppliers and distributors, as well as impacts on those selling Illovo products or using them in their businesses. In addition to the positive contribution it makes through its in-country local procurement practices (and, in South Africa through preferential procurement (in accordance with the country's broad-based black economic empowerment (B-BBEE) codes)), the re-spending of the money received from Illovo generates further economic activity and employment.
- *Induced impacts,* through spending by direct and indirect employees of Illovo, leading to increased consumption and employment elsewhere in the economy.

Illovo's total economic impact in southern Africa, including direct, indirect and induced impacts on GDP in all six countries, is estimated at about R18.5 billion, as illustrated further on.

Our Value-added Statement on page 19 and our Five-year Review of financial performance and statistics on page 20, provide further information on the considerable positive economic impact that our operations have on the socio-economic development of the regions in which we operate and the wealth we create through manufacturing, trading and investment and its subsequent distributions to shareholders and reinvestment in the business.

Illovo strives to make a positive impact and eliminate, or at least minimise negative impacts on the communities in which we operate. Recognising that failure to respect internationally recognised human rights principles presents a significant reputational risk, affecting the sustainability of a business, our risk identification processes identify stakeholders' interests and expectations relative to human rights issues, through interaction with non-governmental organisations, governmental authorities, and local communities, as well as through responding to issues identified in reporting initiative frameworks such as CDP's Climate Change and Water responses, the JSE SRI Index requirements, the GRI requirements, the UN Global Compact Principles and self-assessment toolkit, the UN Guiding Principles on Business and Human Rights, as well as legal and regulatory requirements. Mitigating measures include requiring adherence to our Code of Conduct and Business Ethics and the integration of our human rights policies in our businesses and the supply chain. During the year, a number of externally contracted security personnel were provided with training in "Basic Human Rights", an initiative which is intended to be implemented across the group. In relation to both our existing business operations and proposed new projects and business activities, a robust "stage and gate process" includes the identification of both positive and negative impacts on local communities. Our Social and Ethics Committee work plans include human rights monitoring processes to track performance against our human rights objectives.

Procurement

Illovo supports long-term growth and stability of the surrounding communities by sourcing correct quality at an acceptable premium, notwithstanding the economic advantages that would otherwise be gained by sourcing bulk supplies and technologies through the group procurement function in South Africa. A further benefit for the local communities is the indirect employment creation by suppliers providing sugar cane and other goods and services to Illovo.

During 2013/14, Illovo procured 54.1% of its supply requirements from local suppliers in the countries in which it operates, to the value of approximately R4 412 million. Furthermore, in the year under review the company procured 3.6 million tons of sugar cane from local emergent growers, earning these growers R1 568 million in revenue. Through this an estimated 46 000 people were supported by the outgrowers.

In South Africa the company complies with the preferential procurement requirements in terms of which B-BBEE points are earned for procurement from black-owned businesses, thus making the company a preferred supplier for local customers in terms of the country's B-BBEE codes.

Socio-economic impact and materiality assessments

To form a deeper understanding of its impact, in 2013 Illovo commissioned an independent socio-economic impact assessment of its operations in each of the countries in which it operates. This complex undertaking, which was conducted by an international company, Corporate Citizenship, provides a clearer picture of our impact on the economies, communities and individual livelihoods in Africa and highlights opportunities for Illovo to enhance its positive social, economic and environmental impact.

Corporate Citizenship's report on the Illovo group, which is available in full on our website at, www.illovosugar.com, summarises the key findings from a detailed study of each of the group operations which involved the review of the financial and operational information provided by Illovo and a series of site visits to its operations, which included visiting surrounding communities, interviewing senior management and key stakeholders affected by the business, including sugar cane farmers, smallholder association representatives, employees, trade union representatives, local suppliers, doctors, teachers and other beneficiaries of Illovo's social investment spend. Corporate Citizenship also conducted its own desk-based research and analysis. A summary of the key findings of the group report is set out below.

Key findings of the Corporate Citizenship group report

CONTRIBUTED an estimated R18.5 billion to African economies, including direct, indirect and induced economic impacts. This is equivalent to about 50% of the GDP of Malawi.

EMPLOYED over 31 000 people directly (including seasonal workers), supported an estimated 46 000 people through outgrowers, and supported further employment in the value chain and wider economy of at least 15 000 using the most conservative estimates. This rises to at least 66 000 when other (still conservative) estimates are applied. Illovo's total employment impact is therefore estimated at between 92 000 and 143 000 people across the six countries. For every worker directly employed by Illovo, between 1.9 and 3.6 additional workers are supported in the wider economy. In Tanzania where there is a high reliance on outgrowers; this equates to approximately 7.8 additional workers for every Illovo employee in that country, while in South Africa it includes approximately 2.4 workers for every Illovo employee.

SUPPORTED the livelihoods of between 400 000 and 625 000 people across southern Africa. This is based upon average household sizes applied to total employment estimates.

SPENT nearly R2 billion on employee wages, salaries and benefits. Employees received over 47% of Illovo's value added in 2012/13. Benefits extended to employees and immediate dependants include the provision of accommodation (eg electricity, sanitation services and potable water supplies); healthcare (including wellness programmes); and education-related benefits (including educational allowances and bursary schemes).

PAID direct and indirect tax totalling over R900 million across all six countries.

SPENT 30% of its revenues (R3.4 billion) with independent, outgrower farmers in 2012/13.

PROCURED cane from nearly 17 000 smallholder farmers, with smallholders supplying over 90% of outgrower cane in Malawi, and 70% in Tanzania.

SPENT R4.9 billion on non-cane procurement suppliers in 2012/13. 64% was spent in-country, benefiting hundreds of small, local businesses. Much of the remainder was sourced through Illovo group procurement function in South Africa.

CONTRIBUTED R197 million on social benefits to employees and neighbouring communities, including healthcare, education, housing and other projects.

GENERATED 90% of total energy consumption from renewable sources, and in Swaziland, generated surplus electricity which is supplied to the national grid.

The process also looked at opportunities for improvement and provided detailed management reports for each country, together with group-wide recommendations to improve economic, social and environmental performance which are available on the summary report online. An updated socio-economic impact assessment will be conducted in due course.

Illovo strives to make a positive impact and eliminate, or at least minimise negative impacts on the communities in which we operate. Recognising that failure to respect internationally recognised human rights principles presents a significant reputational risk, affecting the sustainability of a business, our risk identification processes identify stakeholders' interests and expectations relative to human rights issues, through interaction with non-governmental organisations, governmental authorities, and local communities, as well as through responding to issues identified in reporting initiative frameworks such as CDP's Climate Change and Water responses, the JSE SRI Index requirements, the GRI requirements, the UN Global Compact Principles and self-assessment toolkit, the UN Guiding Principles on Business and Human Rights, as well as legal and regulatory requirements. Mitigating measures include requiring adherence to our Code of Conduct and Business Ethics and the integration of our human rights policies in our businesses and the supply chain. During the year, a number of externally contracted security personnel were provided with training in "Basic Human Rights", an initiative which is intended to be implemented across the group. In relation to both our existing business operations and proposed new projects and business activities, a robust "stage and gate process" includes the identification of both positive and negative impacts on local communities. Our Social and Ethics Committee work plans include human rights monitoring processes to track performance against our human rights objectives.

Human rights in the supply chain

In addition to our commitment to upholding the human rights of our employees, we are committed to developing a broader culture of human rights in the communities around our operations and among those with whom we conduct business.

Further to the direct economic benefits which it brings to its supply chain, Illovo contributes to supply chain integrity through the promotion of globally accepted human rights practices by requiring its suppliers, contractors, service providers and representatives to comply with and to seek to develop similar relationships with their own supply chains, in compliance with all the applicable local laws and codes of best practice and consistent with the UN Global Compact Principles. These requirements are embodied in the company's Code of Conduct and Business Ethics (available on the company's website at www.illovosugar.com) and are incorporated into our supplier contracts, which requires our employees and suppliers:

- to avoid any complicity in human rights abuses and to adopt practices to protect against abuses of human rights in their activities and in their business relationships with others;
- to conduct business in compliance with all applicable legal requirements and in a manner that respects the rights and dignity of all their employees and the local communities in which they operate, including legitimate tenure rights and freedom of association;
- to adhere to the principle of free, prior and informed consent in all dealings with the indigenous communities in the areas in which our businesses operate;
- to procure that any adverse impacts resulting from their activities are minimised and justly and fairly compensated; and
- to encourage all suppliers and other persons contracting with Illovo to adhere to the same principles.

Our employees, suppliers, contractors, service providers and representatives are also required to uphold the protection of internationally proclaimed human rights, including freedom of association and effective recognition of the right to collective bargaining; elimination of all forms of forced and compulsory labour; abolition of child labour; elimination of discrimination in respect of employment and occupation; promoting environmental responsibility; working against corruption in all its forms; and providing a safe working environment for employees (see page 65 in relation to our safety practices).

Concerning child labour, Illovo recognises the distinction drawn by the ILO between child labour and child work. It is aware that the social and economic circumstances in some countries are such that the economic unit is the family as a whole and that circumstances dictate that everyone in the household makes some contribution to the economic activity. Therefore, in relation to family and smallholder farms, it is acknowledged that light work may be carried out by children under the age of 15 years, but Illovo accepts this situation only on condition that they do not handle hazardous tools and/or chemicals or perform physically dangerous tasks and that such work does not interfere with their education or physical, emotional or psychological wellbeing. In its own operations Illovo does not allow the employment of children under the age of 18.

Stakeholder engagement

Our engagement with local communities and other vulnerable stakeholders is guided by the principle of free, prior and informed consent in relation to all matters where new projects may impact on them. Our procedures involve environmental and social impact assessments, ongoing stakeholder engagement and risk and impact monitoring, while ongoing consultation processes involve mechanisms to address grievances. In relation to matters which do not involve the company directly, and in relation to which the company does not have direct interaction with affected stakeholders, we are nevertheless committed to ascertaining that the third parties involved (including governments) conduct themselves in line with human rights principles and internationally acceptable best practice standards.

Project assessments

As indicated in our Social and Ethics Committee report, our practices and procedures require that all proposed projects undergo a stringent stage and gate process, including legal investigation of land tenure rights, working with local legislative frameworks and land reform programmes, consultation with local communities and public authorities and ensuring mutually agreed compensation where communities are affected by our operations. This includes providing technical and financial support to local community farmers supplying sugar cane to our operations and working with reputable development organisations to ensure projects are in line with accepted international standards.

Although Illovo is seldom involved in land acquisitions relative to its agricultural operations, our procedures reflect our zero tolerance to land-grabbing and prescribe that any proposed land acquisition (whether buying, renting, acquiring or otherwise accessing land or property) must involve consultation with all affected owners and users of the land or property. This is to ensure that they are adequately consulted and compensated; that past users and owners have not been wrongfully removed; that minorities and other vulnerable groups (including indigenous peoples) have been consulted to endeavour to procure "free, prior and informed consent" in relation to any matter affecting them; that the project does not result in scarcity of residential property or food commodities; and that affected owners and users of the land or property are adequately compensated to help them restore their standards of living or livelihoods to the same or higher than before; and the compensation standards are transparent and applied consistently to all communities and persons affected.

In South Africa, Illovo has sold and transferred 52% of its agricultural land holdings to previously disadvantaged communities, both prior to and after the introduction of the Restitution of Land Rights Act. We also work proactively with black farmers, managing and holding training programmes that provide technical and financial assistance to new emerging cane growers ensuring the long-term commercial sustainability of their farms. We are extremely proud of our endeavours in this regard, which have been recognised through our achievement of a Level 3 BEE status in terms of the Broad-based Black Economic Empowerment Codes.

Socio-economic impact report

Corporate social responsibility

As embodied in our Strategic Intent, we endeavour in various ways to ensure the wellbeing and advancement of our employees as well as the local communities and society in which we operate (as also reported in the Human capital report on page 59).

In addition to the significant economic benefits that accrue to the governments of the countries in which we have operations through direct and indirect taxes (which are dealt with more appropriately in the financial sections of this report), we contribute to our local communities through various corporate social investment initiatives, often providing essential community support and, where local authorities are unable to do so, filling gaps in local infrastructure, either alone, or in collaboration with international donors and funders, governments and non-governmental bodies, as demonstrated by the projects detailed below.

Our initiatives include:

- providing access to potable water, which is a particular priority;
- providing medical facilities to some communities and funding local government hospitals;
- in Malawi and Zambia, supporting government strategies to tackle micronutrient deficiencies by fortifying our sugar produced for direct consumption with Vitamin A, thereby contributing to improving public health;
- funding maintenance and equipment for local schools or community organisations, and supporting government and corporate education related campaigns, including national literacy programmes and teacher support; and
- contributing to local sports, arts and culture.

The aim of Illovo's social investment activities is to contribute to the development of thriving and vibrant societies against the background of our stated intent to be welcomed in the communities in which we operate. We are ever mindful of the rural and relatively underdeveloped nature of these locations, characterised by limited infrastructure and significant development needs.

As a long-term investor and major economic partner of the southern African region, the group has developed a social compact with its communities and people, and today administers wide-ranging social investment programmes aimed at infrastructural development, job creation, health and wellbeing, education, the provision of potable water and sanitary services, involvement in community projects and promoting culture and sports development.

Community projects motivated by its members and designated company representatives are subject to a thorough assessment to ensure they meet the prescribed long-term criteria of being meaningful, sustainable and have sufficient community reach and participation. Initiatives are managed either at a group or business unit level, depending on circumstance.

As more fully dealt with in other sections of this report, Illovo continues its involvement in community-based social investment, including:

- *Education* – In terms of community outreach, Illovo has been involved in a number of educational upliftment projects, including upgrades and administration assistance at 27 schools in five countries; support for government and corporate education-related campaigns such as national literacy projects and teacher support programmes, and the provision of necessary educational equipment.
- *Health and medical* – In areas where no public medical facilities exist, Illovo provides access to healthcare through the network of group-run primary healthcare clinics and hospitals to the local communities at nominal cost. We also provide programmes focusing on primary and secondary healthcare, occupational health, HIV and AIDS, malaria and TB, working closely with national programmes in our countries of operation. Control programmes for non-communicable diseases such as obesity, high blood pressure and diabetes exist at all our operations, and continues to provide services in respect of maternal and child health, reproductive health and neglected tropical disease (eg bilharzia).
- *Civic services* – Illovo has gone above and beyond in community involvement, supporting community centres, estate community policing, estate football leagues and day-care centres. We support community-based welfare and fundraising organisations, involving national health initiatives, feeding schemes, upgrading of public facilities and self-help programmes.

During the year under review, we contributed in excess of R22.7 million towards social investment projects, mostly for the benefit of the communities within the immediate vicinity of our operations. This figure includes expenditure on enterprise development initiatives not previously reported.

SOCIAL INVESTMENT SPEND (Rm)			
CATEGORIES	**2014**	2013	2012
Healthcare	**2.1**	1.0	3.9
Education	**7.3**	3.9	3.9
Community Support Services	**3.3**	8.7	6.6
Donations/Sports, Arts and Culture	**10.0**	0.6	0.3
Total	**22.7**	14.2	14.7

Note: The reporting format on social investment expenditure has been reviewed. Where some expenditure had previously been reported as "Donations" it has now been allocated to a specific type of contribution such as Health, Education or another appropriate category.

Projects and case studies:

some of our key projects include the following:

Tanzania and Malawi: innovative vehicles for community investment

In Tanzania and Malawi, Illovo companies have adopted a Trust model to help channel investments from development agencies and industry partners into the local community. The group's Tanzanian subsidiary, Kilombero Sugar Company Limited, has established the Kilombero Community Charitable Trust, which supports the development of vital local infrastructure including electricity, drinking water, roads, health services and schools. In Malawi, Illovo has helped to set up the Kaombe Community Farm Trust in collaboration with the local community. The Trust sells sugar cane to Illovo's Nchalo mill with profits invested in local community projects. One future project is the establishment of a rural health clinic, jointly funded by the Trust, Illovo and donors.

Programme for Technological Careers (PROTEC), corporate office – South Africa

Nature of project

The number of South Africans with qualifications which require a basic education in mathematics, science and technology related studies remains inadequate to meet the country's economic and other challenges. The number of pupils who study and pass these subjects at school level is also low. PROTEC is a programme established in 1982 to contribute to addressing this challenge by providing additional classes and other support activities for pupils in the last three school years in these subjects. Illovo Sugar Limited supports the Umlazi branch of PROTEC.

Reasons for supporting this project

PROTEC provides pupils with assistance in subjects that are vital for the development of the country and pupils who have been through the PROTEC programme have, over the years, performed well at final school year examinations and have achieved post-school qualifications in the disciplines that require a school foundation in the relevant subjects.

Outcome achieved

The programme achieved a 100% pass rate for pupils participating in it for 2013. Of the 35 participating pupils who wrote final school year examinations in 2013, 30 achieved a pass that allowed them to get admission to a degree and five qualified for admission to a diploma. In terms of post-school placements from the beginning of 2013, the programme was able to have 17 of its former pupils get a place at university, 16 at universities of technology and two at further education and training colleges, with 29 (83%) pursuing studies in engineering and science.

As part of our ongoing commitment towards our employees and their children, together with support of community-based education-related initiatives, we spent approximately R34 million on education in 2013/14.

Outgrower development

We work closely with local indigenous farmers through our established cane grower development programmes, to improve the indigenous farmer participation in the respective country's mainstream economies and to benefit both the farmers and the company by improving cane yields and quality, enabling the growers to boost their income while ensuring sustainable cane supply to the mills. The types of support provided to the sugar cane growers include:

TYPE OF OUTGROWER SUPPORT	DESCRIPTION
Seed cane incentives	Funds for planting on new, uncultivated land
Transport subsidies	Supplementary payments to outgrowers located more than 50 to 60 km from Illovo's mills
Small-scale grower development costs	Supplementary payments to small growers for purchasing fuel and other inputs that compensate for lack of bargaining power
Other supplementary payment	Amounts paid to outgrowers to guarantee a steady supply of cane to Illovo's mills
Cane ripener subsidies	Subsidies for chemical ripeners which accelerate cane maturity and increase sucrose content
Training schemes	Training and mentorship schemes for outgrowers, including technical assistance and business management support
Guaranteed purchases	Illovo signs cane supply agreements with outgrower associations and smallholder schemes, through which it guarantees the price and quantity of sugar cane which it buys
Access to inputs	Illovo provides seed, fertilisers and other inputs to smallholders to allow them to benefit from bulk discounts
Access to finance	Illovo helps smallholders gain access to finance, including co-ordinating with local banks and in some cases providing loans directly to farmers. It has assisted with identifying and supporting donor funding opportunities
Access to infrastructure	Outgrowers often benefit from infrastructure funded by Illovo, including roads and irrigation; they may also have access to schools and hospitals opened by Illovo, usually for free

During the period under review, we spent R19.1 million on outgrower schemes across the group.

Development projects

Because of our successful track record in delivering community development projects, particularly in relation to our ongoing development and improvement of the technical skills of local community farmers, non-governmental organisations are attracted to, and are willing to participate in and provide funding for, community projects in collaboration with our operations, as we assist these organisations, as well as governments, to deliver their objectives.

Malawi

Solidaridad and Illovo Sugar Malawi participated in a large EU funded project in Malawi focused on improving the livelihoods of the members of the Kasinthula and Dwangwa sugar outgrowers, by strengthening the farmers' technical skills in order to increase the sustainability, productivity and income. Both schemes assist more than 1 000 small growers covering in excess of 3 100 hectares of land. The training programme included agricultural skills, environmental management and sustainability, sustainable agricultural practices, occupational health and safety, gender, HIV and AIDS and civic education (including the abolition of child labour) and has significantly improved the technical knowledge and capacity of the outgrowers involved. The project was underpinned by several community-awareness campaigns which focused on other community based issues including gender-based violence, promotion of afforestation, the importance of education and ABET (adult basic education and training) and the roles of the community in ensuring proper care and guarding of the sugar cane irrigation equipment. In excess of 15 000 community members participated in these campaigns.

Mozambique

Illovo's Maragra operation has been instrumental in assisting medium-scale growers in expanding their sugar cane areas, through loans for the development of an additional 840 hectares of new development area.

Maragra has also secured two major EU grants for outgrower development projects, one of which focuses on flood protection, drainage and water management and the other on capacity building and training for small growers. The beneficiaries of these projects are 30 farmer associations representing 4 064 registered indigenous smallholder farming families currently operating under subsistence conditions.

South Africa

Illovo played an integral part in securing government grants and commercial finance on behalf of small and medium-scale growers under the emergent grower mentorship programme, resulting in the continued development and economic viability of this sector of our operations. We have also embarked on various projects and cane development programmes to ensure that small-scale farmers who farm on tribal land are mentored and supported at Illovo's cost. The cane development programmes focus on ensuring that local communities enjoy food security. Illovo has also entered into mentorship agreements with large commercial growers to mentor and assist small-scale growers. Several investment

grants allocated to small-scale growers by the South African government for development schemes are administered and managed by Illovo on behalf of the growers. This forms part of ongoing initiatives co-ordinated by Illovo and local cane growing bodies to increase cane supply from the small-scale grower sector and includes rehabilitation of existing land under cane, as well as the development of new land to sugar cane agriculture.

Swaziland – LUSIP Project

A very effective smallholder development undertaken with the support of external funders, government, agricultural development organisations, NGOs and the private sector, is the Lower Usuthu Smallholder Irrigation Project (LUSIP) in Swaziland which, at a relatively early point of its development, has already brought about commercial viability to participants in the scheme. With secured funding and support from the EU and the Swaziland government, the LUSIP depended on the building of a R1.4 billion dam to provide enough irrigation water for the agricultural development of 12 000 hectares of land, 5 000 hectares of which was to be ultimately dedicated to sugar cane, under the stewardship of small-scale Swazi farmers. An important partner to the ambitious plan was Illovo's Swaziland operation which committed to a significant R1.3 billion expansion of its own factory milling capacity and the upgrading of its power plant to produce enough electricity for its own operations and supply to the Swaziland national grid on a commercial basis, solely from biorenewable fuel stock – bagasse and biomass.

To date, a total of 2 600 hectares of land has been developed to cane by smallholders, collectively organised as associations and comprising around 30 landowners each, with aggregated farming areas of around 100 hectares or more. The agricultural expertise and infrastructural support from the local agricultural development agency, the Swaziland Sugar Association, Illovo and other partners, has resulted in smallholder farmers seeing their holdings turn from desolate brown scrub to rich green fields of sugar cane. Through extensive training and development offered by Illovo and the sugar industry, these farmers have developed their agronomic skills commensurately and armed with this knowledge, now tend fertile plots of land under cane, in some cases yielding more than 140 tons per hectare.

Key to the project was the commitment of the EU and the Swaziland government to provide grant funding for the development costs of the land, amounting to around 70% of the total costs. With cane in the ground for collateral, farming associations were able to borrow the balance of the funding required, primarily for crop husbandry costs in the first year to harvesting. The success of the project is demonstrated by the fact that certain of the associations have been able to settle their loans within the first two years of operation, distribute profits among their members, and invest in other income-generating projects.

The project is a sustainable development initiative which goes well beyond poverty alleviation, contributing handsomely to the socio-economic profile of Swaziland.

Tanzania

The Kilombero Community Charitable Trust (KCCT), established by Illovo's Kilombero operations, inter alia, for the purposes of carrying out community projects, secured funding of €400 000 from Solidaridad for a capacity building project on a pilot irrigation project, focusing on technology transfer as well as the development of a world-class training resource centre and a capacity building programme for outgrower smallholders. The collection and sharing of information enables the outgrower associations to assess their operations, identifying gaps in their sustainability due to capacity and organisational weaknesses as well as providing electronic training. The grower resource centre allows growers to access information and advice, hold meetings and training sessions, and use interactive technology, for training purposes.

Financial assistance received from government

In general, Illovo receives limited financial assistance from governments, as noted above in South Africa, and in our other countries of operation in the form of tax relief/credits, subsidies, investment grants, research and development grants, awards and financial assistance from export credit agencies or financial incentives.

Members of the Mganyaneni Farmers' Company, together with Ubombo smallholder development managers, represent 30 other shareholders who have all benefited significantly from their inclusion in LUSIP – having built new houses, paid for better education for their children and funded revenue-generating investments.

Climate change

IGNATIUS PHIRI

BScMechEng; DipMechEng, SMRI Certificate in Sugar Engineering
Factory Engineering Manager, Nchalo mill, Illovo Sugar (Malawi) Limited

Illovo career: Joined 1 January 2002 as Packaging and Warehouse Manager.

Career highlights: Moving from operations to core engineering maintenance and in 2012, re-designing the cooling elements arrangement on Nchalo's C-vertical crystallisers and mentoring an EIT who won the annual Group EIT presentation and as a result, travelled to AB Sugar's sugar operations in China to gain further experience in his field.

What excites me about my work: My job - running a sugar mill - gives me the opportunity to think creatively, explore alternative solutions to problems and keeping an open mind about everything I do! My career aspiration is to continue to add value to Nchalo mill, across all of my spheres of influence and align my work with Illovo core values.

What about your home life: The hallmark of my home life is to be there for my family; providing leadership and guidance. Being playful at home and having a regular, spirited laughter is good for maintaining good mental and physical health and drives stress away!

RESPONSIBILITY

Illovo's commitment to improve environmental management processes is underpinned by continuous improvement in the management of direct environmental impacts across its value chain. Our management of the environment is guided by the commitment to minimising, and ideally eliminating, negative impacts on climate change. Our reporting on the environment, guided by the GRI and the UN Global Compact communication requirements, is structured to reflect the inputs, outputs and modes of impact the organisation has on the environment. Materials, energy and water represent three standard types of inputs used by all of our operations. These inputs result in outputs of environmental significance, which are captured under the parameters of emissions, effluent and waste. Land and biodiversity are also related to the concepts of inputs to the extent that they can be viewed as a natural resource.

We have identified energy, emissions, water, waste and effluent, and biodiversity as the most material environmental indicators throughout the group's operations. In line with our commitment, the environmental strategy responds to environmental statute and a guiding environmental management framework, including those developments brought by our participation in mandatory and voluntary disclosure programmes, such as the CDP Climate Change and Water Disclosures (www.cdproject.net).

The environmental strategy aims to further:

- guide our operations to improve on their sustainability-linked environmental strategic objectives, eg climate change mitigations, water resource management, responsible operational and agriculture practices;
- implement comprehensive environmental improvement plans which respond to both risk and maximising opportunities;
- create wider environmental awareness and improve responsiveness to key environmental performance indicators;
- undertake rigorous assurance and external audits to continue the focus on reducing legal liabilities and environmental impact; and
- leverage improved environmental performance throughout the value chain.

In respect of the UN Global Compact, and with reference to the Rio Declaration on Environment and Development, Illovo's precautionary approach is that when considering new business ventures and expansions, comprehensive due diligence and environmental impact assessments are undertaken to ensure that potential negative environmental impacts are identified and mitigated.

In a further example of our progress towards sustainable agricultural operations, the World Wildlife Fund, in partnership with the Noodsberg Cane Growers' Association, and supported by our own Noodsberg sugar factory and refinery, was instrumental in the development of a Sustainable Sugar Cane Farm Management system for growers, termed SUSFARMS®. This concept is based on three fundamental environmental principles for sustainable sugar cane production – natural assets are conserved, critical ecosystem services are maintained and agricultural resources are used sustainably, all in conjunction with social and economic drivers. Performance relative to the principles is judged according to verifiers, making for a potentially creditable certification system for implementation at other sites. The South African Sugarcane Research Institute (SASRI) continues to enhance the SUSFARMS® model. Through our membership of the South African sugar industry, we contribute to the pursuit and practice of the SUSFARMS® ideology in this country. We aim to carry out a SUSFARMS® gap analysis across our operations outside South Africa during the course of the 2014/15 season with the goal to further enhance our credibility going forward.

Environmental management at our operations is implemented according to the NOSA Integrated Five-star Management System and ISO 14001. Illovo extends the control of environmental aspects and impacts by ensuring contractors accept comprehensive safety, health, environmental and quality specification requirements prior to providing services to Illovo, thereby controlling their environmental impacts into our business. We conduct legal and operational risk control audits on a regular basis as part of our operational risk management systems assurance programme. In 2013, our Zambian subsidiary received the Zambia Chamber of Commerce and Industry's environmental award for Business Leader in Corporate Environmental Stewardship 2013, which recognises companies that show leadership in addressing environmental issues. It also received the 2013 Environmental Award for Overall Contribution to Sound Management Practices in Industry from the Zambia Environmental Management Agency (ZEMA) as well as the Best Environmental Awareness Award in 2013 at the Agricultural and Commercial Show of Zambia (ACSZ) in Lusaka, which recognises an exhibitor who showcases exhibitions that promote best environmental management practices.

Technology, research and development

Illovo's future sustainability objectives are underpinned by technology, research and development. In order to optimise the return from our existing installed capacity, we have well established in-house resources which provide technical expertise in agricultural production and sugar and downstream product manufacture to all operations. A centralised core of expertise exists to ensure technical standards are optimised and 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 our operations, and in the planning and implementation of approved projects.

Our collaboration with regard to the application of new technology and energy and process performance optimisation between our own technical service function and AB Sugar is ongoing. Benchmarking to improve productivity and reduce unit costs is a major area of attention at all operations, resources having been allocated to enhance operational performance and benchmarking across the group.

We continue to benefit from research and development undertaken by the South African Sugar Milling Research Institute and SASRI. These organisations are funded by the member sugar industries which are represented on the respective boards of the institutes.

During the year under review, we spent R13.4 million on research and development.

Energy

Energy efficiency continues to be increasingly important to Illovo, given the growing demand for and increasing cost of energy and the corresponding impact on the environment together with that of the risk of power outages from national grids. We are focused on reducing the environmental impact of our products, including efforts to drive new levels of energy-efficient performance. We proactively monitor and manage energy consumption throughout the group's operations, and constantly look for ways to improve the energy efficiency of its production processes.

This includes employing better management systems, improving our own staff awareness and investing in new technologies. Sugar cane offers excellent opportunities and competitive advantages for the production of renewable energy sources compared to other agricultural crops. Our operations continue to explore increased use of renewable energy where possible, thereby reducing their dependency on fossil fuel. The Eston site in South Africa has reported zero use of coal during the 2013/14 season by improving energy efficiency in the production process. Across the group, 90% of all energy consumed within Illovo's operations was sourced from renewable resources, replacing fossil fuel alternatives. Another energy initiative to reduce reliance on imported electricity is being undertaken at the Merebank site where we are investigating the viability of an anaerobic digestion plant which will provide an estimated 80% of the site's gas requirements in the form of methane gas.

Our energy strategy is generally site-dependent and for sites where we burn supplementary fuel, ie fuel in addition to bagasse (and biomass), our energy reduction target is to rule out the use of supplementary fuel altogether. Reducing energy consumption beyond this target would result in excess bagasse residue stored on site and carry additional handling costs.

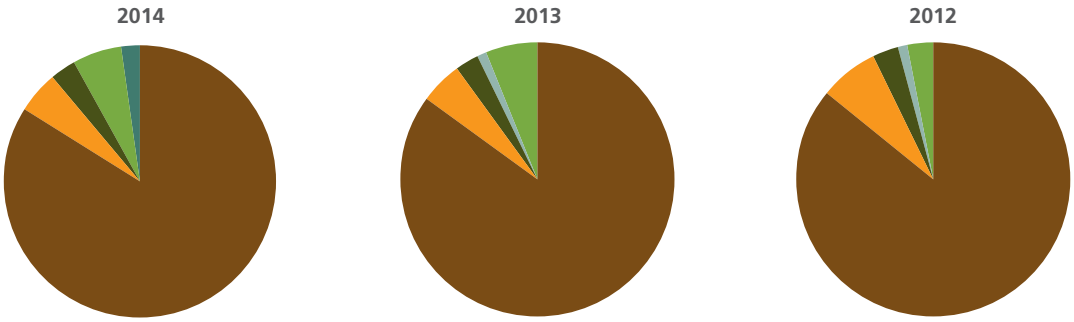
TOTAL ENERGY CONSUMPTION BY FUEL CATEGORY

GWh	**2014**	2013
Non-renewable energy used during the year	**1 062**	963
Renewable energy used during the year	**9 557**	9 134

ENERGY CONSUMPTION BY PRIMARY ENERGY SOURCE

ENERGY SOURCE	**MWh**
Synthetic gas	**160 570**
Diesel	**85 707**
Petrol	**2 799**
Coal	**474 942**
Heavy fuel oil	**2 682**
LPG	**1 123**
Renewable – bagasse	**8 920 141**
Renewable – biomass	**112 379**
Renewable – wood	**515 811**

Percentage consumption of energy types across Illovo operations*



(%)	**2014**	2013	2012
Bagasse	**84**	85	86
Coal	**5**	5	7
Electricity	**3**	3	3
Imported steam	**0**	1	1
Biomass and wood	**6**	6	3
Other fuels	**2***		

* *Synthetic gas use replaced imported steam.*

Indirect energy is produced outside Illovo and consumed for Illovo's intermediate energy needs.

INDIRECT ENERGY CONSUMPTION BY PRIMARY ENERGY SOURCE (MWh)	
ENERGY SOURCE	**MWh**
Imported electricity	**334 592**

The energy intensity achieved was 5.8 MWh of energy per ton of sugar produced, representing a decrease when compared to 6.5 MWh per ton of sugar achieved in 2012/13. For sites where we burn supplementary fuel, ie in addition to bagasse, our energy reduction plan is to reduce the supplementary fuel burnt to zero.

Investing in renewable energy

Various by-products of the sugar manufacturing process present the industry with the opportunity of generating the bulk of its energy requirements. A world-wide trend has seen sugar mills reaching a point where they have generated surplus energy to be exported, creating significant ecological and economic benefits.

Co-generation

Dry, fibrous bagasse, remaining after the extraction of juice from the crushed stalks of sugar cane, provides us with a substantial renewable energy opportunity for co-generation, replacing fossil fuel sources such as coal and electricity generated from coal, thereby reducing GHG emissions. In addition to bagasse, certain of our operations, Ubombo in Swaziland, Nchalo in Malawi and Noodsberg in South Africa, are able to supplement their co-generation capacity by utilising additional green cane biomass and wood/woodchips as boiler feedstock. During the year under review, these operations utilised approximately 160 000 tons of biomass and wood/woodchips as renewable fuel sources to produce over 387.1 GWh of heat and energy in their dual-fired boilers. We are continuing to assess opportunities to increase the co-generation capabilities of all our operations.

In addition to the environmental and cost benefits, co-generation provides a potential source of additional revenue through the export of energy into national grids. With its integrated co-generation facility, it is anticipated that our Ubombo mill in Swaziland will export 55 GWh to the national grid over a 48-week period by 2015. During the year under review, a total of 44.8 GWh, was exported to the grid, an increase from 36.9 GWh exported during the previous season. The sale of this renewable energy directly enables the Swaziland Electricity Company (SEC) to reduce its Scope 1 emissions and consequently its customers' Scope 2 emissions. Based on the Swaziland grid emissions factor published by the UNEP Risø Centre (National GEF for Swaziland – 796 kg CO_2 per MWh), the sale of this electricity enabled SEC to avoid 36 218 tCO_2 in 2013/14. Zambia Sugar exported a small amount of power on a test basis into the national grid, while Dwangwa in Malawi exports power to an external organisation.

Bioethanol

An additional renewable energy opportunity provided from the by-products of sugar processing is the fermentation of molasses to produce bioethanol. We continue to give consideration to entering the bioethanol market at certain operations, as we believe that there are significant potential commercial opportunities associated with renewable energy, which currently only represent a very small fraction of the total global energy use. Following a series of preliminary investigations, detailed technical feasibility studies in Zambia are currently underway. However, our move into the market will depend largely on the commercial viability and implementation of enabling blending regulations within the country of operation.

The production of bioethanol would provide us with the opportunity to further decrease our fossil fuel usage, increase use of renewable cleaner fuel and provide an additional revenue stream.

Non-renewable energy

The largest use of non-renewable energy across Illovo occurs within our South African operations at our four sugar mills and two ethanol distilleries. During the year under review, these manufacturing operations collectively consumed 55 542 tons of coal, representing 85% of Illovo's total coal usage.

In an effort to reduce overall coal consumption and improve energy efficiencies within these business units, we have initiated a broad-scale Performance Optimisation Plan (POP) at an operational level. Together with the planned increased substitution of coal with renewable sources of energy, such as bagasse and woodchips, we anticipate that there will still be a substantial reduction going forward in the consumption of coal and purchase of electricity. By 2017, the South African operations aim to reduce their coal consumption by 25%, from the 2009 base line.

Continuing energy-saving projects undertaken at operations within Illovo during 2013/14 included the energy mass balance assessments of the Ubombo, Sezela and Noodsberg mills in order to maximise factory modifications and monitor energy reduction equipment performance.

Emissions

The group's primary source of energy is from the use of bagasse which substantially decreases process GHG emissions at Illovo's operations, in comparison to the use of fossil fuel sources. Certain of our operations have adopted "green cane harvesting" where practical, which decreases agricultural emissions caused by the burning of sugar cane prior to harvesting. During "green cane harvesting", green biomass is stripped off the cane, either mechanically or by hand, as an alternative to the traditional practice of burning. This trash removed from the cane is either left infield to render back into the soil, potentially improving soil moisture retention, nutrient levels and carbon sequestration, or used as a renewable boiler fuel. Green cane harvesting operations are currently being undertaken in Malawi, Swaziland and South Africa.

Climate change report

Illovo will again respond to the CDP, demonstrating our commitment to transparency concerning our Scope 1, 2 and 3 GHG emission reduction initiatives at our operations and to supporting global climate change mitigation. Scope 1 are direct GHG emissions as a result of fuel combustion, process and fugitive emissions; Scope 2 are indirect GHG emissions from purchased electricity while Scope 3 are indirect GHG emissions from services such as third part transport of Illovo products.

In terms of our air emissions strategy, we aimed to reduce GHG emissions across the group by 10.7% on the 2010 emissions level, by 2020. As a result of Merebank's switch from EB Steam to Sasol Gas which accounted for 134 027 tCO_2e (Scope 2) in the previous year, we produced 30 612 tCO_2e (Scope 1) in 2013/14. The net effect was a reduction of approximately 99 540 tCO_2e. We have thus already exceeded our group target by decreasing GHG emissions by 14% compared to the 2010 baseline.

Based on the projected increase in sugar production, the effective GHG emissions reduction will be 34% from the 2010 base year, supported by these and other projects in our global climate change mitigation strategy:

- Merebank is investigating the viability of an anaerobic digestion plant which will provide an estimated 80% of the site's gas requirements in methane gas;
- we are presently engaged in an energy optimisation project at Sezela to reduce its coal burn by an estimated 8 500 tons per annum and reduce its imported electricity by 19 GWh. This will reduce Scope 1 emissions by approximately 18 000 tCO_2e and Scope 2 emissions by approximately 18 000 tCO_2e;
- energy reduction initiatives are ongoing at Noodsberg where a boiler upgrade aimed at reducing the factory's need for supplementary fuel has been commissioned; and
- we are investigating energy opportunities at Ubombo which will have the impact of reducing the factory's reliance on supplementary fuel, particularly coal and woodchips.

As per the graph below, in 2013/14, the group produced 550 001 tCO_2e (Scope 1 and 2) GHG emissions at an intensity ratio of 0.3005 tCO_2e/ton of sugar produced. This represents a reduction in the intensity ratio from the 0.3153 tCO_2e/ton of sugar produced achieved in the previous year. The increase in Scope 1 emissions resulted from the reporting of new streams of GHG emissions incorporating those from wastewater treatment and direct emissions from managed soils within the group's agricultural operations.

As part of our efforts to monitor environmental impact from indirect sources such as agriculture outgrowers, transport of sugar cane and finished product, we have begun to monitor their GHG emissions contribution (Scope 3). Approximately 57 059 tCO_2e (Scope 3) GHG emissions were released from Illovo-controlled downstream transport and distribution; whilst 168 863 tCO_2e (Scope 3) emissions were released from outgrower crop and land management-based activities.

Air quality is monitored for both point source emissions (stack emissions) and ambient air quality (fugitive emission) in line with respective country legislation. The key improvement priorities in relation to point source emission are:

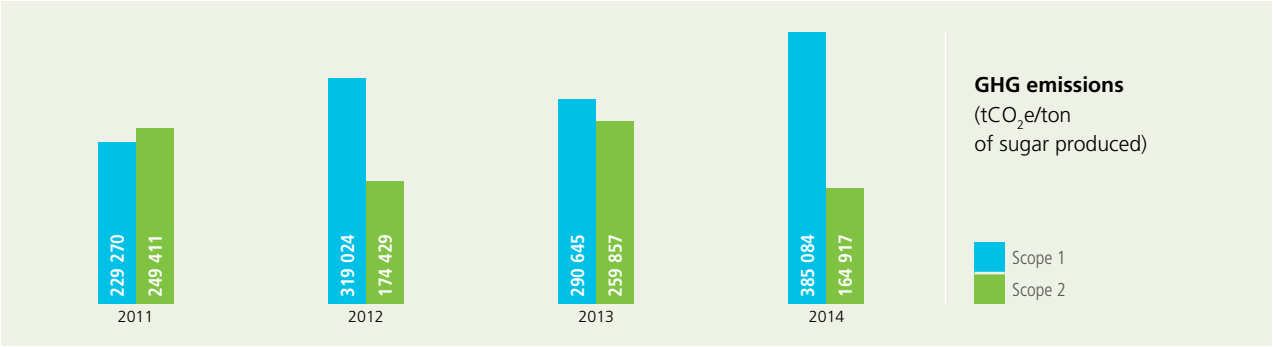
- improvement in the boiler technology in order to increase the efficiency of the boilers and to reduce carbon monoxide, sulphur dioxide and particulate matter; and
- improvement in the current incineration technology used for the incineration of medical waste from on-site clinics in order to sufficiently and safely incinerate medical waste, and to reduce the risk of exposure to dioxins.
- improvement plans based on the adoption of preventative and mitigation measures, including appropriate maintenance procedures, to reduce fugitive bagasse and stack emission, ie particulate matter.

Water

Illovo recognises that water is a global resource that requires local management. The risk management strategy identifies that risk factors concerning water are exacerbated by issues of scarcity and accessibility across community and national boundaries, and often involve interdependent factors that vary from country to country and region to region.

Ensuring access to a reliable supply of water is a critical strategic priority for Illovo to meet both its business needs and that of surrounding communities.

Illovo is currently implementing a water footprint strategy so as to optimise the use of water and hence energy per unit of production. Ultimately, through developing a better understanding of our water-related risks, our objective is to be able to provide strategic direction to our operations and



TOTAL WATER ABSTRACTION ACROSS ALL OPERATIONS						
	VOLUME (million litres)			PERCENTAGE		
Source	**2014**	2013	2012	**2014**	2013	2012
Surface (rivers)	**942 695**	866 369	916 557	**99.78**	99.67	99.79
Ground (borehole)	**980**	1 330	735	**0.09**	0.15	0.08
Municipal	**1 248**	1 582	1 216	**0.13**	0.18	0.13
Total	**944 923**	869 281	918 508	**100.00**	100.00	100.00

an elevated understanding of localised water resource risk factors.

Examples of actions undertaken by the company to improve the management of water resources and to mitigate the impact from our activities on natural water ways include the following:

- the phased approach to reduce the burden on municipal water supply and thereby subsequently producing less effluent for discharge at the Merebank site. Water will be recovered from the process stream to be used in the alcohol fermentation process;
- the sale of vinasse (a by-product of the molasses distillery process) directly to farmers, is progressing well, which will aid in the reduction of overall effluent discharge volumes;
- an amount of 623.5 million litres of water was recycled and re-used within our operations across the group;
- in Malawi, both Dwangwa and Nchalo spray our roads with vinasse so as to suppress dust and also use the vinasse solids as a liquid fertiliser in the fields. Due to the high COD-load of vinasse, care is taken to avoid spraying on roads that directly impact on run-off's to rivers; and
- in South Africa, our effluent treatment plants and ash dams have overflows which release cleaned water into the neighbouring natural courses.

We undertake water abstraction operations in compliance with existing water-use licences which are issued by the relevant authorities within the countries of operation. Water discharge volumes and methods vary by site, but are usually monitored and regulated to ensure compliance with relevant national statutes. We continually evaluate and implement new processes to improve efficiencies in an effort to reduce overall water consumption and maximise the recycling of water in our secondary processes.

As a result of the detailed water footprint study, coupled with improvements in water monitoring and reporting, the group's water usage in 2013/14 reflects an increase compared to the previous season. Despite this, there has, however, been improvement in water reuse and water recycling. It is anticipated that the water management strategy completed during this year will improve our operational responsiveness and assist greater water conservation goals.

Waste

Illovo's overall approach is the "duty of care" principle from "cradle to grave" by way of operational guidelines which are aligned to legal requirements and focus on facilitating comprehensive waste inventories in order to reflect classification and rating of waste generated by operations. Colour coded bins, labelling and signage is used widely to create awareness and facilitate compliance. Waste management in terms of better on-site segregation with particular attention to avoid the mixing of hazardous and non-hazardous waste, recycling, and waste disposal tracking, is improving across all sites. The on-site waste management programmes ensure that waste which is reusable, recyclable and waste to be disposed of, is stored in the designated waste bins and/or storage facilities. All the waste is quantified using weighbridge or safe disposal certificates to reconcile quantities generated.

The recycled input material applicable to our operations is limited to the toner cartridges and the copper chrome catalyst sent to the manufacturer BASF in Germany, and returned to our downstream plant for reuse. A total 28 tons of copper chromate catalyst was recycled. In Swaziland waste such as fluorescent tubes, leaded filter paper from the laboratory, asbestos containing waste, expired chemicals (non-medicine) and used transformer oil is transported via an accredited waste management company to South Africa for final disposal. A Basel Permit is obtained from the South Africa Environmental Department through the Swaziland government and in 2013/14, a total of 15 tons of hazardous waste was removed under this permit system.

All operations hold relevant waste management permits as prescribed by country legislation. In South Africa, operations

COMPARATIVE TABLE IN TONS SHOWING PERCENTAGE IMPROVEMENT			
	2014	2013	% IMPROVEMENT
Non-hazardous waste	**10 283**	14 901	31
Hazardous waste	**1 707**	2 183	22
Recycled waste	**4 272**	2 831	51
Send to landfill	**5 083**	11 027	54

have been registered as waste generators in terms of the Waste Management Act of 2008. Outside of South Africa, operations are developing internal waste management strategies in order to provide suitable systems for waste disposal, including the licensing of hazardous and general landfill sites, as well as the regular monitoring of effluent and emissions.

In the year under review, the company generated 10 283 tons of non-hazardous waste and 1 707 tons of hazardous waste. Of the non-hazardous waste, 49% went to landfill, 42% was recycled, 3% reused, with the balance being composted, incinerated or stored on site.

Materials

Input materials used are relevant to the company's sustainability as they impact on our contribution to:

- the conservation of the global resource base;
- efforts to reduce resource intensity; and
- management of the operations' overall costs.

Where practical, we use input materials, in both cane growing and sugar and downstream processing, that promote environmental responsibility. Factory by-products, in the form of filter cake, vinasse and boiler ash are applied to the fields, while herbicides, pesticides and fungicides are applied at an average rate of less than one litre per annum for every seven tons of cane grown. Various chemicals are used in both sugar and downstream processing, with the biggest quantities being, 664 000 litres of sulphuric acid, 7.026 million litres of hydrochloric acid, 453 000 litres of phosphoric acid, and 4.745 million litres of flocculent in 2013/14.

Associated with the above, Illovo used 545 000 litres of oils and lubricants which are reused or recycled. The packaging material for certain product lines is eco-labelled to reflect recyclable packaging material while bulk sugar is transported in one-ton polypropylene bags considered to be durable, reusable and recyclable, thereby delaying early landfill site disposal. A total of 8 600 tons of packaging material was used during this reporting period.

Effluent

The effluent produced outside South Africa is, after treatment to an acceptable level, disposed of under permit into water courses, except for our operations at Dwangwa and Glendale, where the effluent is retained in dunder dams and then used for irrigation. Treatment outside Malawi varies from lime application to being mixed with clean water or being retained in settling maturation ponds, before discharge into rivers/waterways.

In South Africa effluent is, after various treatment processes at our different sites, discharged under permit either into rivers, the sea, settling dams, a municipal sewage works, or, as is the case with the Glendale distillery, used for irrigation under controlled conditions. The majority of operations measure the quality of effluent discharged in terms of COD, biochemical oxygen demand, total suspended solids, total dissolved solids and acidity (pH).

Biodiversity

We operate over vast tracts of land, some of which are situated in close proximity to areas of potential sensitivity. The protection of biodiversity is addressed formally in new projects through environmental impact assessments (EIAs) and in existing agricultural operations through managing farming activities according to field conservation guidelines as advocated by the SASRI, so as to ensure agricultural production on a sustainable basis with limited impact on the environment.

Illovo makes every effort to preserve and manage the natural surrounding areas, as well as certain areas within the group's operations due to their high conservation status. We are mindful of our potential impacts on these areas and accordingly support a number of initiatives to preserve ecosystem integrity and protect biodiversity. These include:

- management of the Mhlongsinga Nature Reserve at Ubombo in Swaziland;
- management of the Nyala Park at Nchalo in Malawi;
- continued support of the Mwananchingwala Conservation Area adjacent to the Nakambala estate in Zambia;
- continued support of conservation projects to protect the Magombero Forest adjacent to the Kilombero estate in Tanzania;
- ongoing support of the Malawian Government Re-forestation Initiative; and
- ongoing surveys for invader species and the implementation of an eradication plan to protect riverine adjacent to steep forested areas not under cane at Sezela in South Africa.

As with any agricultural commodity, there is always the risk of a pest or disease outbreak resulting in a negative impact on crop yield and/or quality. With Eldana saccharina being a major pest in the South African sugar industry, Illovo adopts an integrated pest management system (IPM), a sustainable approach to pest management which relies on a number of preventative and control practices. Habitat management is just one of the tools in the IPM basket that growers are implementing to control Eldana. In collaboration with the SASRI, the Sezela operation has implemented this habitat

EFFLUENT PRODUCED

m^3	MALAWI	MOZAMBIQUE	SOUTH AFRICA	SWAZILAND	TANZANIA	ZAMBIA
2014	**48 239 215**	**6 089 024**	**2 706 726**	**53 395 200**	**57 102 409**	**76 162 846**
2013	47 462 702	5 040 840	2 184 201	42 163 200	48 041 992	80 691 387

These figures have been restated for the 2012/13 season following an extensive water footprint exercise.

management approach to determine the impact of such a system on Eldana infestation on a field basis.

Investing in environmental compliance

Illovo continues to invest in environmental improvements. These investments are based on a precautionary approach ensuring that cost-effective measures to prevent environmental degradation and improvements to environmental management systems are realised:

- use of cleaner fuel, energy efficiency and resultant GHG emission reduction at Merebank;
- understanding our water footprint and planning for sustainable water resource management resulting in a detailed water management strategy;
- planning improvement of waste water treatment infrastructure in Kilombero, Nchalo and Ubombo;
- research and development into wastewater treatment technology whereby biogas can be generated from anaerobic digesters using effluent created on-site;
- improving guiding procedures to facilitate accurate data reporting;
- implementing limited assurance processes on specific environmental KPIs though environmental resources management (ERM), KPMG and IRAS; and
- on environmental protection, Illovo spent R1.3 million on waste disposal, emission treatment and remediation costs and R1.9 million on prevention and environmental management costs.

Environmental compliance

No enforcement notices, environmental prosecutions or environmental citations were issued to any of the group's operations and no fines or penalties were imposed. We encourage and plan interactions with local government authorities to discuss changing environment legal requirements and solicit clarity where aspects impact on our operations. As a result, there were 29 visits by environmental authorities across all our operations.

Illovo recognises that water is a global resource that requires local management and as a consequence is currently implementing a water footprint strategy so as to optimise the use of water and hence, energy per unit of production.

Corporate governance

Downstream

Kilombero's new ethanol distillery was commissioned in August 2013, contributing significantly to Illovo's record production in 2013/14 of 63 000 litres of ethanol. In addition, the downstream side of the business recorded increases in furfural production, as well as electricity co-generation.

Corporate governance report

Governance framework and accountability

In pursuance of its ongoing commitment to ensure that the group is managed in an efficient, responsible and ethical manner and in the interests of all its stakeholders, Illovo remains committed to achieving the highest standards of corporate governance and corporate citizenship, by adhering to the relevant codes of best practice, principles of fairness, accountability, responsibility, transparency and integrity.

Our governance framework is structured to ensure compliance with the laws, regulations and codes of best practice applicable in all the countries in which we operate, including the South African Companies Act 2008 and Companies Regulations 2011, the Listings Requirements of the JSE, and the requirements of King III. In addition, we are guided by the principles of the Global Reporting Initiative and the Socially Responsible Investment Index of the JSE.

As more fully reported in the Social and Ethics Committee Report on page 97, in accordance with the South African Companies Regulations, the Illovo group is guided by the UN Global Compact Principles, the OECD recommendations regarding corruption and the ILO Protocol relating to working conditions.

Our board of directors, its sub-committees and management are responsible for ensuring that these principles are applied in all our businesses, in all countries in which the group operates. Adherence to these principles is achieved through the implementation of various policies and monitoring procedures that require compliance by all group companies with all applicable laws and regulations, as well as recognised codes of good practice.

In accordance with its business strategy to strive for continuous improvement, and recognising that the achievement of a long-term sustainable business is dependent on stable, well-functioning and well-governed environmental, social, economic and governance practices, Illovo has embarked upon a restructuring of its group governance framework to further define and embed these practices into its governance and operational structures, with the ultimate aim of ensuring that the group businesses are well-managed and driven by socio-economic imperatives producing responsible, accountable outcomes. These practices include socio-economic impact audits, human rights impact assessments and due diligence processes in relation to both our existing businesses and proposed new projects, as well as our supply chain.

Each group operating subsidiary company is governed by a board of directors, established in accordance with the laws and regulations of the country in which the relevant company operates. Certain of the members of the Illovo Executive Committee serve as directors on the boards of the subsidiary companies and report to the Illovo board on their activities at each board meeting.

Board responsibilities

The company's board of directors is ultimately responsible for the effective control of the group and its management and is involved in all decisions that are material for this purpose.

The board functions in terms of a formal Board Charter which requires that there is an appropriate balance of power and authority on the board, and in terms of which the board takes responsibility for, inter alia:

- exercising leadership, enterprise, integrity and judgement in directing the company so as to achieve its Strategic Intent, and goals and objectives;
- acting as a focal point for and custodian of corporate governance;
- approving the strategic direction, and the goals and objectives of the company; always appreciating that strategy, risk, performance and sustainability are inseparable;
- ensuring that the business is a going concern;
- considering and approving annually the company's strategic plan and its operating and capital budgets;
- considering and approving all material investments, and acquisitions and disposals of business activities;
- defining and monitoring levels of materiality, reserving specific powers to itself and delegating other appropriate matters to the relevant board committees and/or management;
- determining the Terms of Reference of the board committees, and appointing or recommending the appointment of, as the case may be, the members of such committees;
- ensuring that appropriate policies, procedures and practices are in place and are duly observed;
- identifying and monitoring the non-financial sustainability issues relevant to the business of the company;
- ensuring that the company maintains and develops good corporate governance standards, the governance of risk, identifying and monitoring the company's key risks and key performance indicators, ensuring that there is due compliance with all risk-related policies, procedures and standards, and that internal controls are effectively maintained and, where necessary, reviewed;
- ensuring that the company has an effective internal audit function;
- overseeing the preparation of and approving the company's annual financial statements, and ensuring that disclosures in this report, particularly those pertaining to sustainability matters, are adequate and meet regulatory requirements, approving the company's interim and final results announcements, and determining distributions to shareholders;

Corporate governance report

- ensuring that succession planning is undertaken, the remuneration strategy of the company is appropriate to the business, and remuneration levels of directors and senior management are appropriate;
- recommending to shareholders at the AGM, the level of fees payable to the non-executive directors; and
- ensuring that there is effective communication with the company's shareholders and other key stakeholders.

The Board Charter is reviewed annually, and during the year under review, the board satisfied its responsibilities in compliance therewith.

Board of directors

Illovo has a unitary board of directors, comprising 14 directors, 10 of whom are non-executive directors. As required by King III, the majority of the non-executive directors are independent and are chosen for their business acumen and skills pertinent to the business of the group. Brief curricula vitae of all the directors appear on pages 137 and 138 of this report.

New appointments to the board are made in accordance with the recommendations of the Remuneration/Nomination Committee and, following approval by the board, such appointments are subject to confirmation by shareholders at the next annual general meeting.

The roles of the Chairman and chief executive are distinct and separate. The Chairman is an independent non-executive director who is appointed annually by the board, on the recommendation of the Remuneration/Nomination Committee.

The independence of the Chairman and the non-executive independent directors is assessed by the Remuneration/Nomination Committee on an annual basis, in accordance with the criteria prescribed by the Companies Act and the JSE Listings Requirements, which provides an appropriate report thereon to the board. During the year under review, particular assessments were carried out relative to the independence of Dr D Konar and Prof P M Madi, both of whom having served on the board as independent non-executive directors for more than nine years. Both were found to remain independent, after taking into account all relevant factors, including the absence of any relationships or circumstances likely to affect, or appearing to affect, the relevant director's judgement. In addition, written confirmation was obtained from each of the independent non-executive directors that he/she continued to meet the requirements for independence contemplated in paragraph 67 of Chapter 2 of King III.

In accordance with the company's Memorandum of Incorporation, at each AGM, not less than one-third of the non-executive directors (being those who have been longest in office since their appointment or last re-election) must retire, but may be proposed for re-election. The Remuneration/Nomination Committee conducts an assessment of the performance of each of the retiring directors who makes himself or herself available for re-election and submits its recommendations to the board. In turn, the board makes appropriate recommendations to the shareholders relative to the re-election of directors. Favourable evaluations were carried out in respect of the capabilities of the retiring directors who are making themselves available for re-election to the board at the 2014 AGM (ie Dr M I Carr and Messrs A R Mpungwe and T S Munday).

The non-executive directors do not have service contracts with the company and all remuneration paid to non-executive directors is in accordance with the approval given by the shareholders at each AGM.

The executive directors are full-time employees of the company and, as such, each has an employment contract, the terms of which are substantially in accordance with the company's standard conditions of service, but with a notice period of three months and more comprehensive confidentiality undertakings. The executive employment contracts have recently undergone external and internal review. The Memorandum of Incorporation of the company provides that an executive director's appointment as a director terminates immediately upon the termination of his employment for any reason.

At each meeting of the board and committees, directors are required to declare other directorships held and any other interests that might create a conflict of interest with their responsibilities as directors of Illovo, or in relation to any matter for discussion at a board or committee meeting.

Members of the board may, in appropriate circumstances, take independent professional advice at the company's expense. The company provides insurance cover for directors' and officers' legal liabilities within the ambit of that permitted in terms of the Companies Act.

Provision is made for professional development programmes for directors if required, but having regard to the level of experience and expertise of the current members of the board, this has not been considered necessary during the year under review. The Company Secretary provides the directors with updates on amendments to relevant laws, regulations and the JSE Listings Requirements.

Board meetings

The board has six regular meetings each year and the company's Memorandum of Incorporation makes provision for decisions to be taken between meetings by way of written resolutions, when required. During the year under review, six meetings were held.

Resignations from and appointments to the board

During the year under review, Mr G J Clark resigned as Managing Director and Mr G B Dalgleish (formerly Operations Director) was appointed Managing Director in his stead with effect from 1 September 2013. With effect from the same date, Mr J P Hulley was appointed as Operations Director in place of Mr G B Dalgleish. Mr R N Pike resigned with effect from 31 August 2013 and was replaced by Mr G M Rhodes with effect from 1 September 2013.

Board committees

To assist the board in carrying out its responsibilities, various functions are delegated to board committees and management.

The board committees operate under board approved mandates and Terms of Reference, which define their functions and responsibilities. The Terms of Reference are reviewed annually and updated when necessary to keep them aligned with current best practice.

With the exception of the Executive Committee, all committees are chaired by independent non-executive directors who attend the AGM to respond to any shareholder queries. The chairmen of the committees report to the board on all matters delegated to them.

Audit Committee

In compliance with the Companies Act and the JSE Listings Requirements, the company has appointed an Audit Committee, whose responsibilities and activities are covered in the Audit Committee Report on pages 114 and 115 Audit Committees are also established at operating subsidiaries.

Social and Ethics Committee

In terms of the Companies Act and the Companies Regulations, a Social and Ethics Committee was established in March 2012. The composition and responsibilities of the committee are covered in the Social and Ethics Committee Report on pages 97 to 99 of this report.

Remuneration/Nomination Committee

The Remuneration Committee and Nomination Committee are combined to form the Remuneration/Nomination Committee which consists of five non-executive directors, four of whom are independent. The members of the committee are Messrs M J Hankinson, D G MacLeod, T S Munday, Prof P M Madi and Dr M I Carr. When dealing with remuneration matters, the committee is chaired by Mr M J Hankinson and when dealing with nomination matters, by Mr D G MacLeod, the Chairman of the board. The Chief Executive (Mr G B Dalgleish) and the human resources executive (Mr N M Hawley) attend meetings by invitation. The Group Company Secretary acts as secretary to the committee. The committee meets at least three times a year. In the past year, five meetings were held, attendance at which is reflected in the table on page 90 of this report.

The committee acts under formal Terms of Reference approved by the board and is responsible for the assessment and approval of the remuneration strategy for the group.

The responsibilities and activities of the Remuneration Committee are covered in the Remuneration Report on pages 100 to 104 of this report.

The Nomination Committee gives consideration to the composition of the board and board committees and makes appropriate recommendations in this regard to the board. On an annual basis, the committee reviews the group's succession plan and assesses the performance of executive and non-executive directors and senior management. The committee also plays an integral role in relation to senior executive appointments. In accordance with the criteria prescribed by the Companies Act and the JSE Listings Requirements, the Nomination Committee carries out annual assessments to satisfy itself that the Chairman and the independent non-executive directors remain independent. During the year under review, assessments were carried out relative to the independence of Dr D Konar and Prof P M Madi, both of whom having served on the board as independent non-executive directors for more than nine years. Both were found to remain independent, after taking into account all relevant factors, including the absence of any relationships or circumstances likely to affect, or appearing to affect, the relevant director's judgment. In addition, written confirmation was obtained from each of the independent non-executive directors that he/she continued to meet the requirements for independence contemplated in paragraph 67 of Chapter 2 of King III. Interviews are conducted with each of the directors and confirmation is obtained that each of them continues to hold the required business acumen and skills pertinent to the company's business.

For the year under review, the Remuneration/Nomination Committee met its responsibilities in compliance with its Terms of Reference.

Risk Management Committee

During the year under review, the Risk Management Committee comprised five non-executive directors (four of whom are independent) and three executive directors. The committee meetings are also attended by the Company Secretary and five members of senior management, one of whom acts as the secretary of the committee.

The committee meets at least twice a year and is responsible for reviewing the company's risk philosophy, strategy and policies, and ensuring compliance with such policies; reviewing the adequacy and overall effectiveness of the company's risk management function; ensuring the implementation of an ongoing process for risk identification, mitigation and management; ensuring the establishment of a comprehensive system of controls; pursuing measures for increasing risk awareness throughout the group; reviewing any significant legal matters; reviewing the adequacy of insurance coverage; and providing reports and information to the board as well as the Social and Ethics Committee in relation to matters relevant to the latter. The committee gives particular focus to operational risks, including health and safety and compliance with the legislative and regulatory requirements in each country of operation.

The group ERM Policy, ERM Framework and Combined Assurance Framework which were implemented in 2013 for the purposes of procuring effective and consistent risk management across all group operations, is more fully dealt with in the Risk Management Report on pages 105 to 107.

During the year under review, the committee satisfied its responsibilities under its Terms of Reference.

Corporate governance report

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS DURING THE YEAR ENDED 31 MARCH 2014												
	BOARD		AUDIT COMMITTEE		REMUNERATION/ NOMINATION COMMITTEE		RISK MANAGEMENT COMMITTEE		SOCIAL AND ETHICS COMMITTEE		ANNUAL GENERAL MEETING	
	A	B	A	B	A	B	A	B	A	B	A	B
Abdool-Samad M H	6	5	3	3++	n/a	1	2	2	2	2	1	1
Carr M I	6	6	n/a	n/a	4	4	n/a	n/a	n/a	n/a	1	1
Clark G J	2	2	2	2++	1	1	1	1	1	1	1	1
Dalgleish G B	6	6	1	1++	3	3	2	2	2	2	1	1
Hankinson M J	6	6	3	3	4	4	2	2	n/a	n/a	1	1
Hulley J P	4	4	n/a	n/a	n/a	n/a	1	1	1	1	n/a	n/a
Konar D	6	5	3	3	n/a	n/a	n/a	n/a	n/a	n/a	1	1
Lister P A	6	3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1	1
MacLeod D G	6	6	3	2**	4	4	2	2	2	2	1	1
Madi P M	6	6	n/a	n/a	4	4	n/a	n/a	2	2	1	1
Molope C W N	6	6	3	3	n/a	n/a	n/a	n/a	2	1	1	1
Mpungwe A R	6	6	n/a	n/a	n/a	n/a	2	1	n/a	n/a	1	1
Munday T S	6	6	3	3	4	4	2	1	2	2	1	1
Pike R N	2	1	2	1+	n/a	n/a	1	0	n/a	n/a	1	0
Riddle L W	6	6	n/a	n/a	n/a	n/a	n/a	n/a	2	2	1	1
Rhodes G M	4	4	1	1+	n/a	n/a	1	1	n/a	n/a	n/a	n/a

Column A indicates the number of meetings held during the year while the director was a member of the board/committee.
Column B indicates the number of meetings attended by the director.

++ *Participation in his capacity as a member of the Executive Committee, as an attendee.*
\+ *Participation in his capacity as a non-independent, non-executive director, as an attendee.*
** *Participation in his capacity as Chairman of the board, as an attendee.*

Executive Committee

The four executive directors constitute the Executive Committee, whose meetings are also attended by the human resource executive and the Company Secretary. Under the leadership of the Managing Director, the Executive Committee is responsible for pursuing the Strategic Intent and for implementing the strategic plan of the company as well as for managing its business and affairs generally. It acts as a medium of communication and co-ordination between the board and the operations and functions of the company, and reports to the board and board committees on all pertinent matters.

The Executive Committee meets on a weekly basis and reviews operational performance, capital programmes, major investment and capital expenditure proposals, as well as issues of strategic importance to the group, for recommendation to the board. Daily involvement of the members of the Executive Committee with operational and functional executives ensures the interactive nature of the overall management reporting structure.

Annual evaluations

Formal annual evaluations, following the requirements outlined in the Companies Act and King III, are carried out to assess the performance of the board and the board committees, which are presented to and discussed at the meetings of the board and the relevant board committees. The evaluations undertaken in March 2014 concluded that the performance of the board and its committees was adjudged to be good and no deficiencies were identified.

In addition to the evaluation of the Company Secretary referred to below, a formal evaluation was carried out in respect of the Chairman of the board, which was favourable. An assessment of the appropriateness of the expertise and experience of the Financial Director, Mr M H Abdool-Samad, was carried out by the Audit Committee.

Company Secretary

The Company Secretary, Ms J A Kunst, is responsible for carrying out all the duties of a Company Secretary as prescribed by section 88 of the Companies Act, King III and the JSE Listings Requirements, which she is appropriately empowered by the board to fulfil. She is also responsible for overseeing the legal, secretarial, governance, compliance, sustainability and corporate citizenship functions. Ms Kunst holds a BA LLB, DipMarLaw, was a practising attorney for 35 years, and is considered by the board to be suitably qualified to carry out her functions. All directors have

access to the professional services and support of the Company Secretary, inter alia, with regard to legal, corporate governance and compliance matters.

In accordance with the JSE Listings Requirements the board carried out a detailed formal annual evaluation of the Company Secretary's performance during the year under review. The board also evaluated and concluded that the Company Secretary retains an arm's-length relationship with the board having regard to the fact that she is not a director of the company, nor a major shareholder of the company or any of its subsidiaries; is not related to, or in any other manner connected with, any of the directors in any manner which could cause there to be a conflict of interest; is independent from management and does not have extensive executive duties and responsibilities in addition to the core responsibilities of a Company Secretary; is empowered by the board to act as the gatekeeper of good corporate governance; is not a party to any major contractual relationship which may affect her independence; and there are no matters affecting the Company Secretary's ability to adequately and effectively perform her company secretarial duties. The board concluded that the Company Secretary continues to be competent to perform her duties as such and is a fit and proper person to hold the position.

JSE sponsor

J P Morgan Equities South Africa Proprietary Limited is appointed the company's sponsor, in compliance with the JSE Listings Requirements.

GOVERNANCE PROCESSES

Code of Conduct and Business Ethics

A fundamental principle of our Strategic Intent requires all group operations to conduct business with honesty, integrity and in accordance with the highest legal and ethical standards. Our Code of Conduct and Business Ethics embody our key principles and values and prescribe the conduct required of all employees to achieve these values.

Our Code of Conduct and Business Ethics (which may be viewed on our website at www.illovosugar.com) applies to all our businesses and business relationships. It prescribes the standards required not only from all our group employees, but also from suppliers, service providers and representatives. The Code is reviewed annually to ensure that it keeps abreast of international best practice and latest practices to in relation to the 10 principles of the UN Global Compact and other internationally recognised human rights and other principles.

Our contracts with our contractors, service providers and representatives require them to comply with (and to seek to develop relationships with their own supply chains consistent with) the principles set out in our Code of Conduct, which records the following, failing which the contract may be terminated for breach:

Anti-bribery and corruption

Our zero tolerance approach to all forms of bribery and corruption is enshrined in our Anti-bribery and Corruption, Fraud and Whistle-blowing policies, which apply to all our business relationships, and require all our businesses to work against corruption in all its forms, including extortion and bribery. All our business units have been analysed and assessed for bribery and corruption risks and are regularly monitored as part of Illovo's Enterprise Risk Management process.

The giving and receiving of bribes and facilitation payments and the making of political donations is strictly forbidden. The stringent procedures prescribed by these policies are implemented throughout the group's operations and all group businesses are audited for risks relating to bribery, corruption, fraud and theft. A group-wide monitoring process requires detailed registers of gifts and hospitality to be kept by anti-bribery and corruption officers appointed at each of the group operations, which is reviewed by the internal audit personnel.

In 2012, we implemented an extensive training programme for employees and suppliers aimed at eliminating corruption and promoting ethical behaviour on the part of employees and third party service providers, who are also contractually required to comply with the policy requirements. We have also implemented a robust anti-bribery and corruption assessment procedure for our suppliers, which incorporates an ongoing risk assessment. During the year under review, approximately 3 800 employees underwent governance, fraud, anti-corruption, and compliance training. This training also forms part of the induction process for applicable new employees and the annual compliance and governance refresher training sessions conducted at all operations.

In compliance with section 159 of the Companies Act, Illovo has established and maintains a system to receive whistle-blowing disclosures. All reports are dealt with confidentially and routinely and the availability of the system is published regularly. The Illovo Tip-offs Anonymous reporting line operates throughout the group and enables both internal and external stakeholders to report any suspected wrong-doings anonymously. The reporting line is operated by independent service providers, Deloitte & Touche, and all matters reported are appropriately investigated. During the year under review, 81 reports were received through the Tip-offs Anonymous line, all of which were investigated. This process resulted in four disciplinary enquiries which led to the dismissal of four employees. Of the two ongoing fraud investigations carried forward from 2012, one resulted in the dismissal of an employee and the second was finalised without any dismissal or prosecution.

Compliance

Illovo's compliance methodology, whilst aligned to international best practice, has been specifically formulated and adapted to meet the growing needs of our geographically diverse businesses throughout the group. Our methodology focuses on a number of key areas, with a view to ensuring the efficient and sustainable management of our businesses

Corporate governance report

and underpinned by our commitment to comply with the myriad of local and international laws, rules, codes and standards that apply to our various operations. Given the challenging regulatory environments within which we operate, compliance is built into the fabric of our corporate governance structures and frameworks.

The compliance function monitors and assesses compliance with, and the impact of, the applicable laws and regulations on the business, as well as assessing compliance with our internal and external policies and procedures, including the implementation and monitoring of, and reporting on, the Anti-bribery and Corruption procedures. Governance developments are monitored on an on-going basis to ensure adherence to local regulatory requirements.

The compliance officers who are appointed at each of the operating group companies, report to the head office Compliance Manager who, in turn, reports to the Group Company Secretary. The reporting structure of the function enforces the independence of the compliance department and ensures that dedicated focus is given to compliance matters throughout all business areas in the group. This is an important component of good corporate governance and is a requirement of King III and other legislation.

Group compliance utilises a risk-based methodology for monitoring. Assessment of the group's legal compliance is also embodied in, and forms an integral part of, our comprehensive ERM framework which is more fully reported on pages 105 to 107 of this report.

Compliance and compliance risks are monitored and tracked by management, internal audit and group compliance.

The board monitors compliance by means of committee reports which are supported by annual compliance certificates submitted by each of the operational group companies. Where required, external specialists are engaged to assist and advise in this regard.

During the year under review, the board approved our new Compliance Policy, Compliance Manual and Compliance Plan. In accordance with the Compliance Plan, various initiatives to embed more effective compliance and governance practices throughout our business were initiated, with focus being given to the following areas:

- *Identification and implementation of changes in regulatory requirements*
  The group operates in a dynamic and continuously evolving regulatory and supervisory environment. A regulatory universe is compiled annually and all key legislation is continually monitored.
- *Compliance framework*
  We have made significant progress in reviewing our compliance controls with a view to streamlining and enhancing these. An enhanced group compliance framework has been developed to embed the group strategy of compliance with all applicable laws and regulations, adherence to ethical corporate behaviour, and managing compliance for business value.
- *Compliance training*
  Annual compliance and governance training was carried out at all our operations across Africa, in conjunction with the implementation of our "Do the Right Thing" campaign, with record attendance by all levels of employees.
- *Revision of group policies and procedures.*
  A group-wide project was implemented to review group policies and procedures in order to align these with the environmental, social and governance (ESG) principles espoused by the company, the UN Global Compact Principles and various other international standards.

During the year under review, no instances of material non-compliance were noted and no judgements, damages, penalties or fines were recorded or levied against any group company, its directors or employees for non-compliance with any legislation.

Consumer and product legislation

Illovo manufactures a wide range of sugar and downstream products which are sold into domestic, regional and international markets. We endeavour to produce consistently high-quality products for our customers and as such have a formalised support structure to ensure an appropriate, ordered, group-wide response towards product stewardship. This includes a set of detailed standards relating to raw materials, packaging materials and to production processes.

The group's adherence to the consumer protection laws in the countries in which it operates is monitored regularly, particularly with reference to the following:

- *Customer health and safety*
  The health and safety of our customers is of utmost importance for Illovo. We comply with all relevant safety, health, environmental and quality legislation in the relevant countries of operation as well as industry best practice standards. All our production facilities have been certified under the ISO 9001:2008 quality management system. In South Africa, our Noodsberg and Merebank operations have received Food Safety System Certification FSSC 22000 accreditation, while the Eston, Umzimkulu, Sezela and Illovo Syrup operations are currently making progress towards this accreditation. Our warehousing facilities in Germiston, Pietermaritzburg and Cape Town have also received FSSC 22000 accreditation. Our Nchalo (Malawi), Nakambala (Zambia) and Ubombo (Swaziland) operations have received the FSSC 22000 accreditation while other operations in Malawi, Tanzania and Mozambique are currently making progress towards this accreditation. Noodsberg, Umzimkulu, Illovo Syrup and the operations in Malawi and Zambia are registered with the Supplier Ethical Data Exchange (SEDEX), a membership organisation for businesses committed to continuous improvement of the ethical performance of their supply chains.

Certain downstream products, ie furfural, furfuryl alcohol, diacetyl, 2,3-Pentanedione, methanol and ethyl alcohol require specific handling and storage as they may be considered hazardous. To this end, all of our products are supported with Material Safety Data Sheet (MSDS) documentation, together with certificates of analysis which endorse the quality of the products, and provide recommended procedures relating to health, safety, handling and storage. This documentation is available on our website at: www.illovosugar.com.

- *Product and service labelling*

  All products carry product labels containing pertinent product information, in compliance with the respective country legislation and labelling regulations. In addition, downstream products supplying the pharmaceutical industry are highly regulated and are required to meet the South African Food and Drugs Act standards. Any amendments to food labelling and advertising legislation is promptly adopted, as evidenced by the our rapid response to the new food labelling and advertising legislation promulgated in South Africa in March 2010 under the Consumer Protection Act, 2008.

- *Market communications*

  We strive to conduct all marketing and communication activities in a responsible manner and in accordance with the relevant legislation and country-specific requirements. Together with our advertising agencies, we subscribe to good marketing practices and the code of responsible advertising, including the communication rules and guidelines as prescribed by the Advertising Association of South Africa. There were no incident reports relating to marketing and communications, including advertising, promotion and sponsorship during the year under review. The Illovo annual Cane to Customer course was presented to our South African sugar operations' customers at our Noodsberg mill and included delegates from Kellogg's, Edward Snell, Unilever, NBL Snackworks, Coca-Cola franchise bottlers and SABMiller.

- *Customer relations*

  Formal complaints from our customers are processed through an internal sugar customer care line facility in South Africa, Malawi and Zambia, details of which are reflected on all domestic sugar and syrup pre-packs. This enables customers to contact Illovo directly to address any issues relating to products and/or service. Customer complaint procedures are implemented according to the company's group complaints procedures, which provide guidelines and best practice on how customer complaints are required to be handled and resolved and for maintaining an accurate customer complaints register. Support for our industrial customers is provided by a specialised department, providing valuable assistance to the group's industrial customers across all countries of operation.

  Regular supplier and customer audits are undertaken, while customer feedback mechanisms guarantee open communication between Illovo and our customers subsequent to complaints and investigations. All relevant customer queries and complaints are investigated internally by Illovo operations and rectified where appropriate.

As a result of its initiatives and interventions as reported above, in the year under review, we did not experience any incidents of non-compliance with any laws, regulations, standards or voluntary codes concerning product responsibility, ie customer health and safety, product and service labelling, marketing communications and customer privacy.

Combined assurance

In accordance with the combined assurance model introduced by King III, Illovo's combined assurance framework provides for a comprehensive combined assurance process across the group, as more fully reported in the Risk management report on page 106.

The Audit Committee and the Risk Management Committee are each responsible for monitoring the appropriateness of the group's combined assurance model, to ensure that it caters for the integration, co-ordination, and alignment of risk management and assurance processes, thereby optimising and maximising the level of risk, governance and control oversight across the group.

The Company Secretary provides a report to the board annually on matters related to combined assurance.

Internal audit and controls

The group maintains internal controls and systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability for its assets. These controls and systems are based on established policies and procedures and are implemented by trained personnel with an appropriate segregation of duties. The effectiveness of these internal controls and systems is monitored in a number of ways, including internal audits and audit reports, internal control checks and reporting procedures, fraud, theft and defalcation reporting procedures.

The purpose, authority and responsibility of the internal audit department are defined in a formal charter approved by the Audit Committee and the board. The department acts as an independent appraisal function established to conduct reviews of operations and procedures and report findings and recommendations to management, the Audit Committee or the board, as may be appropriate. The head of the department reports functionally to the Chairman of the Audit Committee and administratively to the Financial Director, and also has unrestricted access to the Chief Executive, the Audit Committee, and the Chairman of the board.

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Corporate governance report

King III Index

On an annual basis, the application of the King III principles is reviewed by the board, and in accordance with the recommendations of the JSE, a register recording the respects in which the 75 principles of King III are applied has been compiled and may be viewed on our website at www.illovosugar.com. The following table summarises the respects to which Illovo applies these principles:

King Code of Governance for South Africa 2009 – Compliance Assessment Summary

CHAPTER 1 - ETHICAL LEADERSHIP AND CORPORATE CITIZENSHIP		
1.1	The board should provide effective leadership based on an ethical foundation	✔
1.2	The board should ensure that the company is and is seen to be a responsible corporate citizen	✔
1.3	The board should ensure that the company's ethics are managed effectively	✔
CHAPTER 2 – BOARDS AND DIRECTORS		
2.1	The board should act as the focal point for the custodian of corporate governance	✔
2.2	The board should appreciate that strategy, risk, performance and sustainability are inseparable	✔
2.3	The board should provide effective leadership based on an ethical foundation	✔
2.4	The board should ensure that the company is and is seen to be a responsible corporate citizen	✔
2.5	The board should ensure that the company's ethics are managed effectively	✔
2.6	The board should ensure that the company has an effective and independent audit committee	✔
2.7	The board should be responsible for the governance of risk	✔
2.8	The board should be responsible for information technology (IT) governance	✔
2.9	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	✔
2.10	The board should ensure that there is an effective risk-based internal audit	✔
2.11	The board should appreciate that stakeholders' perceptions affect the company's reputation	✔
2.12	The board should ensure the integrity of the company's Integrated Annual Report	✔
2.13	The board should report on the effectiveness of the company's system of internal controls	✔
2.14	The board and its directors should act in the best interests of the company	✔
2.15	The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act (note 1)	✔
2.16	The board should elect a Chairman of the board who is an independent non-executive director. The CEO of the company should not also fulfil the role of Chairman of the board	✔
2.17	The board should appoint the chief executive officer and establish a framework for the delegation of authority	✔
2.18	The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent	✔
2.19	Directors should be appointed through a formal process	✔
2.20	The induction of, and ongoing training and development of, directors should be conducted through formal processes (note 2)	✔
2.21	The board should be assisted by a competent, suitably qualified and experienced Company Secretary	✔
2.22	The evaluation of the board, its committees and the individual directors should be performed every year	✔
2.23	The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities	✔
2.24	A governance framework should be agreed between the group and its subsidiary boards (note 3)	✔
2.25	Companies should remunerate directors and executives fairly and responsibly (note 4)	✔
2.26	Companies should disclose the remuneration of each individual director and prescribed officer	✔
2.27	Shareholders should approve the company's remuneration policy	✔
CHAPTER 3 – AUDIT COMMITTEES		
3.1	The board should ensure that the company has an effective and independent audit committee	✔
3.2	Audit committee members should be suitably skilled and experienced independent non-executive directors	✔
3.3	The audit committee should be chaired by an independent non-executive director	✔
3.4	The audit committee should oversee integrated reporting (note 5)	✔
3.5	The audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities (note 5)	✔
3.6	The audit committee should satisfy itself of the expertise, resources and experience of the company's finance function	✔
3.7	The audit committee should be responsible for overseeing of internal audit	✔
3.8	The audit committee should be an integral component of the risk management process	✔
3.9	The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process	✔
3.10	The audit committee should report to the board and shareholders on how it has discharged its duties	✔

CHAPTER 4 – THE GOVERNANCE OF RISK		
4.1	The board should be responsible for the governance of risk	✔
4.2	The board should determine the levels of risk tolerance	✔
4.3	The risk committee or audit committee should assist the board in carrying out its risk responsibilities	✔
4.4	The board should delegate to management the responsibility to design, implement and monitor the risk management plan	✔
4.5	The board should ensure that risk assessments are performed on a continual basis	✔
4.6	The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	✔
4.7	The board should ensure that management considers and implements appropriate risk responses	✔
4.8	The board should ensure continual risk monitoring by management	✔
4.9	The board should receive assurance regarding the effectiveness of the risk management process	✔
4.10	The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders	✔
CHAPTER 5 – THE GOVERNANCE OF INFORMATION TECHNOLOGY		
5.1	The board should be responsible for information technology (IT) governance	✔
5.2	IT should be aligned with the performance and sustainability objectives of the company	✔
5.3	The board should delegate to management the responsibility for the implementation of an IT governance framework	✔
5.4	The board should monitor and evaluate significant IT investments and expenditure	✔
5.5	IT should form an integral part of the company's risk management	✔
5.6	The board should ensure that information assets are managed effectively	✔
5.7	A risk committee and audit committee should assist the board in carrying out its IT responsibilities	✔
CHAPTER 6 – COMPLIANCE WITH LAWS, RULES, CODES AND STANDARDS		
6.1	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	✔
6.2	The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business	✔
6.3	Compliance risk should form an integral part of the company's risk management process	✔
6.4	The board should delegate to management the implementation of an effective compliance framework and processes	✔
CHAPTER 7 – INTERNAL AUDIT		
7.1	The board should ensure that there is an effective risk-based internal audit	✔
7.2	Internal audit should follow a risk based approach to its plan	✔
7.3	Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management	✔
7.4	The audit committee should be responsible for overseeing internal audit	✔
7.5	Internal audit should be strategically positioned to achieve its objectives	✔
CHAPTER 8 – GOVERNING STAKEHOLDER RELATIONSHIPS		
8.1	The board should appreciate that stakeholders' perceptions affect a company's reputation	✔
8.2	The board should delegate to management to proactively deal with stakeholder relationships	✔
8.3	The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company	✔
8.4	Companies should ensure the equitable treatment of shareholders	✔
8.5	Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence	✔
8.6	The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible	✔
CHAPTER 9 – INTEGRATED REPORTING AND DISCLOSURE		
9.1	The board should ensure the integrity of the company's Integrated Annual Report	✔
9.2	Sustainability reporting and disclosure should be integrated with the company's financial reporting	✔
9.3	Sustainability reporting and disclosure should be independently assured	✔

Notes to index

1. *It has not been necessary to consider business rescue proceedings during the year under review. However, in terms of paragraphs 2.15.1 and 2.15.2 of King III, the board ensures that the solvency and liquidity of the company is continuously monitored.*
2. *Given the level experience and expertise of the board members, mentorship and professional development programmes have not been considered necessary during the year under review.*
3. *A governance framework applies across the group, but as five of the company's six operating subsidiaries are registered and operate in countries outside South Africa, those subsidiaries are guided by local reporting and listings requirements.*
4. *Fees are determined with due regard to relevant market surveys. However, given the high level of attendance at meetings and other input received, the non-executive directors' fees do not comprise a meeting attendance fee in addition to a base fee.*
5. *The Audit Committee reviews all disclosures in this report. Non-financial sustainability matters are also dealt with by the Risk Management Committee.*

Corporate governance report

The independent auditors, through the audit work they perform, confirm that these monitoring procedures have been implemented. During the year under review, nothing has come to the attention of the directors or the independent auditors to indicate any material breakdown in the functioning of the group's internal controls and systems.

Information technology (IT)

The IT policies and procedures cover, inter alia, the use and safeguarding of the company's information and IT systems, the use of social media, disaster recovery plans, and the regular updating and improvement of IT technology.

The Audit Committee is responsible for monitoring IT governance. An IT Steering Committee, under the chairmanship of the Financial Director, is responsible for carrying out the responsibilities assigned to it in terms of an IT Steering Committee Charter, which include, inter alia, motivating and monitoring IT project budgets, the IT governance framework, integrating a strategic IT planning process in line with the business strategy development process and identifying and exploiting opportunities for IT to improve the company's performance and sustainability. The General Manager: Group IT reports to the Audit Committee on all these matters.

Management conducts an annual assessment of the relevant provisions of King III relative to its IT management philosophy, governance framework and processes.

Dealing in securities

In terms of the company's Code of Conduct for dealing in securities, the directors and company secretaries of Illovo and its major subsidiaries are required to obtain clearance from either the group Chairman or Chief Executive Officer before dealing in the securities of the company and its listed subsidiaries. Directors and officers of the group who have access to unpublished, price-sensitive information in respect of any of these companies are prohibited from dealing in the shares of such companies during defined restricted periods, including those periods immediately prior to the announcement of interim and final financial results and periods during which cautionary announcements are operative.

Access to information

The company has complied with the requirements of the Promotion of Access to Information Act, 2000. The relevant manuals are available on the company's website at www.illovosugar.com. No requests for access to records or other information were received during the year under review.

Reporting to stakeholders

As more fully described in the report on stakeholder engagement on page 73, the company is committed to the timeous and transparent reporting of all relevant matters to its shareholders and other stakeholders as required in terms of the Companies Act and the JSE Listings Requirements, recognising that our long-term sustainability objectives are supported through engaging with our stakeholders to address matters of mutual interest.

Going concern assessment

The directors regularly assess the solvency and liquidity of the company as well as its ability to continue to operate as a going concern. Having conducted a review, the directors are of the opinion that the company's business will be a going concern in the year ahead and the external auditors concur with the opinion of the directors.

Financial statements

The company's directors are responsible for overseeing the preparation of the financial statements and other information presented in reports to shareholders in a manner that fairly presents the state of affairs and results of the group's business operations. The independent auditors are responsible for carrying out an independent examination of the financial statements in accordance with International Standards on Auditing and reporting their findings.

The annual financial statements are prepared in accordance with IFRS and the Companies Act. They are based on appropriate accounting policies which have been consistently applied, except when otherwise stated, in which case full disclosure is made.

Independent third party assurance

Integrated Reporting & Assurance Services (IRAS) has provided independent third party assurance over the sustainability information contained within this report, confirming that it meets the GRI's Application Level B requirements (B+ with its assurance). A summary of this assurance statement is provided below, and the full statement appears on our website.

IRAS was engaged by Illovo to provide Independent Third Party Assurance (ITPA) over the sustainability content within Illovo's 2014 Integrated Annual Report.

Our engagement was limited to the sustainability content within the Integrated Annual Report. Based on our reviews of the Integrated Annual Report, as well as our interviews and desktop research exercises at both the group and operational level (inclusive of site visits to Nchalo, Ubombo and Noodsberg), the information contained within this Integrated Annual Report is deemed fair, factual and reflective of Illovo's adherence to AccountAbility's AA1000AS principles of Inclusivity, Materiality and Responsiveness and meets the GRI G3 Level B+. A comprehensive assurance statement has been submitted to Illovo, and will be available on the company's website at www.illovosugar.com.

For information about our assurance processes and/or findings, please email michael@iras.co.za.

Michael H Rea
Managing partner
Integrated Reporting & Assurance Services

23 May 2014
Johannesburg

Social and Ethics Committee report

The company's Social and Ethics Committee is a statutory committee, established by the board in March 2012 in accordance with the Companies Act. The committee comprises five non-executive directors (four of whom are independent), four executive directors, the Human Resources Executive and the Company Secretary. A member of senior management acts as secretary to the committee.

In accordance with its Terms of Reference, the committee is required to meet at least twice a year in order to fulfil the functions assigned to it in terms of the Companies Regulations and such other functions as are assigned to it by the board from time to time, in order to assist the board in ensuring that the group remains a responsible corporate citizen. At each of its meetings it receives reports from other committees and management, and in turn reports on relevant matters within its mandate to the board.

Responsibilities

The objectives and responsibilities of the committee, which are aligned with the committee's statutory functions as set out in the Companies Act and Companies Regulations, and which form the basis of its annual work plan, include the following:

- social and economic development, including the group's standing relative to the UN Global Compact Principles, the OECD recommendations regarding the combating of corruption, and South Africa's Employment Equity Act and B-BBEE;
- good corporate citizenship, including the group's positioning and efforts in promoting equality, preventing unfair discrimination and combating corruption, the group's contribution to the development of communities in which it operates or markets its goods and the group's record of sponsorships, donations and charitable giving;
- the environment, health and public safety, including the impacts of the group's activities and products on the environment and society;
- consumer relationships, including the group's advertising, public relations and compliance with consumer protection laws;
- labour and employment, including the group's standing relative to the ILO Protocol on Decent Work and Working Conditions, and the group's employment relationships and contribution to the educational development of its employees;
- promotion of equality, transformation and social responsibility policies and strategies; prevention of unfair discrimination; and
- generally, the monitoring of the social, ethics, economic, governance, employment and environmental activities of the group against internationally recognised human rights principles and other relevant best practice standards.

The committee monitors adherence to the relevant legislation, regulations and codes of best practice in relation to matters within its mandate.

Performance

During the year under review, the committee met twice, in May and September 2013. This report describes how the committee discharged its responsibilities in respect of the financial year ended 31 March 2014 and will be presented to the shareholders at the AGM to be held on 16 July 2014.

In May 2013, the board approved a new Code of Conduct and Business Ethics (available on the company's website at www.illovosugar.com) which prescribes the standards required from all our group employees, suppliers, service providers and representatives and is guided by the 10 principles of the UN Global Compact and other internationally recognised human rights and other principles and practices.

UN Global Compact Principles

During the year under review, the committee progressed with its ongoing process of monitoring the company's application of the UN Global Compact Principles and embedding them into the company's operations, focusing initially on three of the principles, namely, human rights, child labour and the environment. The respects in which the group has espoused these principles are reported on more fully elsewhere in this report.

The company's Code of Conduct and Business Ethics was reviewed and amended during the course of the year to include more emphasis on the protection of internationally recognised human rights, including those set out in the International Bill of Human Rights and the ILO's Declaration on Fundamental Principles and Rights at Work. In terms of the amendments to the code, the group businesses are required:

- to avoid any complicity in human rights abuses and to adopt practices to protect against abuses of human rights in their activities and in their business relationships with others;
- to conduct business in compliance with all applicable legal requirements and in a manner that respects the rights and dignity of all their employees and the local communities in which they operate, including legitimate tenure rights and freedom of association;
- to adhere to the principle of free, prior and informed consent in all dealings with the indigenous communities in the areas in which our businesses operate;
- to procure that any adverse impacts resulting from their activities are minimised and justly and fairly compensated; and
- to encourage all suppliers and other persons contracting with Illovo to adhere to the same principles.

During the year, a gap analysis was carried out to assess the extent to which the UN Global Compact Principles are currently incorporated in the policies and business practices of the group, the intention being to implement practices across the group in a cohesive manner, and to incorporate the principles into the business practices.

Social and Ethics Committee report

Land and land distribution

In response to global anti-land grabbing campaigns, Illovo has re-affirmed its zero tolerance approach to land grabbing. Illovo is not, and never has been, involved in land grabs or any improper land acquisitions of any kind. One of the key pillars of our Strategic Intent and sustainability model is to be welcomed in the communities in which we operate, without whose co-operation we would not be able to sustain our businesses. We have a comprehensive and compelling business sustainability and corporate social investment profile, with the preservation of community land rights being a key component.

Our practices and procedures require that all proposed projects undergo a stringent stage and gate process, including legal investigation of land tenure rights, working with local legislative frameworks and land reform programmes, consultation with local communities and public authorities, ensuring mutually agreed compensation where communities are affected by our operations, providing technical and financial support to local community farmers supplying sugar cane to our operations, and working with reputable development organisations to ensure projects are in line with accepted international standards.

In South Africa, Illovo has voluntarily sold 52% of its agricultural land holdings to black South Africans (equating to 26 682 hectares, with an area under cane of approximately 17 120 hectares), and to ensure the continued commercial viability of the transferred land, Illovo has instituted an innovative programme to provide technical and financial assistance to new emerging cane growers ensuring the long-term sustainability of farms now under black ownership.

Forced and child labour

During the year under review, Illovo continued its endeavours to eliminate any forced and child labour in its supply chain, its endeavours in this regard having received positive acknowledgment. Meetings were once again held with representatives of the ILO to seek guidance on methods to assist management in implementing procedures to eliminate this scourge. In order to procure compliance by Illovo's suppliers and service providers with the UN Global Compact Principles 4 and 5 relative to forced and child labour, as well as other principles of the UN Global Compact, the company's Code of Conduct and Business Ethics records that the use of forced or child labour in our supply chain is not permitted and we require our suppliers to provide contractual undertakings to adhere to the Code. Our initiatives in relation to child labour are also reported in our Human Capital Report at page 58.

Environment

The precautionary approach to environmental challenges required by UN Global Compact Principle 7 is dealt with in the Climate Change Report, on pages 79 and 85, which also reports on our continued initiatives relative to the development and diffusion of environmentally friendly technologies.

A new group Environmental Policy as well as an environmental strategy was considered. The environmental strategy process, which covers a range of objectives and responsibilities, defines a five-year approach to the environmental management implementation by the company. Environmental initiatives during the year included Illovo's involvement in the CDP water and CDP climate change reporting process. A comprehensive water footprinting exercise carried out by WSP was completed across all group operations, which will assist the company in determining its water risk profile and identifying water-related opportunities.

Ethics

The Anti-bribery and Corruption Policy, Fraud Policy, Code of Conduct and Business Ethics (more fully referred to at pages 91 and 92 of the Corporate Governance Report), embody our key principles and values.

The group Whistle-blowing Policy, which facilitates the Illovo Tip-offs Anonymous reporting line and Crime-line, operated by Deloitte & Touche, continues to provide an appropriate balance between encouraging reporting and discouraging malicious and frivolous reporting. A review of the Tip-offs Anonymous and Crime-line reporting process is carried out regularly, and during the year training on these facilities was conducted by Deloitte & Touche in conjunction with the company's compliance personnel at all group operations.

Labour

Our Employment Equity Policies embody our commitment to implementing employment equity across the group. Our Employment Equity forums continue to provide input into the employment equity management of the group. During the year under review, attention was again given to our compliance with the Broad-based Black Economic Empowerment Act and codes, as well as to the development and advancement of local talent in the other countries in which the group operates. These initiatives are elaborated upon at page 67 of this report. Skills development remains an area of focus and the various skills development programmes that have been implemented are reported on more fully on page 60. Entry level accommodation conditions across the group were reviewed during the year, and each operation's current progress relative to the agreed standard was examined.

Health and safety

The group once again achieved a world-class achievement in relation to its health and safety practices and a new group Health and Safety Policy was approved. Health and safety practices continue to improve annually and are reported at page 65 of this report.

Safe evacuation of employees from various territories in emergency situations remains a priority and our crisis management plan and evacuation procedures were reviewed and tested. In relation to health measures, attention continues to be given to the impact of HIV and AIDS and malaria initiatives. Our extensive healthcare programmes are reported on more fully at page 64 of this report.

Socio-economic development

In line with our Strategic Intent to be welcomed in the communities in which we operate, Illovo strives to support the advancement of all communities where its operations are located and our Corporate Social Investment Policy entrenches this philosophy. Sustainable community development is achieved, inter alia, through employment, procurement and supply chain development. The group continues to provide much-needed employment and other social benefits in the areas in which it operates, as well as providing revenue to the emergent farmers who supply sugar cane to our factories and other suppliers of services and goods, thereby directly and indirectly benefiting the surrounding communities as a whole.

During the year under review, an independent company, Corporate Citizenship, was engaged to conduct a socio-economic impact assessment of the group's operations. Corporate Citizenship's group report is available on the company's website at www.illovosugar.com. The numerous contributions we make are also reported upon on page 74 of this report.

Sustainability

The group's sustainability framework gives focus to energy and emissions, biodiversity, water, sustainable farming practices, economic factors including outgrower development and agricultural productivity, and product responsibility. These matters are elaborated upon in the Climate change report on page 79 of this report.

The key sustainability risks and opportunities which received focus in the year under review were energy and carbon management; water usage, by adopting a water footprint methodology; and a culture of continuous improvement and "doing more with less" in agricultural productivity, an initiative which is being embedded across the group.

Consumer legislation

During the year under review, the committee's work plan was amended to include provision for the attestation of compliance with applicable consumer laws, as required in terms of regulation 43(5)(a)(iv) of the Companies Regulations 2011. Our endeavours in this regard are more fully reported in the Corporate governance report on page 92.

Evaluation of committee performance

An evaluation of the performance of the committee was carried out in March 2014 as part of the evaluation process detailed in the Corporate governance report. The evaluations recognised that although the committee was still in its formative stages, it was evolving and developing its role and was gaining good momentum.

Prof P M Madi
Social and Ethics Committee Chairman

23 May 2014

Role and responsibility

The committee is tasked with the development and determination of the company's general policy on executive and senior management remuneration, and the positioning of senior executive salary packages relative to local and international industry benchmarks, such that they are sufficient to attract, retain and motivate executives of the quality required by the company. The remuneration packages include basic salary, annual bonuses, performance-based incentives, share related incentives and retirement benefits.

For the year under review, the committee met its responsibilities in compliance with its Terms of Reference.

On an annual basis, the committee:

- reviews the company's remuneration policy for approval by the board and shareholders;
- reviews and approves the remuneration packages of the executive directors and senior managers of the group;
- approves the salary mandate to be implemented for the group's employees in the various countries of operation, which includes the foreign allowances paid to employees who are deployed on assignment into the countries of operation outside South Africa;
- approves the group's short-term performance bonus scheme for the forthcoming year and signs off on the awards achieved in the prior year;
- approves the annual award of options in terms of the group's longer aligned PSS;
- makes recommendations to the board on the fees payable to the company's non-executive directors; and
- ensures compliance with relevant legislation.

During the course of the year, the committee engaged the services of remuneration consultants to audit and review the level of the executive directors' remuneration packages when compared with the market. On the basis of the subsequent report, the committee was satisfied that these are in line with positions of similar content and complexity in the market.

In assessing the Chairman's fee, regard is had to the length and depth of his experience in the sugar industry and the time that he devotes to his duties as Chairman of a group that operates in six African countries.

In keeping with the Remuneration Committee's Terms of Reference, the Chairman is required to report to the board after each meeting and attend the AGM to respond to any questions from shareholders on remuneration.

Remuneration philosophy and policy

In line with the company's strategy, the remuneration philosophy and policies recognise the importance of our people in the continued growth and sustainability of the group and its overall performance.

As far as possible, the committee aligns the outcomes of the remuneration policy with the interests of shareholders and also seeks to encourage and reward the longer-term sustainable growth of the group. The principles of the remuneration policy are designed not only to attract, retain and motivate employees, but also to reward them for their contribution to the group's operating and financial performance, taking into account market conditions at both industry and country levels.

Apart from fixed remuneration, an element of variable remuneration that is aligned to value creation in the form of short and longer-term incentive schemes is also catered for and linked to the achievement and performance of specified targets and objectives, with payment being made out of increased returns. This also assists in attracting and retaining key personnel.

General salary and wage reviews

The committee ratifies the salary mandates, along with mandates that determine substantive wages and benefits for the unionised category of employees, through collective bargaining processes with representative trade unions in all countries of operation.

Criteria adopted for determining non-negotiated salary and wage increases are as follows:

- individual performance reviews;
- CPI (inflation);
- market surveys, where the group subscribes to pegging key high-performing employees at the median to upper quartile of the market;
- internal equity where applicable;
- short-term incentives, whereby all employees participate in a performance-related bonus scheme (PRBS) designed and implemented on a financial year basis, and are remunerated against pre-set performance criteria at the end of the group's financial year. The targets are both of a financial and operational nature, directly relevant to the performance expectations for each operation in the ensuing year. The former are set against financial parameters such as growth in headline earnings per share (HEPS) and profit after tax (PAT), as well as achievement of relevant return on net assets (RONA) targets. The operational targets typically relate to the achievement of set line-of-sight production forecasts and safety standards and well defined operational efficiency metrics which are readily measured and in respect of which progress towards achievement thereof is communicated to participants on an ongoing basis; and
- long-term incentives which are catered for by the PSS, which is extended to key senior staff members, are directly aligned to the company's share performance and incorporate a performance hurdle, thus only being of value when beneficial to shareholders. This scheme is more fully referred to below and on page 111 of this report.

Other substantive benefits include in-house healthcare facilities, medical aid contribution subsidisation and provident and pension funds. In countries where these do not exist, company contributions to national security insurance-type funds are paid.

Executive remuneration

The executive directors are full-time employees of the company and, as such, each has an employment agreement, the terms of which are in accordance with the company's standard conditions of service, but with a notice period of three months and more comprehensive confidentiality undertakings.

The group aims to adhere to the broad guidelines of executive remuneration as contemplated by King III, in respect of remuneration packages of the company's executive directors and senior managers, ensuring that the following is achieved:

- *Guaranteed remuneration*

  The positioning of guaranteed remuneration packages is aligned between the market median and upper quartile of local and international industry benchmarks. To this end, external consultants are used to ensure that these levels are conducive to the attraction and retention of key skills. The guaranteed remuneration packages are based on the complexity of the role of each director and senior manager and his/her performance and contribution to the group's overall performance. Contributions towards medical, retirement and disability benefits, as well as car allowances are applicable to all senior employees in accordance with the rules of the relevant company scheme.

- *Short-term incentive*

  The performance-related bonus scheme (PRBS) mentioned above is also applicable to executive management, focusing on specific annual targets.

  In addition to the financial targets mentioned above, individual specific objectives identified by the Remuneration Committee for that particular executive function are also set. The attainment of these targets contributes towards the achievement of the company's strategic objectives, which are aligned to the delivery of sustained shareholder value. The principle of paying for performance is a key underpin to the PRBS and any variable payments achieved are directly aligned to performance outcomes.

  The PRBS is capped at 125% of annual salary for executive directors and senior general managers. For the executive directors the breakdown of the targets, the relative bonus caps as a percentage of annual salary and the averaged payments are as follows:

EXECUTIVE DIRECTORS PERFORMANCE BONUS CRITERIA	Bonus cap (% of annual salary)	Executive directors performance average achievement (%)
Group financial results	80	0
Working capital management	10	8
Key performance objectives	35	27.5
Total	125	35.5

- *Long-term incentive*

  This is currently catered for by the PSS, referred to below, which was introduced in 2005, and previously by the closed Illovo Sugar 1992 Share Option Scheme.

  However, due to the relative stability of the Illovo share price, the board has recognised that the PSS does not provide an adequate incentive mechanism to enable the company to attract and retain executives and other key management whose skills are necessary for the company to fulfil its long-term goals. Accordingly, in line with global best practice and emerging South African practice, the company intends to introduce a forfeitable share plan (FSP) as an additional long-term incentive plan for directors and selected key executive senior employees. Details of the FSP are set out in the Directors' Report at page 111 and in the Notice of Annual General Meeting and Appendix 1 thereto at pages 134 and 135 of this report.

Illovo Sugar 1992 Share Option Scheme (option scheme)

None of the directors hold any options in the closed option scheme, all such options having been exercised. The shares in the company held by the directors as at 31 March 2014 are reflected on page 113 of this report.

PSS

Further information regarding the PSS is reflected at page 111 of this report. The PSS is "cash-settled" and therefore is not classified as a share incentive scheme in terms of the JSE Listings Requirements. It is directly aligned to the company's share performance. It incorporates a financial performance hurdle and benefits only accrue where positive real growth in shareholder returns has been achieved, which entails that one-third of the options granted may only be exercised in each of the third, fourth and fifth years following the date of grant, provided that certain financial hurdles are met. During the year under review, there were 151 recipients of the scheme.

Financial performance hurdle, information and allocations:

A performance base is set as being the average HEPS achieved over the preceding three financial years, with one-third of the options granted in that year vesting in years three, four and five. A performance target hurdle is also set, which requires that the group HEPS cumulative performance from year of grant must exceed the cumulative South African gross domestic product (GDP) for the same period:

- cumulative GDP plus 2.5% for 50% of the vested options to become exercisable; or
- cumulative GDP plus 5.0% for 100% of vested options to become exercisable.

If the target hurdle is achieved at the end of the third financial year from date of grant, the options become exercisable, subject to the vesting rule referred to above. In the event that the target hurdle rate is not achieved at the end of the third financial year from date of grant, vested options accrue until the target is met, provided that this is within the 10-year option life.

The performance targets were introduced in 2007 and performance has been as follows:

- grant date 2007: HEPS outperformed GDP plus 5% at the end of year three. Therefore, vested options are exercisable (ie subject to the "vesting rule" referred to above);
- grant date 2008: HEPS outperformed GDP plus 2.5% at the end of year five. Therefore, 50% of the options for this year are exercisable as the hurdle has been met at GDP plus 2.5% (ie subject to the "vesting rule" referred to above). The GDP plus 5% target is still to be achieved and 50% of the options therefore remain unexercisable;
- grant date 2009: HEPS underperformed GDP plus 2.5% at the end of year five. Therefore, vested options remain unexercisable;
- grant date 2010: HEPS underperformed GDP plus 2.5% at the end of year four. Therefore, vested options remain unexercisable;
- grant date 2011: HEPS outperformed GDP plus 2.5% at the end of year three. Therefore, 50% of the options for this year are exercisable as the hurdle has been met at GDP plus 2.5% (ie subject to the "vesting rule" referred to above). The GDP plus 5% target is still to be achieved and 50% of the options therefore remain unexercisable; and
- the 2012 and 2013 allocations are still to be measured against the three-year HEPS target.

The Remuneration Committee have recently taken the decision that the performance target hurdle for the 2014 allocation will change from GDP to the South African Consumer Price Index (CPI) and will require that the group HEPS cumulative performance from year of grant must exceed the cumulative CPI for the same period:

- cumulative CPI plus 1.5% for 50% of the vested options to become exercisable; or
- cumulative CPI plus 3.0% for 100% of vested options to become exercisable.

Phantom options granted to executive directors

The table adjacent reflects the phantom options previously granted to executive directors, those granted during the year under review, any phantom options exercised during the year under review, and the unexpired and unexercised phantom options as at 31 March 2014.

	Options as at 31 March 2013	Option price (cents)	Options granted during the year	Options exercised during the year	Exercise price (cents)	Options forfeited during the year	Options as at 31 March 2014	Expiry date
Abdool-Samad M H	150 000	2 702		–	–		150 000	26.05.2021
	63 100	2 573		–	–		63 100	22.05.2022
		3 445	68 500				68 500	21.05.2023
	213 100		68 500	–	–		281 600	
Clark G J	16 700	1 634		16 700	3 100			29.10.2016
	60 000	2 364		60 000	3 100			23.07.2017
	70 000	2 867		35 000	3 100	35 000		09.07.2018
	240 000	2 808		–	–	240 000		13.07.2019
	172 500	2 856		–	–	172 500		20.07.2020
	162 000	2 702		–	–	162 000		26.05.2021
	155 500	2 573		–	–	155 500		22.05.2022
		3 445	129 500	–	–	129 500		21.05.2023
	876 700		129 500	111 700	–	894 500		
Dalgleish G B	8 500	1 634			–	–	8 500	29.10.2016
	12 500	2 364			–	–	12 500	23.07.2017
	20 000	2 702			–	–	20 000	26.05.2021
	141 500	2 573			–	–	141 500	22.05.2022
		3 445	77 500				77 500	21.05.2023
	182 500		77 500				260 000	
Hulley J P	5 500	2 364			–	–	5 500	23.07.2017
	20 000	2 867			–	–	20 000	09.07.2018
	25 000	2 808			–	–	25 000	13.07.2019
	11 000	2 856			–	–	11 000	20.07.2020
	10 500	2 702			–	–	10 500	26.05.2021
	15 500	2 573			–	–	15 500	22.05.2022
		3 445	13 000				13 000	21.05.2023
	87 500		13 000		–	–	100 500	
MacLeod D G #	100 000	2 364			–	–	100 000	23.07.2017
	140 000	2 867			–	–	140 000	09.07.2018
	240 000				–	–	240 000	
Riddle L W	20 000	1 634		20 000	3 860	–		29.10.2016
	33 500	2 364			–	–	33 500	23.07.2017
	25 000	2 867			–	–	25 000	09.07.2018
	60 000	2 808			–	–	60 000	13.07.2019
	56 000	2 856			–	–	56 000	20.07.2020
	36 000	2 702			–	–	36 000	26.05.2021
	51 500	2 573			–	–	51 500	22.05.2022
		3 445	77 000				77 000	21.05.2023
	282 000		77 000	20 000	–	–	339 000	
	1 881 800		365 500	131 700	–	894 500	1 221 100	

Options granted to Mr D G MacLeod while an executive director.

Compensation of directors/prescribed officers

Executive directors

The remuneration of executive directors for the year ended 31 March 2014 was as follows:

	Salary R000	Bonus R000	Retirement, medical and UIF contributions R000	Car allowances R000	Housing relocation allowance R000	Option gains R000	Total reward R000
Abdool-Samad M H	**3 069**	**1 320**	**407**	**261**	**–**	**–**	**5 057**
Clark G J*	**2 942**	**–**	**843**	**260**	**–**	**2 713**	**6 758**
Dalgleish G B	**3 167**	**1 140**	**400**	**323**	**–**	**–**	**5 030**
Hulley J P#	**1 223**	**351**	**171**	**151**	**358**	**–**	**2 254**
Riddle L W	**2 361**	**826**	**330**	**240**	**–**	**445**	**4 202**
Total	**12 762**	**3 637**	**2 151**	**1 235**	**358**	**3 158**	**23 301**

* *Resigned on 31 August 2013*

\# *Appointed on 1 September 2013*

The remuneration of executive directors for the year ended 31 March 2013 was as follows:

	Salary R000	Bonus R000	Retirement, medical and UIF contributions R000	Car allowances R000	Housing allowance R000	Option gains R000	Total reward R000
Abdool-Samad M H	2 732	2 787	363	224	208	–	6 314
Clark G J	4 663	4 780	745	325		–	10 513
Dalgleish G B	2 000	2 080	267	251		–	4 598
Riddle L W	1 981	2 060	281	240		–	4 562
Total	11 376	11 707	1 656	1 040	208	–	25 987

Non-executive directors

The fees paid to non-executive directors for the years ended 31 March 2013 and 31 March 2014 were as follows:

	2014 R000	2013 R000
Hankinson M J	**597**	580
Konar D	**501**	440
MacLeod D G**	**2 200**	2 200
Madi P M	**447**	440
Molope C W N	**436**	405
Mpungwe A R	**317**	320
Munday T S	**630**	590
Carr M I#	**–**	–
Lister P A#	**–**	–
Pike R N#	**–**	–
Rhodes G M#	**–**	–
Total	**5 128**	4 975

** *The Chairman's remuneration is approved by the Remuneration Committee, having regard to the complexity of his role and his expertise in the sugar industry.*

\# *These directors, who are nominated for appointment by Illovo's majority shareholder, have each elected not to receive the payment of the fees due to them as non-executive members of the board and the board committees on which they serve.*

Other than the directors, there are no employees of the company who are "prescribed officers", as defined in the Companies Act, the directors being the only persons who exercise, and who are empowered to exercise, or who regularly participate to a material degree in the exercise of, general executive control over and management of the whole, or a significant portion of the business and activities of the company, as contemplated in regulation 38 of the Companies Regulations.

Post-retirement medical aid

Post-retirement medical aid contributions paid on behalf of past directors amounted to R83 463 for the year under review, compared to R67 906 for the year ended 31 March 2013.

Risk management report

Illovo's board regards risk management as a key process in the responsible pursuit of strategic objectives and the effective management of related material issues across the group. Illovo's management culture is underpinned by effective risk identification and mitigation processes which are applied, on a day-to-day basis, through the group Enterprise Risk Management (ERM) system, including internal controls, monitoring mechanisms and relevant stakeholder engagement activities. In accordance with the group's risk philosophy, business activities and plans are aligned to the group's governance, economic, environmental and social aspirations, and form an integral component of the group's materiality assessment processes.

Our ERM process is designed to facilitate the achievement of our business strategy and plans, through the identification and exploitation of opportunities that meet the risk appetite criteria set by the board, and to ensure that the risk profiles of our business activities and investments are maintained within the approved risk tolerance levels, thereby optimising the risk return parameters for the creation of sustainable growth and value for shareholders and stakeholders.

The Risk Management Committee is responsible for the oversight of the ERM process and embedding of the ERM framework across the group. Management is tasked with the process of developing and enhancing our comprehensive systems for risk identification and management. Risk assessments in line with the ERM framework are conducted regularly, with the resulting risk improvement plans being closely monitored. These procedures form an integral part of the risk management process, and ensure that any residual risk exposures are properly and timeously managed.

The ERM process considers strategic, operational, financial, compliance and reputational risks. Other risks inherent in the sugar industry generally are also identified, monitored, recorded and appropriately managed. Risk indicators and levels of risk appetite are reviewed and approved by the board on an annual basis or more frequently if required. Our risk appetite represents the amount and type of risk we are willing to accept in pursuit of our business objectives. Salient risks and their relevant mitigating strategies are subject to regular assessment by the Risk Management Committee and are given consideration in the annual strategic plan approved by the board.

Business continuity plans for all group operations are incorporated in the ERM framework, and training to ensure capability to deal with interruptions to the business is carried out at all operations.

The following risks were identified through our ERM process in the year under review as being the top strategic, financial and operational risks considered as potentially having the most material impact upon the group, if realised.

- *Sugar imports*

  The risk of duty-free sugar being imported into countries at prices below which Illovo can compete at acceptable margins, caused by subsidies granted to major sugar producers around the world, together with the imminent de-regulation of the EU sugar regime, can lead to unfair competition leading to lower prices in our own markets and loss of revenue and profits. The mitigating controls are referred to in the Commercial Director's Review on page 48.

- *Country and investment*

  Broad political issues and government relations as a result of change of government, or civil unrest can cause political uncertainty and lead to lack of availability of foreign exchange, reduction in regulatory support (eg import tariffs, etc), shortage of basic commodities and a deteriorating infrastructure. The stakeholder engagement initiatives referred to on page 73 are an important mitigating factor. Additional controls include monitoring of political situations in operating countries through specialist service providers and ongoing country risk assessments.

- *Price and market*

  Exposure to pricing variations, particularly due to world sugar price volatility, changes in market demand and supply (particularly where market supply exceeds market demand), and market protective measures implemented by governments create an inability to maintain acceptable margins. This risk and mitigating actions are fully discussed in the Commercial Director's Review on page 48.

- *Weather*

  The impact of abnormal weather conditions is a significant risk to the business. This might be caused by global warming and deforestation resulting in lower yields leading to inability of our factories to utilise capacity. Current controls in place to mitigate against adverse weather conditions include:

  - development of agriculture infrastructure including drainage systems, dykes and canals;
  - irrigation systems in place at most non-South African operations;
  - use of weather forecasting tools and an early warning system for flooding;
  - continually evaluating and selecting drought tolerant cane varieties; and
  - completion of a water footprint exercise so as to better understand and manage our water resource.

- *Direct and indirect tax exposure*

  Exposure to complex tax legislation in the international environment remains a risk to the business. Various mitigating controls are in place including engagement with tax authorities on all new transactions and the review of tax returns by the group tax department. The company continues to make use of independent assessments in complex related transactions.

- *Advocacy and stakeholder relations*

  Poor, inadequate or infrequent communication to the market, shareholders, analysts, employees and government may lead to reputational damage and impact on our share price. Lack of or inadequate communication of our social, environmental and other impacts, and the way in which we address these, could also have adverse reputational risks. In order to strengthen our ongoing communication with stakeholders, we have reviewed our stakeholder engagement approach, as discussed in the stakeholder engagement section on page 73.

- *Cane supply*

  This key risk is described by our ability to maintain area under cane, and the maintenance of cane yield and quality. Challenges to the former include land tenure and expropriation, competitive crops, as well as competition for cane supply. The direct consequence of the above is lower yields leading to the inability of factories to utilise capacity. Various controls are in place to mitigate the risk including:

  – sustainable cane variety selection;

  – increased cane replant programmes; and

  – proactive engagement with government and financial institutions/donors to provide cost effective funding for grower development and ratoon management.

- *Bulk water supply*

  This is the inability to secure water required for agriculture and factory processes as well as potable consumption by employees and communities. Potential causes of this key risk is Illovo having drought or abstraction permits revoked, as well as poor maintenance of our canal systems and irrigation infrastructure. This will lead to lower yields which will impact the ability of factories to utilise capacity. Amongst the current controls for this risk are planned maintenance and replacement of infrastructure, irrigation scheduling and drought mitigation strategies, having our estates in close proximity to perennial water supply, appropriate investment in irrigation systems (centre pivots), and a group-wide water footprint assessment leading us to a better understanding of our water use.

- *Currency exposure*

  Exposure to fluctuations in exchange rates are caused by country risk and the inherent macro-economic factors within countries. This could cause significant financial impact in the translation and transaction of foreign earnings. The following controls are in place:

  – strict hedging policies and procedures;

  – foreign cash flow forecasting of proceeds; and

  – a centralised treasury function.

- *Skills and capabilities*

  The inability to attract and retain a workforce with the required technical skills and capabilities remains a key risk facing the business. There are additional pressures in terms of the retention of critical skills. Some of the challenges are caused by the increased competition for scarce human resources, including competitors establishing a footprint in African markets where we are operating. In addition to those identified in the Human Capital Report on page 59, mitigating measures include:

  – talent management processes for all disciplines;

  – bursary and training programmes; and

  – our establishment of a world class training centre for the agriculture and sugar processing disciplines.

Combined assurance

Our combined assurance model aims to optimise the assurance coverage obtained from management as well as internal and external assurance providers relative to the risk areas affecting the group. Collectively, they provide the board with assurances on the effectiveness of controls that mitigate the risks identified during risk assessments, as part of the governance practice recommended by King III.

Our combined assurance framework, which covers all the business operations of the group, is monitored by the Audit Committee and the Risk Management Committee, ensuring the integration, co-ordination, and alignment of risk management and assurance processes, and thereby optimising and maximising the level of risk, governance and control oversight across the group.

A combined assurance forum, which meets on a quarterly basis, assesses feedback on the effectiveness of the internal controls received from the assurance providers in a co-ordinated manner so as to identify gaps or improvement areas in the internal control framework. The forum also provides assurance that current control measures in place are adequate. The combined assurance plan is reviewed and updated on a quarterly basis and is used to provide an overall opinion and assurance to the Risk Management Committee on an annual basis.

Materiality assessment

The Risk Management Committee drives an ongoing risk assessment process to identify and rank our key risks and opportunities according to their probability and potential to materially impact our operations. This process informs the prioritisation of various material issues affecting all operations within the group, ensuring a dynamic and responsive business strategy.

We acknowledge the importance of a robust, continuous materiality assessment process to ensure that matters impacting upon the organisation's ability to create value over the short, medium and long term are identified. Through materiality assessments we identify, quantify, prioritise and respond to important stakeholder issues, both negative

and positive. A wide range of factors, both external and internal and encompassing regulatory, economic, social, political and global influences on the group, together with legitimate stakeholder expectations, impact our daily business operations. These are deliberated upon at both the operational and board levels across the group, feeding into our strategic framework and the identification of risk impacts on the organisation.

The issues identified are quantitative and qualitative in nature and cover internal and external perspectives. Internal issues are identified by considering our policies and procedures, codes of conduct and business ethics, strategies, targets, risk management processes and employee engagement. Identification of external risks takes into account stakeholders' interests and expectations, and matters identified in reporting initiative frameworks such as CDP's climate change and water responses, the JSE SRI Index requirements, the GRI requirements, the UN Global Compact, the UN Guiding Principles on Business and Human Rights, as well as legal and regulatory requirements. These are compared and prioritised, based on internal and external assessments.

The materiality assessment process also guides the prioritisation of topics identified during the stakeholder engagement process. Engagement with employees, shareholders, customers, service providers, non-governmental organisations and other interested persons leads to the identification of the primary issues governing these relationships and the topics of importance to our stakeholders generally. This ongoing engagement throughout the year is used as the basis for defining report content and prioritising business initiatives.

Summary consolidated financial statements

for the year ended 31 March 2014

The notes to the financial statements may be found on the company's website at www.illovosugar.com

ANTONIO DANIEL MATAVELE

Currently studying Environmental Engineering and Disaster Management (3rd year) at Technical University of Mozambique (UDM)

Continuous Improvement Manager, Maragra Acúcar SA, Mozambique

Illovo career: I started out in February 2002 as a planning clerk and then held various positions including that of a laboratory analyst. In 2012, I was appointed as Maragra's Risk Manager and then moved to my current position.

Career highlights: Being selected as the NOSA Risk Manager of the year, for the Richards Bay region and then last year, being part of the team responsible for winning the Group Enterprise Risk Management Award.

What excites me about my work: I get a real kick out of working with people, influencing and encouraging them to become better and more efficient at what they do.

What about your home life: My family is very important to me; and so is soccer - particularly on a Sunday afternoon!

The directors of Illovo are responsible for overseeing the preparation and the integrity of the summary consolidated financial statements of the group and the objectivity of other information presented in this report.

In order to fulfil this responsibility, the group maintains internal accounting and administrative control systems designed to provide assurance that assets are safeguarded and that transactions are executed and recorded in accordance with the group's policies and procedures.

The summary consolidated financial statements, which have been prepared in terms of the measurement and recognition requirements of International Financial Reporting Standards, the information required by IAS 34 Interim Financial Reporting and the Companies Act, are an extract of the audited consolidated annual financial statements. These consolidated financial statements, which have been prepared under the supervision of Mr M H Abdool-Samad, CA(SA), are electronically available on the group's website at www.illovosugar.com.

The group's independent auditors, Deloitte & Touche, have confirmed that the summary consolidated financial statements are derived from the consolidated annual financial statements and their unmodified report appears on page 116.

The summary consolidated financial statements which were prepared on the going concern basis, including the Directors' Report and the Audit Committee Report, which appear on pages 110 to 127, were approved by the board on 23 May 2014 and are signed on its behalf by:

D G MacLeod
Chairman

G B Dalgleish
Managing Director

Lodgement of returns with the Companies and Intellectual Property Commission

I hereby certify that for the year ended 31 March 2014, the company has lodged with the Companies and Intellectual Property Commission all such returns as are required of a public company in terms of the Companies Act, and that all such returns are true, correct and up-to-date.

J A Kunst
Company Secretary

Mount Edgecombe
23 May 2014

The directors have pleasure in presenting their report which forms part of the summary consolidated financial statements of the group, for the year ended 31 March 2014.

Nature of business

The nature of the business of the company and its subsidiaries is fully described under the Business Overview section of this report.

Review of operations

Detailed commentary on the group's operations is provided under the Business Overview section of this report on page 3.

Share capital

As at 31 March 2014, the authorised share capital of the company was 900 000 000 ordinary shares of 4 cents each and the issued share capital was 460 622 957 ordinary shares of 4 cents each. Further details are set out in note 24 to the annual financial statements which may be accessed on the company's website at www.illovosugar.com.

During the year under review, the issued ordinary share capital of the company increased from 460 447 457 shares to 460 622 957 shares as a result of options being exercised in respect of 175 500 shares in terms of the Illovo Sugar 1992 Share Option Scheme.

Shareholders

An analysis of shareholders and their shareholdings appears on page 129 of this report.

Pursuant to the provisions of section 56(3) of the Companies Act, an analysis of the relevant disclosures by nominee shareholders as at 31 March 2014 revealed three beneficial shareholdings equal to or exceeding 5% of the issued ordinary share capital, details of which appear on page 129.

Illovo Sugar 1992 Share Option Scheme

During the financial year ended 31 March 2006, the Illovo Sugar Phantom Share Scheme (more fully described on page 111) replaced the further granting of share options in terms of the Illovo Sugar 1992 Share Option Scheme (the option scheme). Although closed, the option scheme continues to operate relative to the share options previously granted with the approval of the Remuneration/Nomination Committee. Vesting periods for the share options are one-third after three years, two-thirds after four years, and the full allocation after five years, with the maximum period for the exercising of options being ten years. In terms of the rules of the option scheme, all share options were granted at the closing market price of the shares on the JSE on the trading day immediately preceding the day on which the relevant options were granted.

As approved at the AGM of shareholders held on 17 July 2002, a total of 33 000 000 ordinary shares were reserved and placed under the control of the directors for the purpose of the option scheme. The tables below reflect the options granted to and exercised by the executive directors and senior managers as at 31 March 2014:

	Number of shares
Options granted as at 1 April 2013	**27 717 000**
Options expired during the year under review	**–**
Options granted as at 31 March 2014	**27 717 000**
Options exercised, allotted and issued as at 1 April 2013	27 430 300
Options exercised during the year under review	175 500
Options unexercised as at 31 March 2014	111 200
Options granted as at 31 March 2014	27 717 000

The options granted and unexercised as at 31 March 2014, are as follows:

Number of shares	Expiry date	Option price (cents)
111 200	**1 June 2014**	**770**

All these options have fully vested.

Illovo Sugar Phantom Share Scheme

The board approved the adoption of the Illovo Sugar Phantom Share Scheme (PSS) in 2005, and in 2007 introduced certain performance hurdles related to the future earnings of the company.

While the rules of the PSS are modelled on those of the option scheme, the important difference is that options under the PSS are "cash settled" rather than "equity settled". As a consequence, the PSS is not classified as a share incentive scheme in terms of the JSE Listings Requirements. The vesting periods are the same as those applicable to the option scheme; one-third becoming vested on each of the third, fourth and fifth anniversaries of the relevant grant date, with the maximum period for the exercising of options being ten years. The grant price of an option is determined as being equal to the average of the closing market prices of Illovo shares on the JSE for the 30 trading days immediately preceding the grant date of the relevant option. The cash settlement amount of an option is equal to the difference between the closing market price of Illovo shares on the trading day immediately preceding that on which an option is exercised and the grant price. The participants receive the equivalent net proceeds as under the option scheme, but without incurring broking fees.

The advantages of the PSS include: there being no necessity to issue new shares when options are exercised, ie no share dilution; ease of administration; and tax effectiveness of the expense in the hands of the company, expensing of conventional options not being tax deductible.

The Remuneration/Nomination Committee approves the granting of all share options in terms of the PSS. Phantom options granted to and exercised by executive directors and senior managers as at 31 March 2014 are as follows:

	Number of shares
Options granted as at 1 April 2013	**11 811 000**
New options granted during the year under review	**1 543 000**
Options forfeited during the year under review	**(1 360 375)**
Options granted as at 31 March 2014	**11 993 625**
Options exercised as at 1 April 2013	**2 473 450**
Options exercised during the year under review	**309 100**
Options unexercised as at 31 March 2014	**9 211 075**
Options granted as at 31 March 2014	**11 993 625**

The options granted and unexercised as at 31 March 2014 are as follows:

Number of shares	Expiry date	Option price (cents)
241 800	**12 July 2015**	**829**
250 600	**29 October 2016**	**1 634**
608 700	**23 July 2017**	**2 364**
1 128 375	**9 July 2018**	**2 867**
1 673 000	**13 July 2019**	**2 808**
1 183 000	**20 July 2020**	**2 856**
1 207 500	**26 May 2021**	**2 702**
1 554 100	**22 May 2022**	**2 573**
1 364 000	**21 May 2023**	**3 445**
9 211 075		

Details of options granted to executive directors, any options exercised during the year, and options unexpired and unexercised as at 31 March 2014, are provided in the Remuneration Report on page 103.

Forfeitable Share Plan

As indicated in the Remuneration Report, the company intends to implement a forfeitable share plan (FSP), as an additional long-term incentive plan for directors and selected key executive senior employees, to provide an adequate incentive mechanism to enable the company to attract and retain executives and other key management whose skills are necessary for the company to fulfil its long-term goals. Details of the FSP are set out in the Notice of Annual General Meeting and Appendix 1 thereto at pages 134 and 135 of this report.

The FSP is not a share option scheme contemplated in Schedule 14 of the JSE Listings Requirements and shareholder approval thereof is accordingly not required. Shares allocated under the FSP are to be purchased on the market and paid for by the company. As the FSP does not involve the issue of new shares, it does not have the dilutionary effect of conventional share option schemes.

The FSP provides for the award of shares to executive directors and a limited number of senior key employees. These shares participate in dividends and shareholder rights from grant date, but in order to achieve an alignment of the interests of management and shareholders, performance conditions in the form of continuing employment and financial hurdle achievements must be met, failing which the allocated shares are forfeited.

The total number of shares which may be allocated under the plan will not exceed 1% (one percent) of the issued ordinary shares, which currently equates to 4 600 000 shares. The maximum number of shares that may be issued to any one person in terms of the FSP is 0.1% of the issued ordinary shares, which equates to 460 000 shares.

The conditions of the FSP will continue to be reviewed in line with best practice.

Illovo Sugar Employees' Share Purchase Scheme

The Illovo Sugar Employees' Share Purchase Scheme (ESPS) was established in 1996 to enable employees to share directly in the profitability and growth of the company, by assisting them to acquire shares in the company. Any contribution made by an employee for the purchase of shares is enhanced by a 10% company contribution, and the company pays for any trading costs. Employees may acquire up to 5 000 shares in aggregate and 1 000 shares in a continuous 12-month period, by means of regular monthly contributions (deducted from their salaries) or a lump-sum payment. The ESPS is administered by a trust, the trustees of which are appointed by the board. A similar purchase scheme is operated in Malawi in respect of shares in Illovo Sugar (Malawi) Limited.

During the year under review, the trustees of the ESPS undertook net purchases of 39 684 shares in the company, thereby increasing the total number of shares held to 236 209. Of these shares, which are all registered in the name of the trust, 236 208 are held on behalf of 590 participants. All such shares have been fully paid for by the participants.

Capital distributions

An interim capital distribution (number 44) of 37.0 cents per share was declared on 13 November 2013 and a final capital distribution (number 45) of 60.0 cents per share was declared on 26 May 2014 (both by way of a reduction of contributed tax capital), making the total distribution for the year, 97.0 cents per share.

In respect of the final capital distribution, pursuant to the requirements of section 46 of the Companies Act, after due consideration the board concluded that the company would satisfy the relevant solvency and liquidity test immediately after completing the proposed distribution.

The interim capital distribution was paid on 13 January 2014 and the final capital distribution will be paid on 7 July 2014.

Subsidiary companies

The names and financial information concerning the subsidiaries of the company are set out in the notes to the financial statements which may be accessed on our website at www.illovosugar.com.

Directorate and Company Secretary

The names of the directors and the Company Secretary in office at the date of this report are reflected on pages 31 to 33 of this report. The details of the company's business and postal addresses are set out on the inside of the back cover.

During the year under review, Mr G J Clark resigned as Managing Director and Mr G B Dalgleish (formerly Operations Director) was appointed Managing Director in his stead with effect from 1 September 2013. With effect from the same date, Mr J P Hulley was appointed as Operations Director in place of Mr Dalgleish. Mr R N Pike resigned with effect from 31 August 2013 and was replaced by Mr G M Rhodes with effect from 1 September 2013.

As indicated in the Corporate Governance Report, evaluations were carried out in respect of those independent non-executive directors who had served as such for more than nine years (ie, Dr D Konar and Prof P M Madi), and both were found to be independent, taking into account all relevant factors, including that there were no relationships or circumstances likely to affect, or appearing to affect, the relevant director's judgement. In addition, written confirmation was obtained from each of the independent non-executive directors that he/she continues to meet the requirements for independence contemplated in paragraph 67 of Chapter 2 of King III.

In terms of the company's Memorandum of Incorporation, Dr M I Carr and Messrs A R Mpungwe and T S Munday retire by rotation at the forthcoming annual general meeting. All these directors are eligible and offer themselves for re-election. The Remuneration/Nomination Committee, having conducted an assessment of and being satisfied with the performance of each of the retiring directors, and the board having accepted the recommendation of this committee, recommends the re-election of these directors to shareholders.

The beneficial interests of the directors holding office at the end of the year under review in the issued ordinary share capital of the company as at 31 March 2014 were as follows:

	2014		2013	
	Direct	Indirect	Direct	Indirect
Hankinson M J	**3 925**	**3 925**	3 925	3 925
MacLeod D G	**450 000**		450 000	
Total	**453 925**	**3 925**	453 925	3 925
Total	**457 850**		457 850	

No non-beneficial interests were held by any of the directors.

There have been no changes in the above interests since the end of the year under review.

The register of interests of directors in the shares of the company is available for inspection at the registered office.

Directors' remuneration

At the forthcoming annual general meeting:

- as contemplated by King III, shareholders will be requested to pass a non-binding advisory vote, approving the company's remuneration policy; and
- pursuant to the requirements of section 66(9) of the Companies Act, shareholders will be requested to pass a special resolution to approve the following annual fees payable to the non-executive directors with effect from 1 April 2014, plus an additional fee of R28 000 per day for any additional services undertaken at the request of the company (eg a site visit or a non-routine meeting):

	Rand per annum	
	Current	Proposed
Board		
Chairman*	2 200 000	2 200 000
Other members	236 500	270 000
Audit Committee		
Chairman	236 500	255 000
Other members	118 500	127 500
Remuneration/Nomination Committee		
Chairman‡	161 500	180 000
Other members	91 500	120 000
Risk Management Committee		
Chairman	118 500	129 750
Other members	80 500	86 500
Social and Ethics Committee		
Chairman	118 500	129 750
Other members	80 500	86 500

* *The fee paid to Mr D G MacLeod as Chairman of the board is inclusive of all other committee membership fees and is payable monthly in arrears. All other fees are paid quarterly in arrears.*

‡ *This fee is not paid to Mr D G MacLeod as Chairman of the Nomination Committee, due to the inclusive nature of his fee as Chairman of the board.*

Given the generally high level of attendance at meetings, the board does not consider it appropriate for non-executive directors' fees to comprise a meeting attendance fee as well as a base fee.

Having taken appropriate advice, the directors are of the view that section 66(9) of the Companies Act does not apply to the remuneration paid to the executive directors as employees of the company.

This report incorporates the requirements of the statutory responsibilities of audit committees, as contemplated in section 94 of the Companies Act.

Composition of the committee

In accordance with its Terms of Reference, the company's Audit Committee comprises at least three non-executive, independent directors with the financial expertise required to properly advise the committee in the execution of its duties.

The members of the committee for the year ended 31 March 2014 were Dr D Konar, Messrs M J Hankinson and T S Munday, and Mrs C W N Molope. The committee Chairman is Dr D Konar who attends the annual general meeting in his capacity as such.

Although they are not members of the committee, the Chairman of the board, Mr D G MacLeod, and a non-executive director nominated by Illovo's holding company (Mr R N Pike until 31 August 2013 when he resigned and thereafter Mr G M Rhodes), as well as appropriate members of Executive Committee, senior management and the independent external and internal auditors attend the meetings of the committee.

The independent and internal auditors have unrestricted access to the committee and its Chairman.

Annual evaluation

In accordance with the provisions of King III, a detailed annual evaluation of the Audit Committee was carried out in March 2014 which concluded that the committee is carrying out its duties and responsibilities in the most effective and professional manner, and that the Chairman of the committee brings sound knowledge and experience to the committee, which is invaluable to management.

Election of committee members at AGM

Pursuant to the provisions of section 94(2) of the Companies Act, which requires that a public company must elect an audit committee at each annual general meeting, it is proposed in the notice of annual general meeting to be held on 16 July 2014 that Dr D Konar, Mrs C W N Molope and Messrs M J Hankinson and T S Munday be re-appointed as members of the Audit Committee until the next annual general meeting in 2015.

Meetings

In the past year, three meetings of the committee were held, attendance at which is reflected in a table on page 90 of this report.

Terms of Reference and functions

The committee operates in terms of formal Terms of Reference approved by the board, which were reviewed and amended during the year.

The main objectives of the committee, as incorporated in its Terms of Reference, include:

- promoting the overall effectiveness of corporate governance within the Illovo group;
- acting as an effective means of communication between the board, and the independent external auditors and the internal auditors;
- satisfying the board that adequate internal financial controls are in place, and that material financial risks have been identified and are being effectively managed and monitored; and
- assessing the impact of the general control environment on the statutory audit, and reporting to management any areas of perceived control weaknesses.

During the year under review, the committee satisfied its responsibilities in compliance with its Terms of Reference, including the following:

- reviewing and approving of the scope of the independent external and internal audits;
- reviewing the level of effectiveness of both the independent external and internal auditors;
- reviewing the internal audit charter, and in conjunction with executive management, assessing the competence of the group internal audit manager, and approval of the performance of the internal audit function;
- recommending the appointment of the independent external auditors to the board for approval by the shareholders, and approving their remuneration;
- establishing a policy in respect of and approving the extent of non-audit services undertaken by the independent external auditors;
- reviewing reports from both the independent external and internal auditors, including management's responses thereto;
- assessing the effectiveness of internal policies and procedures;
- ensuring that all material financial risks are identified, assessed, monitored and managed;
- monitoring that there are no material breakdowns in internal controls;
- considering the company's accounting policies and reviewing their compliance with International Financial Reporting Standards and other relevant regulatory requirements;
- reviewing and recording going concern assumptions;
- reviewing the company's interim reports, results announcements, and annual reports;
- monitoring that management suitably addresses information technology risks and information security;
- monitoring compliance with the JSE's Listings Requirements; and
- receiving and dealing with any complaints relating to accounting practices, independent external and internal audits, and the content or auditing of financial statements or any related matter.

Statutory duties

In the execution of its statutory duties during the past financial year, the Audit Committee:

- confirmed the appointment of both Deloitte & Touche as the independent external auditors and Mr G Tweedy as the registered auditor responsible for the audit;
- satisfied itself that the independent external auditors were independent of the company;
- agreed the terms of engagement of and determined the fees payable to the independent external auditors;
- ensured that the appointment of the independent external auditors and the registered auditor complied with the provisions of the Companies Act;

- pre-approved the non-audit services provided by the independent external auditors, in terms of a policy in this regard previously adopted by the committee;
- noted that it had not received any complaints, either from within or outside the company, relating either to the accounting practices, the independent external and internal audits of the company, or to the content or auditing of its financial statements or any related matter; and
- performed its other functions as determined by the board in terms of its Terms of Reference.

Regulatory requirements

Pursuant to the provisions of the JSE's Listings Requirements, the Audit Committee:

- confirmed the adoption of a policy with regard to non-audit services provided by the independent external auditors;
- satisfied itself of the appropriateness of the expertise and experience of the financial director, Mr M H Abdool-Samad; and
- satisfied itself that the appointed independent external auditors and registered auditor were duly accredited as such on the JSE's list of auditors.

Legal, regulatory and corporate governance requirements

Pursuant to King III, and based on specific procedures performed by the independent external auditors, the committee satisfied itself with the expertise, resources and experience of the company's finance function. The Audit Committee also satisfied itself with the effectiveness of the group's internal control function.

The committee reviewed legal matters that could have a material impact on the group and considered reports provided by management, legal advisors, internal audit and the independent external auditors regarding compliance with legal and regulatory requirements.

Appointment of independent external auditors

In accordance with section 90(1) read with section 61(8) of the Companies Act, which requires that shareholders approve the appointment of the independent external auditors on an annual basis, the committee has recommended to the board, which in turn has recommended to the shareholders that Deloitte & Touche be appointed as the company's independent registered external auditors for the year ending 31 March 2015 at the forthcoming annual general meeting.

Annual financial statements

Having reviewed the audited annual financial statements of the group, which are electronically available on the group's website at www.illovosugar.com, particularly to ensure that disclosure was adequate and that fair presentation had been achieved, the committee has recommended the approval of the annual financial statements to the board.

Financial assistance to related or inter-related companies or other legal entities

At the forthcoming annual general meeting, shareholders will be requested to pass a special resolution pursuant to section 44 of the Companies Act, authorising the directors of the company, as a general approval, to cause the company to provide "financial assistance" to fund the purchase of the company's shares, for and on behalf of any person approved by the board to receive shares in terms of the company's Forfeitable Share Plan (salient details of which are set out in Appendix 1 to the notice of AGM contained in this report), subject always to compliance with the requirements of the Companies Act, the JSE Listings Requirements and any other applicable laws from time to time.

In addition, shareholders will be requested to pass a special resolution in terms of section 45 of the Companies Act, authorising the directors, by way of a general authority, to allow the company to provide direct or indirect financial assistance to any company or other legal entity which is related or inter-related to the company, subject to the relevant provisions of section 45.

Holding company

ABF Overseas Limited is the holding company of Illovo Sugar Limited with a 51.4% interest in its issued share capital. ABF Overseas Limited is a wholly-owned subsidiary of Associated British Foods plc which is therefore the ultimate holding company of Illovo Sugar Limited. Associated British Foods plc is listed on the London Stock Exchange.

Special resolutions passed by subsidiary companies

During the year under review, Zambia Sugar Plc passed special resolutions in terms of which its authorised share capital, comprising 7 000 000 000 ordinary shares of ZMW0.0005 par value each, were consolidated and subdivided on a 20-for-1 basis into 350 000 000 authorised ordinary shares of ZMW0.01 par value; and its issued and fully paid up ordinary shares of ZMW0.0005 par value each (as at the consolidation date) were consolidated and subdivided on a 20-for-1 basis into issued and fully paid up ordinary shares of ZMW0.01 par value each.

No other material or special resolutions contemplated by paragraph 8.63(i) of the JSE Listings Requirements were passed by any of the company's subsidiaries during the year.

Subsequent events

There have been no material changes in the affairs or financial position of the company and its subsidiaries since the end of the period under review.

On behalf of the Audit Committee

Dr D Konar
Audit Committee Chairman

May 2014

Independent auditor's report on summary consolidated financial statements to the shareholders of Illovo Sugar Limited

The accompanying summary consolidated financial statements of Illovo Sugar Limited, which comprise the summary consolidated statement of financial position as at 31 March 2014, the summary consolidated statements of comprehensive income, summary consolidated changes in equity and summary consolidated cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Illovo Sugar Limited for the year ended 31 March 2014. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated 23 May 2014. Our auditor's report on the audited consolidated financial statements contained an Other Matter paragraph "Other reports required by the Companies Act" (included below).

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of Illovo Sugar Limited.

Director's responsibility for the summary consolidated financial statements

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the framework concepts, and the measurement and recognition requirements of International Financial Reporting Standards, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council, the information as required by IAS 34 Interim Financial Reporting, and the requirements of the Companies Act of South Africa, set out in note 1 to the summary consolidated financial statements, and for such internal control as the directors determine is necessary to enable the preparation of the summary consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, Engagements to Report on Summary Financial Statements.

Opinion

In our opinion, the summary financial statements derived from the audited consolidated financial statements of Illovo Sugar Limited for the year ended 31 March 2014 are consistent, in all material respects, with those consolidated financial statements, in accordance with the conceptual framework and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council, the information required by IAS 34 Interim Financial Reporting, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Other reports required by the Companies Act

The "Other reports required by the Companies Act" paragraph in our audit report dated 23 May 2014 states that as part of our audit of the consolidated financial statements for the year ended 31 March 2014, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated financial statements. These reports are the responsibility of the respective preparers. The paragraph states that, based on reading these reports, we have not identified material inconsistencies between these reports and the audited consolidated financial statements. The paragraph furthermore states that we have not audited these reports and accordingly do not express an opinion on these reports. The paragraph does not have an effect on the summary consolidated financial statements or our opinion thereon.

Deloitte & Touche
Registered Auditors
Per GC Tweedy
Partner

23 May 2014
Durban

National executive: LL Bam *(Chief executive)*, AE Swiegers *(Chief operating officer)*, GM Pinnock *(Audit)*, DL Kennedy *(Risk advisory and legal services)*, NB Kader *(Tax)*, TP Pillay *(Consulting)*, K Black *(Client and industries)*, JK Mazzacco *(Talent and transformation)*, CR Beukman *(Finance)*, M Jordan *(Strategy)*, S Gwala *(Special projects)*, TJ Brown *(Chairman of the board)*, MJ Comber *(Deputy chairman of the board)*.

Regional leader: GC Brazier

A full list of partners and directors is available on request.

B-BBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code

Member of Deloitte Touche Tohmatsu Limited

	Notes	**Audited March 2014 Rm**	Restated Audited March 2013 Rm
Revenue		**13 190.1**	10 980.7
Cost of sales		**8 108.7**	6 464.4
Gross profit		**5 081.4**	4 516.3
Distribution expenses		**1 141.1**	843.6
Administrative expenses		**1 277.1**	1 257.7
Other operating expenses		**776.3**	528.0
Operating profit		**1 886.9**	1 887.0
Dividend income		**5.1**	2.3
Net financing costs	2	**336.4**	295.4
Interest paid		**332.7**	300.3
Interest received		**(8.3)**	(17.6)
Foreign exchange losses		**12.0**	12.7
Profit before taxation and non-trading items		**1 555.6**	1 593.9
Share of profit from joint ventures		**12.9**	5.0
Share of profit from associates		**12.3**	0.7
Material items	3	**24.5**	4.6
Profit before taxation		**1 605.3**	1 604.2
Taxation		**486.8**	505.7
Profit for the year		**1 118.5**	1 098.5
Attributable to:			
Shareholders of Illovo Sugar Limited		**916.3**	859.9
Non-controlling interest		**202.2**	238.6
		1 118.5	1 098.5
STATEMENT OF OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss			
Movement in defined benefit pension plans		**(11.1)**	0.6
Tax effect of movement in defined benefit pension plans		**0.8**	(3.1)
Actuarial gains/(losses) on post-retirement obligations		**13.7**	(17.9)
Tax effect of actuarial (gains)/losses on post-retirement obligations		**(3.8)**	5.0
Items that may be reclassified subsequently to profit or loss			
Adjustments in respect of cash flow hedges		**(51.4)**	0.8
Tax effect of cash flow hedges		**3.2**	1.3
Hedge of net investment in foreign subsidiaries		**(231.3)**	(64.8)
Tax effect of hedge of net investment in foreign subsidiaries		**1.2**	14.5
Foreign currency translation differences		**209.7**	(231.2)
Total comprehensive income for the year		**1 049.5**	803.7
Attributable to:			
Shareholders of Illovo Sugar Limited		**821.8**	638.3
Non-controlling interest		**227.7**	165.4
		1 049.5	803.7
Earnings per share (cents)*			
Basic		**199.0**	186.9
Diluted		**198.9**	186.8

* *See note 4 for headline earnings per share.*

Statement of financial position as at 31 March 2014

	Audited March 2014 Rm	Restated Audited March 2013 Rm	Restated Audited March 2012 Rm
Non-current assets	**8 895.0**	7 995.1	6 952.9
Property, plant and equipment	**6 783.3**	6 209.5	5 312.5
Cane roots	**1 531.0**	1 260.0	1 216.3
Intangible assets	**288.0**	266.1	218.1
Investment in joint ventures	**0.7**	30.6	27.9
Investment in associates	**67.6**	43.1	41.9
Investments	**22.5**	17.3	11.8
Loans	**157.8**	111.1	92.7
Deferred taxation asset	**44.1**	57.4	31.7
Current assets	**4 924.8**	4 546.6	4 449.2
Inventories	**998.9**	909.0	585.5
Growing cane	**1 662.5**	1 520.4	1 346.7
Trade and other receivables	**1 309.2**	1 337.5	858.0
Factory overhaul costs	**338.6**	309.3	263.3
Derivative financial instruments	**18.5**	16.9	14.0
Cash and cash equivalents	**597.1**	453.5	1 381.7
Total assets	**13 819.8**	12 541.7	11 402.1
EQUITY AND LIABILITIES			
Equity attributable to shareholders of Illovo Sugar Limited	**6 340.3**	5 968.5	5 562.6
Share capital and premium	**1 609.9**	2 055.4	2 489.8
Share-based payment reserve	**13.1**	13.1	13.1
Non-distributable reserves	**5.8**	42.3	155.8
Distribution reserve	**276.4**	280.9	197.8
Retained earnings	**4 435.1**	3 576.8	2 706.1
Non-controlling interest	**1 128.3**	1 006.2	902.7
Total equity	**7 468.6**	6 974.7	6 465.3
Non-current liabilities	**3 320.8**	2 410.6	2 741.2
Long-term borrowings	**1 824.8**	1 164.0	1 545.4
Deferred taxation liability	**1 189.9**	930.1	853.5
Deferred income	**111.7**	121.7	130.7
Provisions	**194.4**	194.8	211.6
Current liabilities	**3 030.4**	3 156.4	2 195.6
Short-term borrowings	**447.9**	967.3	383.5
Trade and other payables	**1 933.5**	1 807.3	1 448.4
Bank overdraft	**410.3**	195.1	184.9
Taxation	**126.8**	129.1	138.4
Provisions	**50.4**	47.3	34.0
Derivative financial instruments	**61.5**	10.3	6.4
Total liabilities	**6 351.2**	5 567.0	4 936.8
Total equity and liabilities	**13 819.8**	12 541.7	11 402.1

Statement of cash flows for the year ended 31 March 2014

	Audited March 2014 Rm	Restated Audited March 2013 Rm
Cash flows from operating activities		
Operating profit before working capital movements	**1 922.4**	1 551.9
Working capital movements	**105.2**	(516.5)
Cash generated from operations	**2 027.6**	1 035.4
Net financing costs	**(336.4)**	(295.4)
Taxation paid	**(298.6)**	(193.5)
Dividend income	**5.1**	2.3
Distributions/dividends paid	**(556.9)**	(458.0)
Net cash inflows from operating activities	**840.8**	90.8
Cash flows from investing activities		
Replacement of property, plant and equipment	**(342.6)**	(291.0)
Expansion capital expenditure	**(366.2)**	(640.8)
Net expansion of area under cane	**(7.9)**	(28.4)
Capitalisation of product registrations	**(5.3)**	(10.5)
Proceeds on disposal of plant and equipment	**6.9**	5.1
Proceeds on disposal of property	**1.8**	1.7
Funding from non-controlling interest	**–**	41.7
Acquisition of business	**15.6**	–
Proceeds on disposal of shareholding in joint ventures	**9.5**	–
Net movement on investments and loans	**(17.1)**	2.5
Net cash outflows from investing activities	**(705.3)**	(919.7)
Net cash inflows/(outflows) before financing activities	**135.5**	(828.9)
Cash flows from financing activities		
Long-term borrowings repaid	**(175.3)**	(245.7)
Short-term borrowings raised	**226.9**	215.6
Issue of share capital net of associated costs	**1.3**	3.1
Net cash inflows/(outflows) from financing activities	**52.9**	(27.0)
Net increase/(decrease) in cash and cash equivalents	**188.4**	(855.9)
Cash and cash equivalents at beginning of year	**453.5**	1 381.6
Exchange rate translation	**(44.8)**	(72.2)
Cash and cash equivalents at end of year	**597.1**	453.5

Statement of changes in equity at 31 March 2014

	Share capital and premium Rm	Share-based payments reserve Rm	Translation reserve Rm	Other non-distributable reserves Rm	Distribution reserve Rm	Retained earnings Rm	Attributable to the shareholders of Illovo Sugar Limited Rm	Non-controlling interest Rm	Total Rm
Balance at 31 March 2012	2 489.8	13.1	–	155.8	197.8	2 706.1	5 562.6	902.7	6 465.3
Total comprehensive income for the year	–	–	(211.7)	(0.3)	–	850.3	638.3	165.4	803.7
Profit for the year						859.9	859.9	238.6	1 098.5
Actuarial losses on post-retirement obligations						(12.9)	(12.9)		(12.9)
Movements in defined benefit pension plans						3.3	3.3	(5.8)	(2.5)
Cash flow hedges				(0.3)			(0.3)	2.4	2.1
Hedge of net investment in foreign subsidiaries			(44.3)				(44.3)	(6.0)	(50.3)
Foreign currency translation			(167.4)				(167.4)	(63.8)	(231.2)
Issue of share capital	3.1						3.1		3.1
Change in non-controlling shareholding							–	41.7	41.7
Realised profit on disposal of property transferred to retained earnings				(82.0)		82.0	–		–
Distributions/dividends paid					(354.4)		(354.4)	(103.6)	(458.0)
Transfer to distribution reserve	(437.5)				437.5		–		–
Transfer of debit foreign currency translation reserve to retained earnings			211.7			(211.7)	–		–
Release of non-controlling shareholders' transactions to retained earnings				(31.2)		31.2	–		–
Gain on redemption of preference shares						118.9	118.9		118.9
Balance at 31 March 2013	2 055.4	13.1	–	42.3	280.9	3 576.8	5 968.5	1 006.2	6 974.7
Total comprehensive income for the year	–	–	(64.9)	(36.5)	–	923.2	821.8	227.7	1 049.5
Profit for the year						916.3	916.3	202.2	1 118.5
Actuarial losses on post-retirement obligations						9.9	9.9	–	9.9
Movements in defined benefit pension plans						(3.0)	(3.0)	(7.3)	(10.3)
Cash flow hedges				(36.5)			(36.5)	(11.7)	(48.2)
Hedge of net investment in foreign subsidiaries			(229.9)				(229.9)	(0.2)	(230.1)
Foreign currency translation			165.0				165.0	44.7	209.7
Issue of share capital	1.3						1.3		1.3
Distributions/dividends paid					(451.3)		(451.3)	(105.6)	(556.9)
Transfer to distribution reserve	(446.8)				446.8		–		–
Transfer of debit foreign currency translation reserve to retained earnings			64.9			(64.9)	–		–
Balance at 31 March 2014	**1 609.9**	**13.1**	**–**	**5.8**	**276.4**	**4 435.1**	**6 340.3**	**1 128.3**	**7 468.6**

1. BASIS OF PREPARATION

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for summary reports and the requirements of the Companies Act applicable to summary financial statements. The Listings Requirements are for the summary consolidated financial statements to be prepared in accordance with the conceptual framework and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and also, as a minimum, to contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the consolidated financial statements from which the summary financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements, with the exception of the adoption of IFRS 11 Joint Arrangements, IFRS 13 Fair Value Measurement, the amendments relating to IAS 19 (revised) Employee Benefits and IAS 1 Presentation of Financial Statements. The adoption of the revised IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interest in Other Entities has had no impact on the consolidated financial statements.

	Audited 2014 Rm	Restated Audited 2013 Rm
2. NET FINANCING COSTS		
Interest paid	**353.5**	322.0
Less: capitalised to property, plant and equipment	**(20.8)**	(21.7)
	332.7	300.3
Interest received	**(8.3)**	(17.6)
Foreign exchange losses	**12.0**	12.7
	336.4	295.4
3. MATERIAL ITEMS		
Profit on disposal of property	**1.3**	1.5
Profit on disposal of previously impaired assets	**0.1**	3.1
Disposal and deregistration of businesses	**1.8**	–
Gain on bargain purchase	**2.2**	–
Proceeds received from insurance claim	**19.1**	–
Material profit before taxation	**24.5**	4.6
Taxation	**(1.4)**	–
Non-controlling interest	**(0.4)**	–
Material profit attributable to shareholders of Illovo Sugar Limited	**22.7**	4.6

	Gross Rm	Net Rm
4. DETERMINATION OF HEADLINE EARNINGS		
2014		
Profit attributable to shareholders of Illovo Sugar Limited		**916.3**
Adjusted for:		
Profit on disposal of property	**(1.3)**	**(0.8)**
Profit on disposal of previously impaired assets	**(0.1)**	**(0.1)**
Disposal and deregistration of businesses	**(1.8)**	**(1.3)**
Gain on bargain purchase	**(2.2)**	**(2.2)**
Proceeds received from insurance claim	**(19.1)**	**(18.3)**
Headline earnings		**893.6**
2013 (Restated)		
Profit attributable to shareholders of Illovo Sugar Limited		859.9
Adjusted for:		
Profit on disposal of property	(1.5)	(0.9)
Profit on disposal of previously impaired assets	(3.1)	(3.1)
Headline earnings		855.9

		2014	Restated 2013
Number of shares in issue	(millions)	**460.6**	460.4
Weighted average number of shares on which headline earnings per share are based	(millions)	**460.5**	460.2
Headline earnings per share	(cents)	**194.0**	186.0

		Audited 2014 Rm	Restated Audited 2013 Rm
5. DISTRIBUTIONS PAID			
Distribution number 41 of 43.0 cents per share (final 2012)	– paid 9 July 2012		197.9
Distribution number 42 of 34.0 cents per share (interim 2013)	– paid 7 January 2013		156.5
Distribution number 43 of 61.0 cents per share (final 2013)	– paid 8 July 2013	**280.9**	
Distribution number 44 of 37.0 cents per share (interim 2014)	– paid 13 January 2014	**170.4**	
		451.3	354.4

In respect of the year under review, the directors declared a final capital distribution of 60.0 cents per share which will be paid to shareholders on 7 July 2014. The distribution will be regarded as a return of capital and shareholders will be liable for any potential capital gains tax consequences. No liability has been raised for this distribution in these financial statements.

	Audited 2014 Rm	Restated Audited 2013 Rm
6. OTHER SALIENT FEATURES		
Capital commitments	**1 042.2**	1 013.6
– Contracted	**255.1**	152.7
– Approved but not contracted	**787.1**	860.9
Contingent liabilities	**116.5**	119.9

7. SEGMENTAL ANALYSIS

The following is an analysis of the group's revenue and results by reportable segment.

Business segments	Revenue Rm	Operating profit Rm	Capital expenditure Rm
Year to 31 March 2014			
Sugar production	**9 355.7**	**1 320.3**	**480.8**
Cane growing	**2 856.2**	**388.8**	**161.8**
Downstream and co-generation	**978.2**	**177.8**	**79.4**
	13 190.1	**1 886.9**	**722.0**
Year to 31 March 2013 (Restated)			
Sugar production	7 610.8	1 035.0	496.6
Cane growing	2 565.5	760.5	289.3
Downstream and co-generation	804.4	91.5	184.8
	10 980.7	1 887.0	970.7

Geographical segments	Revenue Rm	Operating profit Rm	Total assets Rm	Capital expenditure Rm
Year to 31 March 2014				
Malawi	**2 341.5**	**762.0**	**2 052.8**	**190.9**
Zambia	**3 265.9**	**558.1**	**3 793.4**	**101.1**
South Africa	**4 504.1**	**265.8**	**2 658.7**	**217.3**
Swaziland	**1 601.1**	**257.5**	**2 046.0**	**36.0**
Mozambique	**552.8**	**32.5**	**918.9**	**31.4**
Tanzania	**924.7**	**11.0**	**1 690.3**	**145.3**
	13 190.1	**1 886.9**	**13 160.1**	**722.0**
Year to 31 March 2013 (Restated)				
Malawi	1 829.8	899.3	1 560.1	172.4
Zambia	2 519.8	478.8	3 777.5	153.8
South Africa	4 081.3	150.3	2 422.7	227.9
Swaziland	1 314.9	155.8	2 068.5	84.6
Mozambique	536.4	109.1	809.1	47.1
Tanzania	698.5	93.7	1 376.0	284.9
	10 980.7	1 887.0	12 013.9	970.7

Note: *Total assets exclude cash and cash equivalents, deferred tax and derivative financial instruments.*

8. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The group has restated certain transactions and balances presented in the financial statements to reflect the effect of new and revised International Financial Reporting Standards.

IFRS 11 Joint Arrangements

As a result of the adoption of IFRS 11, the group has changed its accounting policy with respect to its interest in joint arrangements. IFRS 11 requires equity accounting for joint ventures and eliminates the proportionate consolidation method of accounting. Previously the group proportionately consolidated all joint ventures by including its share of the assets, liabilities, income and expenses of jointly controlled entities on a line-by-line basis.

Under the equity method, the investments in joint ventures are initially recognised at cost and the carrying amounts are increased or decreased to recognise the group's share of profit or loss and movements in other comprehensive income of joint ventures after the date of acquisition. The group's share of the profit or loss of joint ventures is recognised as a single line item in profit or loss under the equity method.

The change from proportionate consolidation to equity accounting resulted in a change in individual asset, liability, income, expense and cash flow items with no material impact on equity or profit attributable to equity holders.

IAS 19 (Revised) Employee Benefits

IAS 19 (Revised) impacted the measurement of the various components representing movements in the defined benefit pension obligation and associated disclosures. As the group has always recognised actuarial gains and losses immediately outside profit and loss, the group's total obligation was unchanged.

The impact of the application of the above revised standards on the group's financial results and financial position is disclosed below.

		For the year ended 31 March 2013			
SUMMARY CONSOLIDATED INCOME STATEMENT	Notes	Previously reported Rm	Restatement effect of IFRS 11 Rm	Restatement effect of IAS 19 Rm	**Restated Rm**
Revenue		11 128.9	(148.2)	–	**10 980.7**
Cost of sales		6 603.5	(139.1)	–	**6 464.4**
Gross profit		4 525.4	(9.1)	–	**4 516.3**
Distribution expenses		844.6	(1.0)	–	**843.6**
Administrative expenses		1 268.4	(10.7)	–	**1 257.7**
Other operating expenses		511.4	10.0	6.6	**528.0**
Operating profit		1 901.0	(7.4)	(6.6)	**1 887.0**
Dividend income		2.3	–	–	**2.3**
Net financing costs/(income)	2	279.6	(0.7)	16.5	**295.4**
Interest paid		303.1	–	(2.8)	**300.3**
Interest received		(36.2)	(0.7)	19.3	**(17.6)**
Foreign exchange losses		12.7	–	–	**12.7**
Profit before taxation and non-trading items		1 623.7	(6.7)	(23.1)	**1 593.9**
Share of profit from joint ventures		–	5.0	–	**5.0**
Share of profit from associates		0.7	–	–	**0.7**
Material items	3	4.6	–	–	**4.6**
Profit before taxation		1 629.0	(1.7)	(23.1)	**1 604.2**
Taxation		513.9	(1.7)	(6.5)	**505.7**
Profit for the year		1 115.1	–	(16.6)	**1 098.5**
Attributable to:					
Shareholders of Illovo Sugar Limited		876.5	–	(16.6)	**859.9**
Non-controlling interest		238.6	–	–	**238.6**
		1 115.1	–	(16.6)	**1 098.5**

8. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES continued

STATEMENT OF OTHER COMPREHENSIVE INCOME	For the year ended 31 March 2013			
	Previously reported Rm	Restatement effect of IFRS 11 Rm	Restatement effect of IAS 19 Rm	**Restated Rm**
Items that will not be reclassified subsequently to profit or loss				
Movement in defined benefit pension plans	(22.5)	–	23.1	**0.6**
Tax effect of movement in defined benefit pension plans	3.4	–	(6.5)	**(3.1)**
Actuarial losses on post-retirement obligations	(17.9)	–	–	**(17.9)**
Tax effect of actuarial losses on post-retirement obligations	5.0	–	–	**5.0**
Items that may be reclassified subsequently to profit or loss				
Adjustments in respect of cash flow hedges	0.8	–	–	**0.8**
Tax effect of cash flow hedges	1.3	–	–	**1.3**
Hedge of net investment in foreign subsidiaries	(64.8)	–	–	**(64.8)**
Tax effect of hedge of net investment in foreign subsidiaries	14.5	–	–	**14.5**
Foreign currency translation differences	(231.2)	–	–	**(231.2)**
Total comprehensive income for the year	803.7	–	–	**803.7**
Attributable to:				
Shareholders of Illovo Sugar Limited	638.3	–	–	**638.3**
Non-controlling interest	165.4	–	–	**165.4**
	803.7	–	–	**803.7**

8. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES continued

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION	As at 31 March 2013 Previously reported Rm	Re-statement effect of IFRS 11 Rm	**Restated Rm**	As at 31 March 2012 Previously reported Rm	Re-statement effect of IFRS 11 Rm	**Restated Rm**
ASSETS						
Non-current assets	7 938.5	56.6	**7 995.1**	6 900.4	52.5	**6 952.9**
Property, plant and equipment	6 223.4	(13.9)	**6 209.5**	5 328.0	(15.5)	**5 312.5**
Cane roots	1 260.0	–	**1 260.0**	1 216.3	–	**1 216.3**
Intangible assets	266.1	–	**266.1**	218.1	–	**218.1**
Investment in joint ventures	–	30.6	**30.6**	–	27.9	**27.9**
Investment in associates	43.1	–	**43.1**	41.9	–	**41.9**
Investments	17.3	–	**17.3**	11.8	–	**11.8**
Loans	71.2	39.9	**111.1**	52.6	40.1	**92.7**
Deferred taxation asset	57.4	–	**57.4**	31.7	–	**31.7**
Current assets	4 635.3	(88.7)	**4 546.6**	4 510.5	(61.3)	**4 449.2**
Inventories	944.4	(35.4)	**909.0**	618.6	(33.1)	**585.5**
Growing cane	1 520.4	–	**1 520.4**	1 346.7	–	**1 346.7**
Trade and other receivables	1 370.1	(32.6)	**1 337.5**	877.8	(19.8)	**858.0**
Factory overhaul costs	309.3	–	**309.3**	263.3	–	**263.3**
Derivative financial instruments	16.9	–	**16.9**	14.0	–	**14.0**
Cash and cash equivalents	474.2	(20.7)	**453.5**	1 390.1	(8.4)	**1 381.7**
Total assets	12 573.8	(32.1)	**12 541.7**	11 410.9	(8.8)	**11 402.1**
EQUITY AND LIABILITIES						
Equity attributable to shareholders of Illovo Sugar Limited	5 968.5	–	**5 968.5**	5 562.6	–	**5 562.6**
Share capital and premium	2 055.4	–	**2 055.4**	2 489.8	–	**2 489.8**
Share-based payment reserve	13.1	–	**13.1**	13.1	–	**13.1**
Non-distributable reserves	42.3	–	**42.3**	155.8	–	**155.8**
Distribution reserve	280.9	–	**280.9**	197.8	–	**197.8**
Retained earnings	3 576.8	–	**3 576.8**	2 706.1	–	**2 706.1**
Non-controlling interest	1 006.2	–	**1 006.2**	902.7	–	**902.7**
Total equity	6 974.7	–	**6 974.7**	6 465.3	–	**6 465.3**
Non-current liabilities	2 413.0	(2.4)	**2 410.6**	2 741.7	(0.5)	**2 741.2**
Long-term borrowings	1 166.4	(2.4)	**1 164.0**	1 545.4	–	**1 545.4**
Deferred taxation liability	930.1	–	**930.1**	854.0	(0.5)	**853.5**
Deferred income	121.7	–	**121.7**	130.7	–	**130.7**
Provisions	194.8	–	**194.8**	211.6	–	**211.6**
Current liabilities	3 186.1	(29.7)	**3 156.4**	2 203.9	(8.3)	**2 195.6**
Short-term borrowings	979.3	(12.0)	**967.3**	383.5	–	**383.5**
Trade and other payables	1 821.6	(14.3)	**1 807.3**	1 453.6	(5.2)	**1 448.4**
Bank overdraft	195.1	–	**195.1**	184.9	–	**184.9**
Taxation	132.5	(3.4)	**129.1**	141.5	(3.1)	**138.4**
Provisions	47.3	–	**47.3**	34.0	–	**34.0**
Derivative financial instruments	10.3	–	**10.3**	6.4	–	**6.4**
Total liabilities	5 599.1	(32.1)	**5 567.0**	4 945.6	(8.8)	**4 936.8**
Total equity and liabilities	12 573.8	(32.1)	**12 541.7**	11 410.9	(8.8)	**11 402.1**

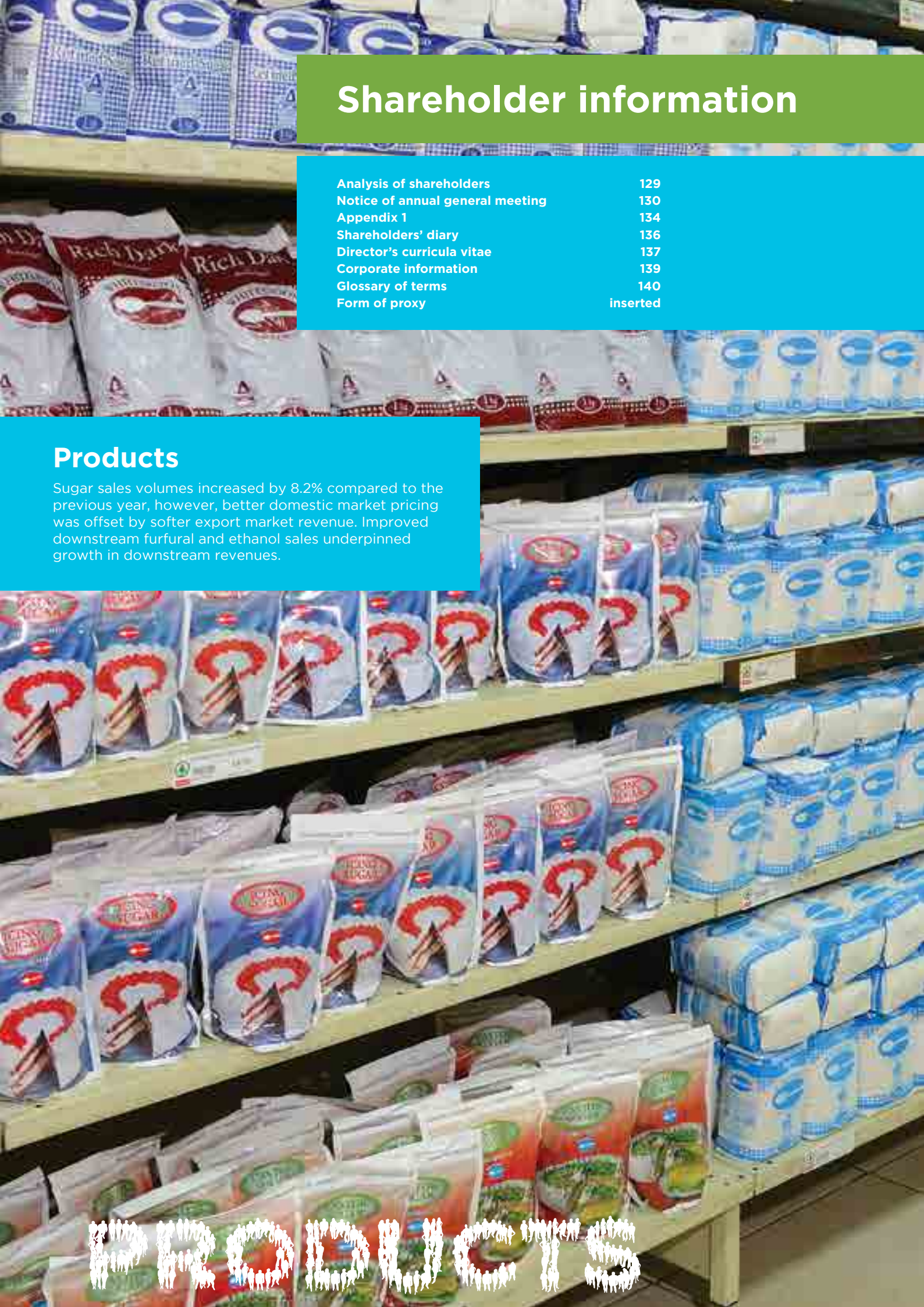
8. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES continued

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS	As at 31 March 2013 Previously reported Rm	Effect of restatements Rm	**Restated Rm**
Cash flows from operating activities			
Operating profit before working capital movements	1 567.9	(16.0)	**1 551.9**
Working capital movements	(506.4)	(10.1)	**(516.5)**
Cash generated from operations	1 061.5	(26.1)	**1 035.4**
Net financing costs	(279.6)	(15.8)	**(295.4)**
Taxation paid	(196.1)	2.6	**(193.5)**
Dividend income	2.3	–	**2.3**
Distributions/dividends paid	(458.0)	–	**(458.0)**
Net cash inflows from operating activities	130.1	(39.3)	**90.8**
Cash flows from investing activities			
Replacement of property, plant and equipment	(291.4)	0.4	**(291.0)**
Expansion capital expenditure	(640.8)	–	**(640.8)**
Net expansion of area under cane	(28.4)	–	**(28.4)**
Capitalisation of product registrations	(10.5)	–	**(10.5)**
Proceeds on disposal of plant and equipment	5.1	–	**5.1**
Proceeds on disposal of property	1.7	–	**1.7**
Funding from non-controlling interest	41.7	–	**41.7**
Net movement on investments and loans	(25.1)	27.6	**2.5**
Net cash outflows from investing activities	(947.7)	28.0	**(919.7)**
Net cash outflows before financing activities	(817.6)	(11.3)	**(828.9)**
Cash flows from financing activities			
Long-term borrowings repaid	(245.7)	–	**(245.7)**
Short-term borrowings raised	215.6	–	**215.6**
Issue of share capital net of associated costs	3.1	–	**3.1**
Net cash outflows from financing activities	(27.0)	–	**(27.0)**
Net decrease in cash and cash equivalents	(844.6)	(11.3)	**(855.9)**
Cash and cash equivalents at beginning of year	1 318.8	(9.4)	**1 309.4**
Cash and cash equivalents at end of year	474.2	(20.7)	**453.5**

Shareholder information

Products

Sugar sales volumes increased by 8.2% compared to the previous year, however, better domestic market pricing was offset by softer export market revenue. Improved downstream furfural and ethanol sales underpinned growth in downstream revenues.



	Number of ordinary shares held	Percentage of shares issued	Number of shareholders
An analysis of the register of members as at 31 March 2014 revealed the following categories of membership:			
1 – 1 000	**1 167 999**	**0.3**	**2 630**
1 001 – 10 000	**6 129 052**	**1.3**	**1 868**
10 001 – 100 000	**18 827 299**	**4.1**	**542**
100 001 – 1 000 000	**63 329 469**	**13.8**	**206**
Over 1 000 000	**371 169 138**	**80.5**	**34**
	460 622 957	**100.0**	**5 280**

Of the total number of shareholders, 4 878 held their shares in dematerialised form while 402 remained as certificated holders. Of the total number of shares in issue, 48.6% has been dematerialised.

The holding company has elected to hold its shares in certificated form.

A further analysis of the register reveals the following categories of members:

Pension funds	**76 891 165**	**16.7**	**216**
Unit trusts	**74 583 688**	**16.2**	**93**
Banks	**26 332 026**	**5.7**	**63**
Insurance companies	**9 456 839**	**2.1**	**36**
Individuals	**6 818 207**	**1.5**	**3 457**
Other corporate bodies	**266 541 032**	**57.8**	**1 415**
	460 622 957	**100.0**	**5 280**

Disclosures by nominee shareholders

Pursuant to the provisions of section 56 of the Companies Act, the following beneficial shareholdings equal to or exceeding 5% of the total issued shares in the company have been determined from an analysis of the statutory disclosures submitted by nominee companies:

ABF Overseas Limited	**236 569 232**	**51.4**
Allan Gray Limited	**72 287 750**	**15.7**
Public Investment Corporation	**36 965 593**	**8.0**

It should be noted that beneficial shareholders who are investment managers, will hold shares on behalf of clients, and may or may not hold the relevant voting rights.

Shareholder spread

Non-public shareholders			
Holding company	**236 569 232**		**1**
Directors	**457 850**		**2**
Employees and former employees holding shares in terms of the Illovo Sugar 1992 Share Option Scheme	**1 237 763**		**61**
Trustees of the Illovo Sugar Employees' Share Purchase Trust	**236 209**		**1**
	238 501 054	**51.8**	**65**
Public shareholders	**222 121 903**	**48.2**	**5 215**
	460 622 957	**100.0**	**5 280**

Notice of annual general meeting

Notice is hereby given that the 99th annual general meeting of the shareholders of Illovo Sugar Limited (the company) will be held at the offices of the company at Illovo Sugar Park, 1 Montgomery Drive, Mount Edgecombe, KwaZulu-Natal, on Wednesday 16 July 2014 at 14:00, to transact the following business:

1. FINANCIAL STATEMENTS

To present the consolidated audited annual financial statements of the company for the year ended 31 March 2014, incorporating the reports of the external auditors, the Audit Committee and the directors, as required in terms of section 30(3)(d) of the Companies Act, No 71 of 2008 ("the Companies Act").

A copy of the annual financial statements appears on pages 110 to 127 of the Integrated Annual Report of which this notice of meeting forms a part. The notes to the financial statements are not included in the report and may be found online at www.illovosugar.com.

2. ORDINARY RESOLUTIONS

To consider and, if deemed fit, to pass, with or without modification, the following ordinary resolutions. The percentage of voting rights required for the adoption of each ordinary resolution is the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to vote.

2.1 Ordinary resolution number 1 – Confirmation of appointment of director – Mr J P Hulley

To confirm the appointment of Mr J P Hulley, who was appointed by the board as Operations Director with effect from 1 September 2013.

A brief curriculum vitae of Mr Hulley appears on page 137 of the this report.

2.2 Ordinary resolution number 2 – Confirmation of appointment of director – Mr G M Rhodes

To confirm the appointment of Mr G M Rhodes, who was appointed by the board as a non-executive director with effect from 1 September 2013.

A brief curriculum vitae of Mr Rhodes appears on page 138 of this report.

2.3 Ordinary resolution number 3 – Re-election of non-executive directors

To re-elect each of Dr M I Carr, Mr A R Mpungwe and Mr T S Munday, who retire by rotation in terms of article 86 of the company's memorandum of incorporation, and who, being eligible, offer themselves for re-election. The motions for re-election will be moved individually.

The curricula vitae of these directors are provided on pages 137 and138 of the Integrated Annual Report. Based on the recommendations of the Nomination Committee, which has conducted an assessment of each of the retiring candidates, the board recommends their re-election to shareholders.

2.4 Ordinary resolution number 4 – Appointment of the members of the Audit Committee

Pursuant to the requirements of section 94(2) of the Companies Act, to appoint the following non-executive independent directors of the company as members of the Audit Committee until the conclusion of the next annual general meeting. The motions for election of each director will be moved individually:

Dr D Konar (Chairman), Messrs M J Hankinson and T S Munday and Mrs C W N Molope.

The curricula vitae of these directors are provided on pages 137 and 138 of this report.

2.5 Ordinary resolution number 5 – Appointment of the independent registered auditor

Pursuant to the requirements of section 90(1) read with section 61(8)(c) of the Companies Act, and as nominated by the company's Audit Committee, to resolve that Deloitte & Touche be re-elected as the company's independent registered auditor for the financial year ending 31 March 2015, with Mr G Tweedy as the individual designated auditor responsible for the audit.

2.6 Ordinary resolution number 6 – Non-binding advisory approval of the remuneration policy

To resolve that the company's remuneration policy be approved as a non-binding advisory vote.

King III recommends that the company's remuneration policy (which appears on pages 100 to 104 of this report) be tabled to shareholders for a non-binding advisory vote at each annual general meeting.

2.7 Ordinary resolution number 7 – Authority to implement the aforesaid ordinary and the undermentioned special resolutions

To authorise any two directors of the company, alternatively any director and the Company Secretary, to do all such things, sign all such documentation and take all such actions as may be necessary to implement the ordinary and special resolutions passed at the annual general meeting.

3. SPECIAL RESOLUTIONS

To consider and if deemed fit, to pass, with or without modification, the following special resolutions. The percentage of voting rights that will be required for the adoption of each special resolution is the support of at least 75% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to vote.

3.1 Special resolution number 1 – Non-executive directors' fees

"Resolved as a special resolution that, unless otherwise determined by the company in general meeting, with effect from 1 April 2014, the following annual fees payable by the company to its non-executive directors, are approved.

	Current R	Proposed R
Board		
Chairman	2 200 000	2 200 000
Director	236 500	270 000
Audit Committee		
Chairman	236 500	255 000
Member	118 500	127 500
Remuneration/Nomination Committee		
Chairman	161 500	180 000
Member	91 500	120 000
Risk Management Committee		
Chairman	118 500	129 750
Member	80 500	86 500
Social and Ethics Committee		
Chairman	118 500	129 750
Member	80 500	86 500"

Explanation

In terms of section 66(9) of the Companies Act remuneration may only be paid to directors, for their services as directors, in accordance with a special resolution approved by the shareholders within the previous two years. The reason for, and effect of, special resolution number 1 is to grant the company the authority to pay the abovementioned fees to its non-executive directors for their services as directors. The executive directors receive no fees or other remuneration for their services as directors. As indicated in the Remuneration Report, the non-executive directors who are nominated for appointment by the company's majority shareholder have elected not to receive payment of directors' fees as non-executive members of the board and the board committees on which they serve.

No increase is proposed to the fee paid to the Chairman of the board for the second year. His fee was previously set taking into account his depth of expertise in the sugar industry and the time devoted to his duties as Chairman of the company and its subsidiaries across six African countries. Due to the inclusive nature of the Chairman's fee, no additional fees are payable to him as Chairman or member of any of the board committees.

The Remuneration Committee has reviewed and recommended the fees payable to the other non-executive directors (ie other than the Chairman of the board) having regard to the findings of a survey conducted by external remuneration consultants who reviewed the non-executive directors' fees against that paid to the non-executive directors of a comparator group of listed companies. The particular skills, experience and capabilities of the non-executive directors were also considered. The proposed increase in these fees is to ensure that their remuneration remains market related and accords with the increasing level of responsibility placed on them.

In determining the proposed fees for the chairmen and members of each of the board committees, regard was had to the number of committee meetings held each year and the complexity of their responsibilities. A methodology was adopted whereby a set multiple was used to determine the fees of the Chairman of each committee in relation to the fee of the members of that committee.

The board has accepted the recommendations of the Remuneration Committee as set out above.

3.2 Special resolution number 2 – Fee payable to non-executive directors for participating in unscheduled board and board committee meetings

"Resolved as a special resolution that, with effect from 1 April 2014, the company shall pay an additional fee of R28 000 per day to each of its non-executive directors for any unscheduled board or board committee meetings and/or additional services undertaken by any of them at the request of the company."

Explanation

In light of the provisions of section 66(9) of the Companies Act, the reason for, and effect of, special resolution number 2 is to grant the company the authority to pay the abovementioned additional daily fee to its non-executive directors for their attendance at unscheduled board and board committee meetings and other services undertaken at the request of the company. The Remuneration Committee has considered and recommended the abovementioned additional daily fee, and the board has accepted the recommendation of the Remuneration Committee.

3.3 Special resolution number 3 – General authority to provide financial assistance for the purchase of securities of the company (section 44 of the Companies Act)

"Resolved as a special resolution pursuant to section 44(3) of the Companies Act, that the directors of the company be and they are hereby authorised and empowered, as a general approval, to authorise the company to provide financial assistance for the purchase of such number of securities of the company as may be determined by the board from time to time, for and on behalf of any person approved by the board to receive such securities in accordance with the terms of the company's Forfeitable Share Plan, subject always to compliance with the applicable requirements of the company's Memorandum of Incorporation, the Companies Act, the JSE Listings Requirements, and any other applicable laws from time to time."

Explanation

In terms of the company's Forfeitable Share Plan (FSP), salient details of which are furnished in Appendix 1 hereto, the company may provide the funding required to enable an escrow agent appointed in terms of the FSP to purchase the company's shares on the market for and on behalf of certain directors and senior employees who are approved by the board to receive forfeitable shares in terms of the FSP, the provision of which funding may be regarded as "financial assistance" as contemplated in section 44 of the Companies Act. The effect of special resolution number 3 is to grant a general approval to the board, for a period of two years, to cause the company to provide such funding as may be required for the purchase of the company's shares on the market, for directors and senior key employees approved to receive such shares in terms of the Rules of the FSP.

3.4 Special resolution number 4 – General authority to provide financial assistance to related or inter-related companies or other legal entities (section 45 of the Companies Act)

"Resolved as a special resolution pursuant to section 45(3) of the Companies Act, that the directors of the company be and they are hereby authorised and empowered, as a general approval contemplated in section 45(3) of the Companies Act, to cause the company to provide any direct or indirect financial assistance to any company, corporation or other legal entity which is related or inter-related to the company, subject to and in accordance with the provisions of sections 45(3)(b) to 45(5) of such Act."

Explanation

On a regular basis, and in the ordinary course of business, the company provides loan financing, guarantees, and other support to the related and inter-related companies/legal entities in the group from time to time. Section 45(2) of the Companies Act empowers the board of a company to provide direct or indirect financial assistance to a related or inter-related company, corporation or other legal entity. However, in terms of section 45(3) of the Companies Act, the board may only authorise any such financial assistance pursuant to a special resolution of the shareholders of the company adopted within the previous two years. The effect of special resolution number 4 is to grant the directors of the company the authority to cause the company to provide financial assistance to any company, corporation or other legal entity which is related or inter-related to the company, subject to compliance with the relevant provisions of section 45 of the Companies Act, for a period of two years.

4. REPORT OF THE SOCIAL AND ETHICS COMMITTEE

The Social and Ethics Committee Report at pages 97 to 99 of this report of which this notice forms a part, is tabled pursuant to regulation 43(5)(c) of the Companies Regulations, 2011.

5. OTHER BUSINESS

To transact such other business as may be transacted at an annual general meeting of shareholders.

INFORMATION SCHEDULE

Record date

The record date for the purpose of determining which shareholders are entitled to participate in, and vote at, the annual general meeting is Friday 11 July 2014. Accordingly, the last date to trade in order to be registered in the register of shareholders of the company and therefore be eligible to participate in and vote at the annual general meeting is Friday 4 July 2014.

Proxies/representation at the meeting

Shareholders holding certificated shares and shareholders that have dematerialised their shares and have elected own name registration in the sub-register maintained by a Central Securities Depository Participant (CSDP), may attend, speak and vote at the annual general meeting or may appoint one or more proxies (who need not be shareholders of the company) to attend, speak and vote at the annual general meeting on behalf of the shareholder who appointed him.

A proxy form is included at the back of the Integrated Annual Report. Duly completed proxy forms must be returned to the transfer secretaries, Link Market Services South Africa Proprietary Limited (PO Box 4844, Johannesburg, 2000 or Rennie House, 13th Floor, 19 Ameshoff Street, Braamfontein, 2001) by no later than 12:00 on Monday 14 July 2014.

Shareholders who have dematerialised their shares through a CSDP or a broker and who have not elected own name registration in the sub-register maintained by the CSDP and who wish to attend the annual general meeting, should instruct their CSDP/broker to issue them with the necessary authority to attend. Shareholders who are unable or do not intend to attend the meeting, but wish to be represented at the meeting, may provide their CSDP/broker with their voting instructions in terms of the custody agreement entered into between such shareholders and their CSDP/broker.

Identification

Pursuant to the requirements of section 62(3) of the Companies Act, notice is hereby given that in terms of section 63(1), shareholders and proxies who attend the annual general meeting will be required to provide satisfactory identification.

Electronic communication

With regard to section 61(10) of the Companies Act, any shareholder or proxy eligible to attend the annual general meeting but unable to do so, may make arrangements with the company to be connected to the meeting via a teleconference facility. Voting will not be possible via the electronic facilities and shareholders who wish to vote at the meeting must be represented at the meeting either in person, by proxy or by letter of representation, as provided for in the notice of meeting.

Should any shareholder or proxy wish to use this facility, he/she should contact the company's group corporate affairs administration manager, Mr L M Smith, telephone number +27 31 508 4303, or e-mail lsmith@illovo.co.za by no later than 12:00 on Friday 11 July 2014, so as to be advised of the relevant dial-in requirements.

By order of the board

J A Kunst
Company Secretary

Mount Edgecombe
June 2014

SALIENT DETAILS OF FORFEITABLE SHARE PLAN

1. Introduction

1.1 Illovo Sugar Limited ("the Company") intends to introduce a Forfeitable Share Plan ("FSP"), which will be operated in conjunction with the existing Phantom Share Scheme ("PSS").

1.2 The PSS is a cash-settled option scheme which provides participants with the benefit of the increase in the share price between grant and exercise, subject to performance conditions being met. However, due to the relative stability of the Illovo share price, the PSS does not provide an adequate incentive mechanism to enable the Company to attract and retain its executives and other key management whose skills are necessary for the Company to fulfil its long-term goals.

1.3 Accordingly, in line with local and global best practice, the Company intends to implement an FSP for executives and other key employees ("Participants") of the Company and its subsidiaries ("Employer Companies").

1.4 The FSP is primarily a performance-driven plan in terms of which a certain number of the Company's ordinary shares ("Shares") will be awarded to selected Participants. Ownership of the awarded Shares will vest immediately following an award , allowing Participants to receive the benefits of ownership (ie dividends and voting rights) of the Shares awarded to them (subject to forfeiture under certain conditions), and therefore provides a direct alignment between the participants and shareholders.

1.5 Shares constituting an award under the FSP will be purchased on the market and does not entail the issue of any equity securities (including options). Therefore the FSP does not result in a dilution of the shareholdings of its equity securities holders.

1.6 The FSP is therefore not a share incentive scheme as contemplated in Schedule 14 of the JSE Listings Requirements and does not require shareholder approval.

1.7 The PSS will continue to operate but the annual awards made thereunder to a Participant of the FSP will be reduced having regard to the quantum of the Shares awarded to him in terms of the FSP.

1.8 The salient features of the FSP are set out below.

2. Awards of Shares

2.1 In terms of the FSP Rules, the Company's Remuneration Committee ("Committee") has the final authority to grant awards of Shares to Participants and to set the conditions attaching to each such award.

2.2 In terms of the FSP Rules, awards of Shares may comprise "Performance Shares" or "Restricted Shares".

2.3 Performance Shares may be awarded by the Committee on an annual basis as soon as practicable after the publication of the Company's annual or interim results for any period. Performance Shares are subject to the fulfilment of specified performance conditions ("Performance Conditions") measured over a specified period which is aligned with the financial years of the Company ("Performance Period") determined by the Committee, as well as the condition that the Participant remains employed with the Illovo group for a specified period determined by the Committee ("Employment Condition").

2.4 Restricted Shares will only be awarded in exceptional circumstances in order to retain or attract a key executive. Restricted Shares will also be conditional upon the Participant remaining in the employ of the Illovo group for a specified period determined by the Committee.

3. Participants

3.1 The Participants of the FSP will be directors (excluding non-executive directors) and key senior permanent employees of the Employer Companies, selected by the Committee based on the recommendations of the Employer Companies.

3.2 The FSP is aimed at approximately 30 executives and senior managers of the Illovo group. The Committee may, however, in its discretion, include any other permanent employee of any company in the Illovo group for participation in the FSP in exceptional circumstances.

4. Basis of awards and conditions

4.1 In line with the requirements of King III and best practice requirements, regular annual awards of Performance Shares and awards under the existing PSS, may be made to Participants.

4.2 Award levels will be determined by the Committee having regard to a Participant's salary, grade, performance, retention requirements and market practice, as well as other relevant circumstances at that time. Annual awards will be made having regard to a market-related level of remuneration as well as the overall affordability to the Employer Company.

4.3 Indicative fair value of allocations under the FSP and the PSS will in the aggregate remain similar before and after the introduction of the FSP.

4.4 On the instructions of the Company, an Escrow Agent appointed by the Company will purchase the Shares awarded to a Participant and will hold the Shares on behalf of the Participant until all conditions relating to the award have been met. Accordingly, unconditional ownership of Shares awarded will only vest following fulfilment of the conditions.

4.5 The Employer Company of a Participant is liable to pay the Escrow Agent the amounts required to purchase the relevant Shares. However, if the Company makes payment of any such amount on behalf of an Employer Company, the Company is entitled to recover such amount from the Employer Company. Since the provision of this funding by the Company may be regarded as "financial assistance" as contemplated in sections 44 and 45 of the Companies Act, shareholders will be requested to pass resolutions in terms of those sections for a period of two years.

4.6 In line with good corporate governance principles, Performance Conditions will not be retested if they are not met at the end of the Performance Period.

4.7 To the extent that the Employment Condition or Performance Condition(s) (as the case may be) are not met, the relevant Performance Shares or Restricted Shares (as the case may be) in relation to which the conditions are not met will be forfeited.

4.8 Employees terminating employment due to resignation or dismissal on grounds of misconduct, proven poor performance or proven dishonest or fraudulent conduct will forfeit all unvested awards.

4.9 Forfeited shares will be sold on the market by the Escrow Agent on the instructions of the Company and will not be repurchased by the Company.

5. Overall and individual limits and adjustments

5.1 The maximum aggregate number of Shares which may at any one time be allocated under the FSP shall not exceed 4 600 000 Shares ("Overall Limit") (which is approximately 1% of issued share capital of the Company), which may be adjusted to take account of a sub-division or a consolidation of the Shares. Shares awarded but subsequently forfeited, will be excluded in calculating the Overall Limit.

5.2 The maximum number of shares which may be allocated to a single Employee in respect of awards which have not Vested under the FSP may not exceed 460 000 Shares (which is approximately 0.1% of the issued share capital of the Company) ("Individual Limit"). The Committee may adjust the Individual Limit to take account of a capitalisation issue, special dividend, rights issue or reduction in the share capital of the Company.

6 Amendments

6.1 The Committee may, at any time, alter, vary or add to the rules of the FSP as it deems fit. Amendments to rules may only affect awards to Participants that have already been made if they are to the advantage of Participants.

6.2 In circumstances where a Participant is resident in a jurisdiction where exchange control laws preclude the effective operation of the FSP in respect of that Participant, the Committee may amend the FSP Rules to provide for awards to these Participants to be settled in cash.

6.3 The Committee may terminate the FSP at any time, provided that the Rules will continue to operate in respect of any awards made before such termination.

7. First Award Criteria

In anticipation of the introduction of the FSP, the Committee has determined the following criteria for the first awards of Performance Shares:

7.1 The Performance Period commences on the date of the award and terminates at the end of the third financial year following the date of the award (ie 31 March 2017);

7.2 The Employment Condition is that the Participant remains in the employ of the Employer Company as at the completion of the aforesaid Performance Period;

7.3 The Performance Condition for the unconditional vesting of the first tranche of Performance Shares is that the Company's headline earnings per share ("HEPS") for the financial year ended 31 March 2014 (being the year immediately preceding date of the award of the first tranche) must have increased by at least CPI plus 0.5% per annum compounded ("Minimum Target") by the end of the Performance Period, failing which all the Shares comprising the first award will be forfeited.

7.4 Provided that the Minimum Target is achieved within the Performance Period, the first award of Shares will vest incrementally, pro rata to the increase in HEPS, with 25% of the award vesting unconditionally when the Minimum Target is reached, and the remaining Shares vesting pro rata to the increase in HEPS between the Minimum Target and an increase of CPI plus 3.0% per annum compounded, when 100% of the Shares will vest unconditionally.

8. The conditions of the FSP will continue to be reviewed in line with best practice.

Financial year-end		March
Annual general meeting		July
Reports and profit statements		
Interim report		November
Preliminary Report		May
Integrated Annual report		June
Distributions		
Interim distribution	Declaration	November
	Payment	January
Final distribution	Declaration	May
	Payment	July
Shareholders are reminded to notify the transfer secretaries of any change in address.		

D G (Don) MacLeod (67) BCom, AMP (Oxford): Mr MacLeod joined the South African sugar industry in 1971 and became part of the Illovo group in 1973. He spent 10 years in various management positions before being appointed to the board in 1983. He was previously Finance Director, was appointed Managing Director in 1992 and became chief executive in 1995. Upon his retirement in 2009 he became deputy chairman and in 2011 was appointed Chairman. He is a past Chairman of the South African Sugar Association and the South African Sugar Millers' Association.

G B (Gavin) Dalgleish (48) BScEng(Chem), MScEng(Chem): Mr Dalgleish was appointed to the board in September 2011, assumed the position of Operations Director in 2012, and was appointed Managing Director with effect from 1 September 2013. He holds a master's degree in chemical engineering and first joined Illovo in 1988 as a postgraduate student. He has since held a number of technical, business-development, operational and general management positions in Illovo. Most recently he spent three years leading the Australia-based global technology unit of AB Mauri, a yeast business which is a subsidiary of Illovo's holding company, Associated British Foods plc, before returning to Illovo in December 2010.

M H (Mohammed) Abdool-Samad (43) BCom, CA(SA): Mr Abdool-Samad was appointed to the board as Financial Director in 2011. He holds a BCom degree and qualified as a chartered accountant in 1996. From 1996 to 2000, he held various managerial positions at Deloitte & Touche. In 2001 he joined Anglo American plc, providing risk management and treasury audit services to the group. He was appointed senior finance manager of Anglo Coal South Africa in 2005, chief financial officer in 2006, and after a restructure, chief financial officer of Anglo American Thermal Coal in 2009, responsible for Anglo American's global thermal coal assets.

L W (Larry) Riddle (54) BCom, CA(SA): Mr Riddle was appointed to the board on 1 April 2009 as Commercial Director. After qualifying as a chartered accountant, he joined Illovo Sugar in 1986. He held a number of senior management positions within the company prior to his appointment as a director. He is a past Chairman of the South African Sugar Millers' Association and the Ethanol Producers' Association of South Africa.

J P (John) Hulley (54) DipMechEng, MDP (General Management) UNISA: Mr Hulley was appointed to the board on 1 September 2013 as its Operations Director. From 1978 until 1993 he served the company in various positions and, after rejoining the company again in 2000, he held various management positions in the company's South African operations, before being appointed General Manager of the company's Swaziland subsidiary, Ubombo Sugar Limited in 2008, and subsequently its Managing Director. He also held management positions in other companies in the sugar industry, including a leading engineering and project management consulting company providing services to the sugar industry and other heavy engineering industries.

M I (Mark) Carr (Dr) (51) BSc, PhD, MBA, CertEng, FIMechE: Dr Carr was appointed to the board in 2006. As Chief Executive of the AB Sugar Group since April 2004, he has led the development of Associated British Foods' sugar activities across the world. He has also served on the executive of the World Sugar Research Organisation and the European Confederation of Sugar Producers. Prior to joining the sugar industry, Dr Carr held a variety of senior positions within Corus Group plc, formerly British Steel plc, including assignments in the USA and Europe. He gained a doctorate in mechanical engineering at Swansea University and an MBA from Warwick University. He is a director of Vivergo Fuels Limited, the World Sugar Research Organisation and Chairman of Azucarera Ebro SA.

M J (Mike) Hankinson (65) BCom, CA(SA): Mr Hankinson was appointed as a non-executive, independent director in 2008. After qualifying as a chartered accountant, he joined the Romatex group in 1976 where he rose to the position of group chief executive in 1994. In 1997 he joined Dunlop as chief executive officer, and during his tenure presided over the sale of the business to a private consortium, its delisting from the JSE, and its sale to Apollo Tyres Limited. In 2007, he was appointed as a non-executive director of Apollo Tyres and relinquished his position at Dunlop. Currently he is Chairman of The Spar Group Limited (having been appointed as such in 2004) as well as Brandcorp Holdings Proprietary Limited (appointed in 2008). He has been a non-executive director of Grindrod Limited since 2009 and has been appointed as its Chairman from the end of May 2014.

D (Len) Konar (Dr) (60) BCom, MAS (Illinois), DCom, CA(SA), CRMA: Dr Konar was appointed as a non-executive, independent director in 1995 and as Chairman of the Audit Committee in 1997. He qualified as a chartered accountant and is a professional director of companies. He was previously executive director of the Independent Development Trust where, among other activities, he was responsible for the internal audit and investments portfolios. Prior to that he was professor and head of the department of accountancy at the University of Durban Westville. He is a member of the King Committee on Corporate Governance, the Corporate Governance Forum, National Association of Corporate Directors (USA) and the Institute of Directors. He is also Chairman of Steinhoff International Holdings Limited, Exxaro Resources Limited and Mustek Limited, and a non-executive director of Alexander Forbes Equity Holdings Proprietary Limited, Sappi Limited and Lonmin plc. He chairs or serves on the audit committees of these and other organisations. He was co-chairman of the Oversight Panel of the World Bank and past Chairman and member of the external audit committee of the International Monetary Fund in Washington.

P A (Paul) Lister (50) LLB: Mr Lister was appointed to the board in 2006. He is currently Director of Legal Services and Company Secretary of Associated British Foods plc, having joined the ABF group in that role in January 2001. He was formerly associate general counsel of Diageo plc. He holds a law degree from University College London and is a qualified solicitor in England and Wales.

P M (Phinda) Madi (Prof) (50) BProc (Unizul), EDP (HEC – Paris), EDP (Northwestern – Chicago, USA): Professor Madi was appointed as a non-executive, independent director in November 2002. He obtained his law degree from the University of Zululand in 1987, and joined the French Bank of South Africa in that year as corporate banking and legal officer. From 1992 to 1994 he acted as in-house consultant on employment equity for the Standard Bank group. A founding member and commissioner of South Africa's Black Economic Empowerment Commission, he is also a founder of several consulting and publishing companies and author of three books on business strategy and transformation. In 2001, he was appointed visiting professor of business leadership studies at Rhodes University. He is a non-executive director of Nampak Limited, Sovereign Food Investments Limited and The SPAR Group Limited. He is also controlling shareholder and Chairman of Allcare Medical Aid Administrators (Pty) Ltd and Respiratory Care Africa (Pty) Ltd.

C W N (Nosipho) Molope (49) BSc (Medical Sciences), BCompt (Hons), CA(SA): Mrs Molope was appointed as a non-executive, independent director in 2008. After qualifying as a chartered accountant in 1999, she was appointed finance executive of Akulalwa Corporate Advisors. In 2001, she joined Wipcapital as manager: specialised funds management, and later that year was appointed group financial executive of Viamax, a subsidiary of Transnet Limited. In 2004, she joined Zungu Investments Company as financial director, and in 2005 was appointed as chief financial officer of the Financial Services Board. She resigned in December 2008 to focus on her role as a professional non-executive director of companies. She is also a director of several other companies including Andulela Investments Holdings Limited, BHP Billiton Energy Coal South Africa, Engen Limited, Nampak Limited, Old Mutual Life Assurance Company (South Africa), Old Mutual Life Holdings (South Africa) Limited, MTN Proprietary Limited and three other MTN subsidiaries, and Wesizwe Platinum Limited.

A R (Ami) Mpungwe (Tanzanian) (63) BA (Hons); PGD International Law and Diplomacy (University of Zambia), SMP (University of Pretoria), Leadership Certificate Programme (Kagiso Leadership School): Mr Mpungwe was appointed as a non-executive, independent director with effect from 1 September 2009. He was the first Tanzanian High Commissioner to South Africa. He retired in 1999 after 25 years' service in the Tanzanian diplomatic service, and has a wealth of political and commercial experience in operating on the African continent. He is a non-executive director of three of Illovo's operating subsidiaries: Illovo Sugar (Malawi) Limited which is listed on the Malawi Stock Exchange, Zambia Sugar Plc which is listed on the Lusaka Stock Exchange, and Kilombero Sugar Company Limited in Tanzania. He is also a director of a number of other companies in Tanzania, and was previously a director of Illovo Sugar Limited from 2001 to 2006.

T S (Trevor) Munday (64) BCom: Mr Munday was appointed as a non-executive, independent director with effect from 9 March 2010. He spent his formative years from 1971 in a wide-ranging number of roles in financial and commercial management positions both in southern Africa and Europe. In the late 1980s, he was appointed finance and Commercial Director of AECI Explosives and Chemicals Limited. In 1990, he was appointed Managing Director of Dulux Paints and thereafter Managing Director of Polifin Limited. In 2001, he was appointed executive director and chief financial officer of Sasol Limited with responsibility also for corporate affairs and various other portfolios. In 2003, he assumed global responsibility for Sasol's chemical businesses and in 2005, he became deputy chief executive of Sasol Limited. At the end of 2006 he retired from executive roles and became a non-executive director of various companies. He is currently Chairman of Reunert Limited and the lead independent director of Barclays Africa Group Limited and Absa Bank Limited. He stepped down as lead independent director of Life Healthcare Group Holdings Limited on 30 January 2014.

G M (Graham) Rhodes (52) BScEng(Chem) (Hons), ACMA, CGMA. Mr Rhodes was appointed as a non-executive director with effect from 1 September 2013. He is currently group Finance Director of AB Sugar, a division of Associated British Foods plc, having been appointed as such in March 2013. During the period 1984 until June 2012 he was employed by Air Products & Chemicals Inc, a US multinational company, where in many parts of the world he held various senior management positions, including chief financial officer for Europe, vice president and Managing Director of its European liquid bulk business, accountable for growth strategy and strategic plans as well as business expansion into Russia, Turkey and the Middle East. He has also held past directorships at Air Products Plc, Air Products Middle East, Air Products Russia and CryoService Limited.

Company Secretary:	J A Kunst
Business address and registered office:	Illovo Sugar Park, 1 Montgomery Drive, Mount Edgecombe, KwaZulu-Natal
Postal address:	PO Box 194, Durban, 4000
Telephone:	+27 31 508 4300
Telefax:	+27 31 508 4535
E-mail:	jkunst@illovo.co.za
Website:	www.illovosugar.com
Group Communications Manager:	C Fitz-Gerald
E-mail:	cfitzgerald@illovo.co.za
Transfer secretaries:	Link Market Services South Africa Proprietary Limited
Business address:	Rennie House, 13th Floor, 19 Ameshoff Street, Braamfontein, 2001
Postal address:	P O Box 4844, Johannesburg, 2000
Telephone:	+27 11 834 2266
Telefax:	+27 11 834 4398
E-mail:	info@linkmarketservices.co.za
Auditors:	Deloitte & Touche
Attorneys:	Garlicke & Bousfield Incorporated
Principal bankers:	The Standard Bank Group Limited
Sponsor:	J P Morgan Equities South Africa Proprietary Limited
Financial adviser:	The Standard Bank Group Limited
Company registration number:	1906/000622/06
Share code:	ILV
International security identification number:	ZAE000083846

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Principal photographer: Russell Cleaver

In this circular and its annexures, unless otherwise stated or the context otherwise indicates, the words in the first column shall have the meanings assigned to them in the second column and words in the singular shall include the plural and vice versa, words importing natural persons shall include corporations and associations of persons and expressions denoting any gender shall include the other genders.

Definition/abbreviation	Description
"the company" or "Illovo"	Illovo Sugar Limited (registration number 1906/000622/06), a public company incorporated in the Republic of South Africa and listed on the JSE;
"AGM"	annual general meeting;
"Companies Act"	the Companies Act, No 71 of 2008;
"Companies Regulations"	the Companies Regulations, 2011;
"board"	Illovo's board of directors;
"B-BBEE"	broad-based black economic empowerment;
"certificated shares"	the shares of shareholders who have not dematerialised their share certificates in terms of STRATE;
CDP	Carbon Disclosure Project
COD	Chemical oxygen demand
CMS	Concentrated Molasses Solids (from which fertiliser is produced)
"dematerialised"	the process by which certificated shares are converted to an electronic form as uncertified shares and are recorded in the sub-register of shareholders maintained by the CSDP;
"DIFR"	disabling injury frequency rate;
"directors"	the directors of Illovo;
"ERM"	enterprise risk management;
"EU"	European Union;
"GHG emissions"	greenhouse gas emissions;
"GRI" or "GRI Index"	the Global Reporting Initiative G3 Guidelines;
"group" or "Illovo group"	Illovo and its subsidiaries;
"GWh"	gigawatt-hour;
"IAS"	International Accounting Standards
"IFRS"	International Financial Reporting Standards;
"Illovo SA"	Illovo Sugar (South Africa) Limited;
"Illovo shareholder" or "shareholder(s)"	a holder or holders of Illovo ordinary shares of 0.04 cents each, who are entered as such in the company's certificated or uncertificated securities registers;
"ILO"	International Labour Organisation
"JSE"	JSE Limited;
"JSE Listings Requirements"	the Listings Requirements of the JSE;
"King III"	the King Code of Corporate Governance Principles for South Africa, 2009, read with the King Report on Governance for South Africa 2009;
"LUSIP"	Lower Usuthu Smallholder Irrigation Project;
"NGO"	non-government organisation
"NOSA"	National Occupational Safety Association;
"OECD"	Organisation for Economic Co-operation and Development;
"ordinary shares"	the ordinary shares in the share capital of Illovo;
"PSS"	Illovo Phantom Share Scheme;
"SACU"	South African Customs Union;
"SASA"	South African Sugar Association;
"SASRI"	South African Sugar cane Research Institute;
"SENS"	the Securities Exchange News Service of the JSE;
"SRI Index"	the Socially Responsible Investment Index of the JSE;
"STRATE"	STRATE Proprietary Limited (registration number 1998/022242/07), a registered central securities depository in terms of the Custody and Administration of Securities Act, No 85 of 1992, as amended;
"TIFR"	total injury frequency rate;
"transfer secretaries"	Link Market Services South Africa Proprietary Limited (registration number 2000/007239/07), a private company incorporated in the Republic of South Africa;
"USA"	United States of America;
<	less than;
>	more than.

Illovo Sugar Limited
Registration number: 1906/000622/06
Share code: ILV
ISIN: ZAE000083846

Form of proxy for the 99th annual general meeting

For completion only by shareholders holding certificated shares, and shareholders that have dematerialised their shares and have elected own name registration.

I/We (name/s in block letters)

Of (address)

being the shareholder of the abovenamed company and entitled to: Number of votes

1 share = 1 vote

do hereby appoint

1. of or failing him/her

2. of or failing him/her

3. the Chairman of the meeting

as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the annual general meeting of the company to be held at the registered office of the company, Illovo Sugar Park, 1 Montgomery Drive, Mount Edgecombe, KwaZulu-Natal on Wednesday, 16 July 2014 at 14h00 and at any adjournment thereof as follows:

RESOLUTION NUMBER	AGENDA ITEM	Mark with X where applicable		
		For	Against	Abstain
Ordinary resolutions				
Ordinary resolution 1	Confirmation of appointment of director – Mr J P Hulley			
Ordinary resolution 2	Confirmation of appointment of director – Mr G M Rhodes			
Ordinary resolution 3	Re-election of non-executive directors			
	Dr M I Carr			
	Mr A R Mpungwe			
	Mr T S Munday			
Ordinary resolution 4	Appointment of the members of the Audit Committee			
	Dr D Konar (Chairman)			
	Mr M J Hankinson			
	Mrs C W N Molope			
	Mr T S Munday			
Ordinary resolution 5	Appointment of Deloitte & Touche as independent registered auditor			
Ordinary resolution 6	Non-binding advisory approval of the remuneration policy			
Ordinary resolution 7	Authority to implement the ordinary and special resolutions passed at the annual general meeting			
Special resolutions				
Special resolution 1	Approval of non-executive directors' fees			
Special resolution 2	Approval of additional daily fee for unscheduled board and committee meetings/other services.			
Special resolution 3	Approval of financial assistance in terms of s 44 of the Companies Act, for the purchase of shares in terms of the company's Forfeitable Share Plan			
Special resolution 4	Approval of financial assistance to related or inter-related companies, corporations or other legal entities in terms of s 45 of the Companies Act.			

Signed at on this day of 2014

Signature

Assisted by me (where applicable) (see note 4)

Notes to the form of proxy

Full name/s of signatory/ies if signing in a representative capacity (see note 5)

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a shareholder of the company.
2. This proxy form is not for completion by those shareholders who have dematerialised their shares (other than those whose shareholding is recorded in their own name in the sub-register maintained by their Central Securities Depository Participant (CSDP)). Such shareholders should provide their CSDP/broker with their voting instructions.
3. If this proxy form is returned without any indication as to how the proxy should vote, the proxy will be entitled to vote or abstain from voting as he/she thinks fit.
4. A minor must be assisted by his/her guardian.
5. The authority of a person signing a proxy in a representative capacity must be attached to the proxy unless that authority has already been recorded by the company.
6. In order to be effective, proxy forms must reach the transfer secretaries, Link Market Services South Africa Proprietary Limited, (PO Box 4844, Johannesburg, 2000 or Rennie House, 13th Floor, 19 Ameshoff Street, Braamfontein, 2001) no later than 12:00 on Monday 14 July 2014.
7. The delivery of the duly completed proxy form shall not preclude any shareholder or his/her duly authorised representative from attending the meeting, speaking and voting instead of such duly appointed proxy.
8. If two or more proxies attend the meeting, then that person attending the meeting whose name appears first on the proxy form, and whose name is not deleted, shall be regarded as the validly appointed proxy.
9. Proxies attending the meeting will be required to provide satisfactory identification.

GUYBORN MANDLA SHANGE

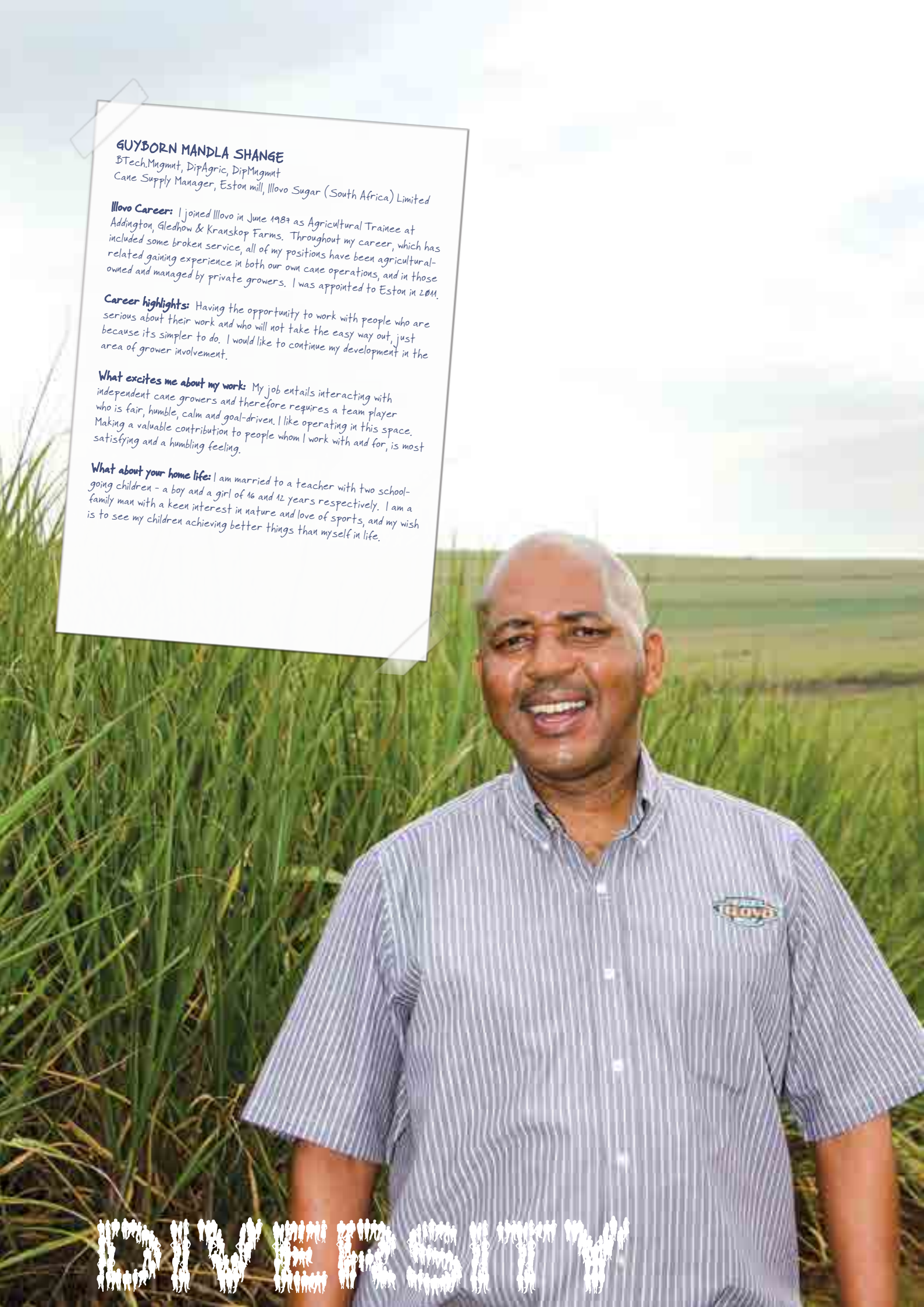
BTech.Mngmnt, DipAgric, DipMngmnt
Cane Supply Manager, Eston mill, Illovo Sugar (South Africa) Limited

Illovo Career: I joined Illovo in June 1987 as Agricultural Trainee at Addington, Gledhow & Kranskop Farms. Throughout my career, which has included some broken service, all of my positions have been agricultural-related gaining experience in both our own cane operations, and in those owned and managed by private growers. I was appointed to Eston in 2011.

Career highlights: Having the opportunity to work with people who are serious about their work and who will not take the easy way out, just because its simpler to do. I would like to continue my development in the area of grower involvement.

What excites me about my work: My job entails interacting with independent cane growers and therefore requires a team player who is fair, humble, calm and goal-driven. I like operating in this space. Making a valuable contribution to people whom I work with and for, is most satisfying and a humbling feeling.

What about your home life: I am married to a teacher with two school-going children - a boy and a girl of 16 and 12 years respectively. I am a family man with a keen interest in nature and love of sports, and my wish is to see my children achieving better things than myself in life.



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