



ILLOVO BOARD AND LEADERSHIP

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Don MacLeod

A tribute to Don MacLeod

Don MacLeod will retire as Chairman of the board of Illovo Sugar at the group's annual general meeting this year after 44 years in the sugar industry, of which he says 42 years were "with Illovo". From industrial affairs/accountant for the SA Sugar Millers' Association (1971) he moved to the Illovo Sugar Estates group in 1973 where he was group financial manager at the time of its takeover by CG Smith Sugar in 1977, when he became this company's investigations accountant. When in 1994 CG Smith Sugar became Illovo Sugar, it was a personal milestone for Don who could thereafter claim to have been an "Illovo" employee since 1973.

Don matriculated at Michaelhouse and completed his university education at both Natal and Oxford Universities. He joined the sugar industry because he "felt it was the major industry in Natal". In the new company his progress after 1977 was steady – industrial affairs director in 1983, finance director in 1984 and Managing Director in 1992 when, he recalls, "we were faced with the worst drought in 100 years followed by the second worst in a hundred years". Illovo took advantage of this by dismantling the Illovo mill to move it to Eston in the mid-nineties, marking the end of the historic mill though its name is perpetuated in that of the group.

Don's abilities were recognised in the industry during these years. He was appointed as a member of the Council of the Sugar Millers' Association in 1982 and also served on the board of Sugar Transport Services Proprietary Limited and as Chairman of the South African Sugar Association and South African Sugar Millers' Association.

An all-round sportsman, Don has enjoyed cricket, road running, tennis, golf and more recently, social cycling. He played cricket for Natal Schools, captained Natal University and played provincial cricket for Natal as an all-rounder, was president of the Durban and District Union and in 1991 was chosen to lead the new Natal Cricket Union. As member of the United Cricket Board of South Africa he was part of the ground-breaking tour of India in 1991 which marked this country's re-entry into the international cricket scene, he described it at the time as "a fantastic experience which happens only once in a lifetime". Today he is honorary life vice president of Natal Cricket.

As a serious runner – a "Master" in the road-running rankings – he has taken part in more than 100 ultra-marathons and marathons, including silver medals in both the Comrades and Two Oceans marathons, and has competed in the Mont-Aux-Sources 50 km Challenge, having entered his first road race in 1965 at the age of 18 while still at school. He is a strong supporter of Illovo's culture of participation in sporting events, because "running and cycling are great sports in terms of the people involved – it includes all ages, both sexes and all colours and to have people partaking in healthy exercise is super".

Don's 17 years as Illovo Sugar's Managing Director came to an end in 2009 when he retired as MD but remained on the board as a non-executive director and deputy chairman. During those years the company experienced exponential growth due to various landmark events following the watershed year 1994 when its name was changed to Illovo Sugar. These events included the adoption of the group's Strategic Intent in 1995, when Illovo moved from being a South African company to an African business focused on sugar and downstream. The purchase of a controlling stake in Maragra came next, then the major acquisition which changed the group – buying the Lonrho Sugar group. Of the latter he says: "It gave us the required footprint and mass in Africa to change the whole group's future and in one step obtain people and operations with expertise of operating outside South Africa." Aside from the acquisition of Kilombero Sugar Company in 1998, major events in the new century included the acquisition and expansion of Zambia Sugar and the purchase of a controlling interest in Illovo by Associated British Foods in 2006. In all these events, Don was a major player.

Don's term as deputy chairman continued until 2011, when he was appointed Chairman of the board of Illovo Sugar. The next four years continued to be eventful for the company, culminating in the recent announcement of another major expansion in Zambia. Now aged 68, Don has decided to bring to an end his involvement in the running of the group to which he has devoted his working life. His knowledge and understanding of the nuts and bolts that keep Illovo on its chosen track will be missed, but no doubt his ability and energies will benefit those other interests which have played such an important part in his life. Illovo's directors, management, staff and other stakeholders, wish him and Stephanie and his family, a happy, healthy and active retirement.

EXPAND

The group continues to evaluate opportunities for further footprint expansion in Africa. *Ubombo, Swaziland.*

Overview

The past year was a disappointing one for the group. Abnormal weather conditions which hampered production and challenging market conditions adversely affected the financial results. Group sugar production was below that of last year mainly due to the impact of drought and frost in South Africa whilst continuing low world sugar prices and a significant declining trend in EU sugar prices and currency impacted negatively on revenue realisations from the export market. Overall financial results reflect a 7.7% decline in HEPS. I am, however, pleased to report a strong performance from our downstream businesses which now contribute 16% of our operating profit. The group has a strong balance sheet, healthy cash-generation and sound cane, sugar and downstream assets across Africa and investment in strategic projects such as the new refinery in Zambia, energy saving projects across the group and marginal cane and sugar production expansions will have a significant positive impact on the business in the future.

Business/operating environment

The international economic environment remains unsettled with volatile currencies and lower commodity prices and although the southern African region has seen improved economic growth compared to many other parts of the world the operating environment is challenging with high levels of unemployment, lack of infrastructure and extreme poverty. Illovo, like others operating in the region, needs to deal with the economic, market, labour and socio-economic challenges facing the continent.

The lacklustre market conditions in South Africa are a concern as they influence the economic, social and political environment. It is vital for the sustainability of South Africa that the view of the country by the world investment community improves because without economic growth and infrastructural investment the current levels of unemployment, inadequate education and labour unrest will continue to hinder the country's progress. It is important for government and business to work together to promote stability and remove policy uncertainty to achieve real growth in the economy. In particular, the severe problems experienced in the country's electricity supply has had a considerable negative impact on economic growth and an action plan to ensure that the existing systems are properly maintained and new sources of energy, both fossil and renewable, are brought on-stream as soon as possible is a pressing need. It is disappointing that many potential renewable energy projects have been delayed due to a lack of urgency with progressing applications for

electricity generation by private companies and ensuring that realistic investment tariffs are implemented. In addition, uncertainty regarding land ownership needs to be resolved timeously if food security is to be ensured and the need for adequate finance is a pre-requisite if new commercial farmers and communities who become involved in agriculture are to be successful. The impact of high inflation and interest rates on the people in Malawi is a particular worry to the group.

The group faced major cost pressures during the year. Rising costs in markets which are under pressure has negatively impacted margins despite continued focus on cost management. The trend for wage increases above the rate of inflation is a concern. The ability to pass on these increased costs without impacting on local market offtake, which is the backbone of the business, is difficult due to the economic circumstances of our customers. Accordingly, productivity improvements are vital if the business is to be world competitive.

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. Discussions with governments in the countries in which Illovo operates stress that our businesses are world competitive but it is necessary for good import protection to be in place to ensure that we are not negatively impacted by the dumping of low-priced surplus sugar from other parts of the world. Positive steps have recently been implemented in South Africa and Tanzania. In addition, in Mozambique the government is anticipated to introduce a new level of tariff following an investigation by an independent expert.

Generally relations with the various governments in the countries in which we operate remain positive and constructive.

As an African business headquartered in KwaZulu-Natal, we strongly condemn the violent attacks which were launched against foreign people living in this country, some of whom are nationals of the countries in which we have operations. These xenophobic attacks are of great concern and unacceptable behaviour perpetrated by a handful of our own citizens.

Strategy implementation

The group is Africa's leading sugar and downstream producer with extensive agricultural and manufacturing operations in six African countries with strong domestic, regional and preferential markets. The past year has seen a major decline in prices in the EU as producers prepare themselves for reform of the EU Sugar Regime from 2017. The world sugar price is currently low as a result of a fourth year of a global sugar surplus and the volatility of currencies, particularly



the Brazilian Real. However, African annual sugar growth continues to increase with demand expected to grow by six million tons by 2020. Consequently, the group will be focusing on our domestic markets, both consumer and industrial, and on the opportunities available in the growing African markets.



In addition, the group will pursue downstream investments such as the recently completed distillery in Tanzania, to enhance and diversify future revenue streams. Energy efficiency projects and power co-generation will also be areas of cost reduction and revenue growth.



The group continues to evaluate opportunities for further footprint expansion in Africa but careful assessment of the risk will remain crucial to any new opportunity being processed.



The existing business will focus on capacity utilisation and productivity improvements whilst assessing the opportunities which are available to grow the existing base operations, particularly marginal cane and factory expansions.

People

Our people are key to achieving our Strategic Intent. Attracting and developing our people is central to our business strategy. Illovo employs approximately 33 000 people, 13 000 on a permanent basis and another 20 000 as seasonal employees. Regrettably we have not made the progress we aspire to in transforming our senior management teams both in South Africa and in our other areas of operation, but this is being addressed by training, development and mentorship so as to meet our goals through targeted succession plans.

Safety remains a significant item on every board agenda and it is most pleasing to report that the group safety record in respect of both disabling injury and total injury frequency has shown a major improvement over the last couple of years with the past year showing a 10% improvement. I regret that we had two fatalities in the past year and the objective is to eliminate any such occurrences by focusing on behavioural performance and entrenching health and safety standards and thereby nurture a safe operating culture across the group.

Access to health-care is provided to all our employees and their dependants either through a network of group-run primary health-care clinics and four hospitals or through the provision of medical insurance schemes. We continue to take a proactive stance against life-threatening epidemics such as HIV and AIDS, malaria and tuberculosis. These diseases are managed largely on a preventative and integrated basis. Strategies for controlling HIV and AIDS include preventative programmes together with an established in-house wellness programme.

Governance/social investment

Illovo's directors and employees strive to ensure the company is managed with honesty, integrity and in accordance with highest legal and ethical standards. Its governance structures are in line with King III and the Companies Act. The approach is to stay abreast with local and international best practice and ensure that local requirements are met in the countries in which we operate.

In South Africa, during the year under review, the company was rated as a Level 3 contributor in terms of the B-BBEE Codes of Good Practice, and has subsequently moved to Level 2.

The company qualified for inclusion in the JSE's SRI Index for the eighth successive year and was named among the nine companies which met the "best performer threshold".

The group has an extensive social investment role across the large areas in which we operate. This is particularly relevant as most of our operations are situated in rural areas. The group's businesses form the economic and social backbone of local communities in the areas in which we operate providing infrastructure, health-care facilities, schools and many other community benefits amounting to R315 million in the 2014/15 season. As a buyer of goods and services we also support local businesses. Overall Illovo has a material impact on job creation and poverty alleviation in the regions in which it operates.

Outlook

The year ahead will be a tough one for the group with production anticipated to be below that of the current year due to the drought during the growing season in South Africa. In addition the export markets continue to be very challenging and the efforts to change the market mix will be important to reduce the impact of the lower world and EU prices. Volatility of local currencies will continue to impact on revenue realisations for both sugar and downstream exports and the conversion of profits. As a result of these challenging production and marketing conditions, it is expected that HEPS for the year ending 31 March 2016 will be between 25% and 45% below those for the prior financial year.

Appreciation

I will be retiring from the board at the annual general meeting and would like to thank the shareholders, business partners, my fellow directors and the employees of Illovo for their support over the many years of my involvement at Illovo. It has been a real privilege to serve as both Chairman and Managing Director of a group which lives by its core values, has a strong commitment to integrity, is focused on the pursuit of excellence in its activities and is cognisant of the communities and the environment in which it operates.

I would like to express my appreciation to my fellow directors over the long period I have served on the board for their commitment, guidance, valuable input and wise counsel – it has been a wonderful experience and a privilege to work with them. I wish the group continued success in meeting its vision and Strategic Intent and will follow its achievements with great interest.

Phinda Madi is due to retire from office at the group's forthcoming annual general meeting and will not be standing for re-election. He has been a valued independent board member and I thank him for his contribution to Illovo over his 12 years on the board and wish him well in his future endeavours.

My thanks to Gavin Dalgleish and 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 their effort and commitment during the past year.

Don MacLeod
Chairman

Directorate



Don MacLeod (68) (South African) #^+
 Chairman of Nomination Committee
 BCom, AMP (Oxford)
 Joined the sugar industry in 1971
 Appointed by the board 10 August 1983
Previous Managing Director of Illovo

Independent non-executive Chairman



Independent non-executive directors

Mike Hankinson (66) (South African) *#^
 Chairman of Remuneration Committee
 BCom, CA(SA)
 Appointed by the board 20 May 2008
Director of companies

Len Konar (Dr) (61) (South African) *
 Chairman of Audit Committee
 BCom, CA(SA), MAS (Illinois), DCom, CRMA
 Appointed by the board 10 July 1995
Director of companies

Phinda Madi (Prof) (51) (South African) +
 Chairman of Social and Ethics Committee
 BProc, EDP
 Appointed by the board 29 November 2002
Director of companies



Independent non-executive directors

Nosipho Molope (50) (South African) *+
 BSc (Medical Sciences), BCompt (Hons), CA(SA)
 Appointed by the board 10 September 2008
Director of companies

Ami Mpungwe (64) (Tanzanian) ^+
 BA (Hons)
 Appointed by the board 1 September 2008
Director of companies

Trevor Munday (65) (South African) *#^+
 Chairman of Risk Management Committee
 BCom
 Appointed by 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 Ethics Committee

a Member of Executive Committee



Gavin Dagleish (49) (South African) ^{^+^a}
 BScEng(Chem), MScEng(Chem)
 Joined the sugar industry in 1988
 Appointed by the board 9 March 2010
Managing Director

Executive directors



Executive directors

Mohammed Abdool-Samad (44) ^{^+^a}
 BCom, CA(SA)
 Joined the sugar industry in 2011
 Appointed by the board 16 September 2011
Financial Director

John Hulley (55) (South African) ^{^+^a}
 DipMechEng, MDP
 Joined the sugar industry in 1978
 Appointed by the board 1 September 2013
Operations Director

Larry Riddle (55) (South African) ^{+^a}
 BCom, CA(SA)
 Joined the sugar industry in 1986
 Appointed by the board 1 April 2009
Commercial Director



Non-executive directors

Mark Carr (Dr) (52) (British) [#]
 BSc, PhD, MBA, CertEng, FIMechE
 Joined the sugar industry in 2006
 Appointed by the board 5 September 2006
Chief Executive Officer – AB Sugar

Jonathan Cowper (40) (British) [^]
 MSc, ACMA, MAAT
 Joined the sugar industry in 2015
 Appointed by the board 10 March 2015
Financial Director – AB Sugar

Paul Lister (51) (British) ⁺
 LLB
 Appointed by the board 5 September 2006
Director of Legal Services and Company Secretary – Associated British Foods

Directors as at 31 March 2015

The diversity status of the board as at 31 March 2015 was six white South African men, three white and one black non-South African men, three black South African men and one black South African woman (four designated).

Directors' condensed curricula vitae appear on pages 107 to 108.

Executive Committee

Executive Committee

Gavin Dalgleish (49) ^{^+}

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.

John Hulley (55) ^{^+}

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, group procurement, risk and safety management and continuous improvement.

Mohammed Abdool-Samad (44) ^{^+}

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.

Larry Riddle (55) ⁺

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, outbound logistics, industrial affairs and advocacy.

[^] Member of Risk Management Committee

⁺ Member of Social and Ethics 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].



Company Secretary

Jennifer Kunst (61) ⁺

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 (58) ⁺

BCom (Hons)

Joined the sugar industry 1978

Joined the group 1978

Human Resources Executive

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.



Assisted by record output in Zambia and Mozambique, group sugar cane production in 2014/15 increased marginally above that of the previous season, despite a significant decline in cane production in South Africa due to drought conditions.

Managing Director's review



Gavin Dalglish

“Our continuing focus has been to drive the performance improvement in areas within our control”

Overview

Market conditions have not been easy over the last year. Despite strong domestic markets our exposure to low world sugar prices and currency challenges, in particular the sharp weakening of the Euro, have negatively impacted earnings. Adverse weather conditions in South Africa also resulted in considerable cane yield losses. Notwithstanding these factors, we continue to move forward on a number of fronts to reposition the business. Our recently-announced plans for expansion of the refinery in Zambia and the increased contribution to operating profit from our downstream activities are testament to these initiatives.

External factors

The business continued to lean into headwinds of declining world and EU market pricing, currency volatility and the impact of poor weather on the South African cane crop. The depreciation in the Brazilian Real against the US Dollar has provided an export incentive to Brazil's sugar producers which will impact an already over-supplied world market. The recent fall in world prices to a six-year low will indirectly impact regional market pricing.

Our response

Our continuing focus has been to drive the performance improvement in areas within our control.

The group's commercial and trade advocacy teams continue to make sound progress in growing domestic, regional and niche markets ahead of the EU market reform in 2017.

Domestic markets continue to be important for the group with strong demand growth particularly in Zambia. The introduction of an effective dollar-based reference price import duty in South Africa significantly reduced sugar imports relative to the previous year, impacting positively on local industry sales. In Tanzania the political recognition of the long-term damage to the domestic economy of illegal sugar imports and the emerging measures to control these trade flows, resulted in a dramatic recovery in domestic sales volumes. Our Tanzanian business recorded record sales volumes and some exciting new prepack branding is being launched in the 2015/16 season.

Conversely, the strong Malawian Kwacha, high interest rates and little or no economic growth in that country saw domestic demand soften. New route-to-market initiatives are underway to improve the affordability and drive domestic demand growth.

Bulk raw sugar exports to the EU by the operations in Malawi and Zambia continued to decline compared to those of the previous year, while the demand for speciality sugar exports to the EU continued to grow at a price premium to regional market alternatives.

Notwithstanding these poor market conditions and the drought impact on production in South Africa, the Illovo group was able to offset partly the downside with strong growth in the downstream business and strong sugar production in a number of our countries of operation.

Record sugar production in Zambia, Mozambique and at the Dwangwa mill in Malawi, as well as record cane crushed in Tanzania, again underscore the value of the geographic spread of our largely irrigated cane growing areas and sugar milling assets to mitigate climate risks. Record yields achieved by our outgrowers in Mozambique were a particularly pleasing result. Developing thriving economies that surround our operations is a key pillar in our long-term business sustainability and to this end, we continue to engage multiple funding and community agencies in developing and delivering successful outgrower schemes that enjoy increasing international recognition.

Consistent milling operations in Tanzania supported strong output of potable alcohol at our Kilombero distillery, comfortably exceeding the first full-year investment case assumptions. Increased proceeds from electrical co-generation in Swaziland and record ethanol production at the Merebank distillery in South Africa supported the excellent downstream performance, negatively impacted only by the lower drought-affected furfural production at Sezela.

Investment, innovation and shareholder value

One of the key threads running through our strategy is to diversify our product mix to offset the cyclicity in our business brought about by abnormal weather conditions, sugar pricing and currency fluctuation, among others. Initiatives, including the Zambian refinery expansion project announced during the year and to shift the group sugar





DIVERSIFY

The group will pursue downstream investments to enhance and diversify future revenue streams. *Ethanol distillery, Tanzania*

export sales mix away from the EU to growing domestic and regional markets, are progressing well. Building on the success of our Tanzanian distillery investment, two further downstream investment projects are under review.



We will continue to innovate within our supply-chains to create logistic supply advantages in a likely future scenario of the EU switching from being an attractive preferential export customer to that of a competitor in our existing regional markets.



As part of our drive for greater operational efficiencies, structural cost reduction programmes will continue to build on the good results achieved by the group-wide continuous improvement programme during the year.

Supply-chain integrity

The multinational food company trend towards local sourcing from ethical supply-chains presents an important supplier point of difference for the Illovo group. We continue to create greater awareness within the business and with external stakeholders of our impact on the environment and on the communities within which 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 continue to improve on the exemplary safety records of our factories and agricultural operations, 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 toward 100% renewable energy use and where attractive, to export power to national grids. Currently, we are meeting 89% of our own energy requirements from renewable bagasse fibre combustion and we sell surplus power into the Swaziland national grid in excess of the contractual obligations entered into with that country's power utility.

More recently, as part of the global "Zero Tolerance for Land Grabbing" campaign, we have developed our own customised Group Guidelines on Land and Land Rights, formulated in consultation with local and international experts on land matters. The guidelines complement our Strategic Intent and our Group Code of Conduct and Business Ethics which embodies our commitment to respecting internationally

recognised human rights and to adopt policies and practices to protect against human rights abuses, including land rights. We are committed to the implementation of the principles contained in these Guidelines using the benefit of our long-term experience as a major land user on the African continent, and with the assistance of other key stakeholders, including representatives of the local communities in which we operate, local government and non-governmental organisations.

The growing sugar and health debate is of concern to us, particularly the linkage between sugar consumption and increasing obesity rates. Illovo advocates the promotion of a balanced and healthy lifestyle. AB Sugar's "Making Sense of Sugar" campaign, which was launched last year, aims to educate people about sugar and the role it can play in a healthy balanced diet. We aim to provide factual information, based on robust science, so that everyone is able to make informed choices about what to consume. Further information can be found at www.makingsenseofsugar.com.

We also support and understand the concerns of governments of the countries in which we operate regarding the increasing incidence of non-communicable diseases (NCDs) such as hypertension, chronic respiratory diseases and diabetes; these health issues are serious and represent complex problems that require a collective effort to solve. We have invested, and continue to invest, in extensive medical facilities and health programmes that provide treatment and counselling for employees, their families and members of local communities, often where no such alternative facilities currently exist. Our facilities and programmes focus on treating NCDs, as well as helping to educate our communities that preventative measures are the preferred long-term approach, as treating the symptom is not treating the cause in all cases.

Illovo is also proud of its continuing inclusion on the JSE's Socially Responsible Investment (SRI) Index and in 2014, was among the nine companies which met the JSE's SRI Index "Best Performer" threshold. Also in 2014, our Integrated Annual Report was awarded the highest Sustainability Data Transparency Index (SDTI) score in the Food & Beverage Industry sector and ranked fifth overall across all sectors, and was ranked in the "Excellent" category of the 2014 EY Excellence in Integrated Reporting Awards.

Gavin Dagleish
Managing Director