(Incorporated in the Republic of South Africa)
Company registration number 1906/000622/06
Share Code: ILV
ISIN: ZAE000083846

ANNUAL GENERAL MEETING 16 JULY 2014
CHAIRMAN'S ADDRESS – PRESENTED BY DON MACLEOD

As already reported in respect of the year ended 31 March 2014, group turnover increased by 20% to R13.2 billion. However, despite the increased sugar and downstream production, group operating profit remained flat year-on-year at R1.887 billion. The operating margin declined from 17.2% to 14.3% largely due to competition from low-priced imported sugar, which affected earnings in the group's export markets and certain domestic markets, together with the significant adverse year-on-year growing cane fair value adjustments and higher-than inflation cost increases. Headline earnings were up 4.4% at R893.6 million and headline earnings per share of 194.0 cents reflected growth of 4.3%.

A strong balance sheet, healthy cash generation, sound cane sugar and downstream assets and strong domestic and regional markets across Africa position the group to continue with its growth plans. Illovo 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 towards its objective to increase sugar production to more than 2 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. 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, where viable, will be important areas of cost reduction and revenue growth.

The annual general meeting provides the opportunity to update you on the current state of the group's operations.

Growing conditions across the group have been variable with early season rainfall impacting negatively on the start-up of mills and thereafter, a reduction in long-term mean rainfall. The strikes in South Africa and Swaziland have had an adverse impact on sugar production for the year to date but it is anticipated that the production deficit from the strikes will be recovered by extending the season in both these countries. Generally factory performance to date has been positive. Overall group sugar production is expected to increase marginally from last year to around 1.85 million tons.

Market conditions continue to be difficult. In South Africa, domestic sugar revenues have been eroded by prior-year world market imports, however since the implementation of the tariff, imports into SACU have been minimal and the negative impact of these imports is expected to decline as residual stock levels deplete. In Tanzania, despite assurances from Government, imports continue to flow into the country thereby negatively affecting both volumes and price. Elsewhere in the group annual domestic market sales are anticipated to meet forecast.

EU market prices have continued to trend downward in the run up to the deregulation of the EU sugar industry in September 2017, but prices have decreased earlier than anticipated and continue to trend downward creating uncertainty as to where the prices will bottom out.

The world sugar price continues to be negatively impacted by the global surplus of production over consumption for the current year. Futures prices are between US17.0 to US20.0 cents/lb with the later-dated prices reflecting the possibility of a return to production/consumption equilibrium in future years.

The weakness in the world price is negatively impacting upon regional prices although the group enjoys a geographic logistics advantage in the markets supplied from Zambia and Malawi.

The group is taking steps to achieve a better market mix in order to maximise revenues in the current season.

Exchange rate volatility will continue to be a major influence on export earnings and the conversion of foreign subsidiary profits into Rands.

Rising costs, particularly wage increases at levels above inflation, are a concern in a market place which is under pressure, and productivity improvements together with production cost reduction initiatives will be areas of continuing focus.

Overall, despite a marginal increase in the group sugar production estimate, it is anticipated that the 2014/15 financial year will be a tough one for the group due to difficult market conditions, and the achievement of good earnings growth will be a challenge.

D G MacLeod
Chairman

Mount Edgecombe
16 July 2014

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