



# Clover

Clover Industries Limited  
INTEGRATED ANNUAL REPORT for the year ended 30 June 2016



## AN AWARD WINNING JOURNEY

As the 19th century drew to a close, a group of dairy farmers spread across the fertile Natal Midlands decided to organise themselves for better distribution and prices by founding a dairy co-operative. Through astute vision and leadership, their humble co-operative grew into South Africa's leading dairy business.

Some 112 years later Clover's shareholders took a giant visionary stride into the future by listing on the JSE on 14 December 2010 to raise the capital needed to grow a way better Clover upon its fundamental dairy base. Clover has since embarked on a value creation journey that in 2016 saw Clover being acclaimed as the most reputable company in the 2016 South Africa RepTrak® study. Clover has since 2013 received many awards as depicted here.

*'These awards prove that "Way Better" is not just Clover's brand promise – it's how everyone in the Clover value chain actually performs.'*

**Werner Büchner**  
Chairman of the Board

2013

**Sunday Times  
TOP BRANDS**

Clover Krush won 2nd place and Tropika, 3rd place, both in the Fruit Based Drinks category



Clover Fresh Milk and Fresh Cream won 1st place in each of its categories



Danao won the 1st place for innovation in the Dairy Beverage category.

Both UHT and Clover 800g Cheese won in the New Packaging category



Clover was highly commended in the Dairy category

2014

**Sunday Times  
TOP BRANDS**

Clover Fresh Milk and Clover Krush each won 1st place in their respective categories



Clover Fresh Milk won in the Milk category and Clover UHT won 2nd place



Clover won 1st place in the Dairy category



Clover Industries Limited won 1st place in Best Presentation to the Society for companies with market cap below R5bn category.

2015

**Sunday Times  
TOP BRANDS**

Clover Milk won first place in the Milk category



Clover Fresh Milk won 1st in the Milk category

Clover Cheese was the winner in the Cheese category

Clover Krush was in the Top 5 in the Non-Alcoholic Beverages category



Clover appointed as winner in the Dairy category

## 2016 AWARDS

### Clover's Chief Executive Johann Vorster named EY's World Entrepreneur (Southern Africa) 2015

Clover's "Way Better" approach to doing business was recognised when our Chief Executive, Johann Vorster received the 2015 prestigious EY World Entrepreneur Award in the Master category on 3 November 2015.

The award programme is marking its 18th year anniversary of recognising outstanding entrepreneurs for their vision, innovation, courage, and leadership. EY noted that these entrepreneurial individuals build and grow successful businesses that influence the way we live, the products and services we depend on, and the economic vibrancy of our local communities and global markets.

On behalf of all staff and the Executive Team we congratulate Johann on this honour and celebrate with him the world-class recognition for his tireless commitment and dedication in ensuring success to build a better working world.



### Sunday Times Top Brand 2016: Consumer overall favourite brand



Clover was named as one of South Africa's most favourite brands on 24 August 2016. Clover Krush won in the fruit juice and Clover Fresh Milk in the milk category. Overall, Clover ranks 8th out of the 10 top brands awarded by Sunday Times.

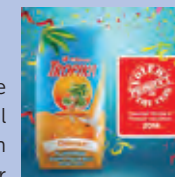
### Clover clinched first place in the 2016 South Africa RepTrak® Study

Clover claimed top spot in the Reputation Institute's study of the most reputable companies in South Africa in 2016.



Clover's reputation was measured against key themes such as Esteem, Admire, Trust and Feeling as well as seven reputation dimensions namely Product/Services, Innovation, Workplace, Governance, Citizenship, Leadership and Performance. Clover, a newcomer to the study, also ranked first in the leading branded food and beverage company industry category which was added for the first time this year. In terms of the seven reputation dimensions, Clover was placed first in Governance and Citizenship, second in Products and Services, Workplace, Leadership and Performance and third in Innovation. On the basis of public support, Clover was commended for its trusted products and was positioned as an ideal company to work for.

### Tropika wins "Product of the Year 2016" Award



In 2015, the brand launched a new payoff line "Nothing Smooother" and a highly successful campaign "Smoooth Trip in Every Sip", which resulted in a market share high of 74,7% over the campaign period (Nielsen, 4 MM Dec '15).

Further to this, the brand also won the coveted "Product of the Year 2016" award at the Innovation Awards in March 2016. This is the first time that Tropika Long Life has won a "Product of the Year" award, making the victory just that little bit "smooother" for the brand.

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## SIX CAPITALS



HUMAN



NATURAL



MANUFACTURED



INTELLECTUAL



SOCIAL AND  
RELATIONSHIPS



FINANCIAL



# PROLOGUE

## SETTING THE SCENE

Welcome to Clover's 2015/16 Integrated Annual Report, in which we share the collective thinking behind our strategy for creating long-term value.

This report is a concise account of Clover's operational and financial affairs during the course of its past financial year, covering the period 1 July 2015 to 30 June 2016.

It deals with how Clover has attained its objectives and the manner in which it executed its strategies. Throughout this report we address Clover's challenges, opportunities and the external factors that impact our operations. This report also covers the processes through which Clover interacts and communicates with our stakeholders, as well as how Clover works within sound corporate governance structures to enhance the interests of all our stakeholders and the broader community.

**In this report, Clover only includes issues our Board and executive management considers to be material.** Our materiality considerations are discussed in more detail on page 66.

### Scope and boundary

The scope of this report covers all operations of Clover and our subsidiaries. Since the release of Clover's 2015 Integrated Annual Report, we have acquired two new companies, which are reported on later.





## ABOUT THIS REPORT

The 2016 Clover Integrated Annual Report deals with the most relevant and material issues that could substantially impact on Clover's ability to create and sustain value for its stakeholders. This report is intended to concisely and accurately inform our stakeholder universe of our strategy, governance, performance and prospects in terms of Clover's value creation over the short, medium and long term.

### Compliance

The information provided in this Integrated Annual Report has been guided by local and international requirements.

These include the:

- Companies Act 71 of 2008 as amended (Companies Act)
- King III Code of Governance reporting principles 2009 (the King III Code)
- The Listings Requirements of the JSE Limited (the JSE Requirements)
- Integrated Reporting Framework (<IR> framework) of the International Integrated Reporting Council (IIRC)
- International Financial Reporting Standards (IFRS)
- Relevant Applicable Legislation and Best Practice

The Board has satisfied itself that Clover has conformed throughout the reporting period to all the principles of the King III Code and the JSE Requirements, with limited exceptions. Where we have partially complied or not complied with these provisions, Clover has provided motivations and reasons, as indicated in the King III index on page 81 of this report.

Furthermore, legal compliance with Regulation 43 of the Act is described fully in the Report on Six capitals. Compliance with Clover's regulatory universe is described under Compliance in the Governance section, on page 79.

### Integrated Combined Assurance

All disclosures included in this report are intended to provide meaningful, accurate, complete, transparent and balanced information to stakeholders. The Board, its Committees and management were involved in finalising disclosures made in this Integrated Annual Report and assume responsibility for the information contained therein. Please refer to page 145 where this is discussed.

Together with the horizontal and vertical relationships with assurance providers, this integrated combined assurance model assists the Board in assessing the adequacy of the internal control environment and assessing the integrity of information used for decision-making and reporting. Clover understands

that insightful reporting for our shareholders is an important consideration for establishing this assurance model.

Considering the sustainability of Clover's business model and in complying with Regulation 43 of the Companies Act, as well as King III, all material risks are incorporated into Clover's risk universe. These are monitored under Clover's risk management process, as described more comprehensively under the Governance section of this report.

### Statement of Board responsibility

The Clover Board of Directors (the Board) acknowledges its responsibility for ensuring the accuracy of this 2016 Integrated Annual Report. The Board has applied its collective expertise to this report and, in its opinion, this report addresses all material issues and presents an integrated and accurate view of Clover's performance in the year under review.

Based on the recommendations of the Board Committees, the Board approved this report for release on 12 September 2016.

## Contact information

We welcome your feedback on this report.

For more information regarding the contents of this report, please contact Mr Elton Bosch, Chief Financial Officer, at Tel: +27 (0)11 471 1445

### FORWARD LOOKING DISCLAIMER

This report may contain forward looking statements, including statements regarding our intent, belief or current expectations with respect to Clover's businesses and operations, market conditions, results, capital adequacy, provisions and risk management practices. Readers are cautioned not to place undue reliance on these forward looking statements as forecasts are subject to uncertainty and contingencies outside Clover's control. While due care has been used in the preparation of forecast information, actual results may vary in a materially positive or negative manner. Clover does not undertake any obligation to publicly release the result of any revisions to these forward looking statements to reflect events or circumstances after the publication date of this report.



## NAVIGATION BOARD

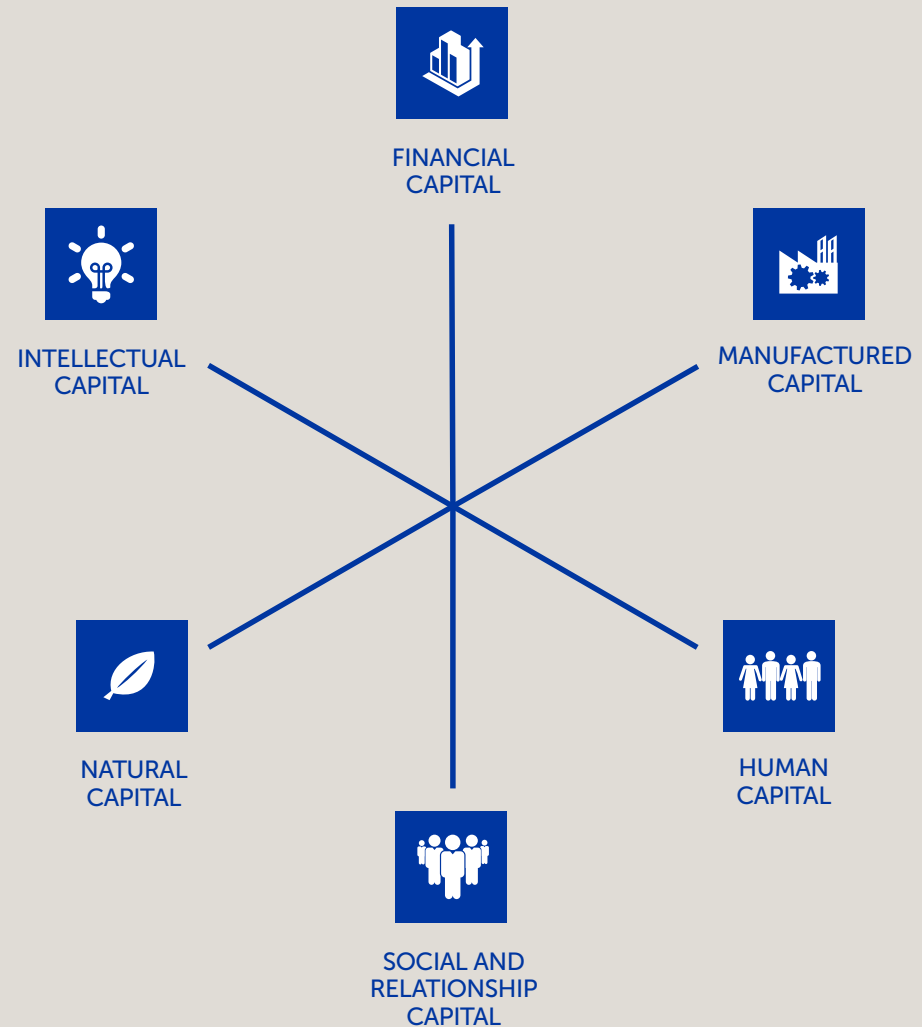
Throughout this report you will encounter icons representing Clover's specific strategic value drivers. These are placed to assist your easy referencing of key aspects of Clover's value creation process.

### THE SIX CAPITALS

All commercial organisations prioritise and blend various forms of capital to create value and preserve commercial viability. As recommended by the International Integrated Reporting Council (IIRC), Clover defines these capitals as our financial, manufactured, human, social and relationship, natural and intellectual capitals.

The six capitals are stocks of value that flow through Clover's business model to be increased, decreased or transformed into outputs and outcomes. For example, Clover's financial capital will increase in line with our profit, or the capacity of our human capital is raised when employees receive specific training. On the other hand, a larger training budget for employees may reduce financial capital in the short term, but the trade-off is that the training should deliver improved financial and other capitals over the medium to long term.

The sign posts featured here assist in identifying reporting content linked to one or more of Clover's six capitals.





## IN THE SPOTLIGHT: 2016

FINANCIAL  
CAPITAL

Revenue  
▲ **6,0%**  
to R9,8 billion

HEPS  
▲ **8,9%**  
to 188,9 cents

Headline earnings  
▲ **11,7%**  
to R356 million

Operating profit  
▲ **10,9%**  
to R564 million

Total dividends per share  
▲ **16,3%**  
to 65,2 cents

MANUFACTURED  
CAPITAL

**611 million litres**  
of milk procured  
during the year, compared  
to **606 million litres**  
last year

Output per man hour  
worked increased by  
**14 index points**

**FSSC 22 000** quality  
management system  
in process of  
implementation

**Service 3 000**  
retail and  
wholesale **outlets**

**Masakhane** sales have  
increased by  
**64%**

**15** factories  
**20 545** delivery points  
**25** distribution centres

HUMAN  
CAPITAL

Achieved a  
**level 4 B-BBEE status**

**1 624**  
new Clover recruits,  
compared to **1 380** in  
the prior year

An **increase of 9,8%** in  
permanent employees

Employed **5,5%** more  
**woman**  
than the previous year

**8 456**  
permanent employees and

**493**  
temporary employees

INTELLECTUAL  
CAPITAL

Clover CEO,  
Mr Johann Vorster  
received **EY's Southern  
Africa World  
Entrepreneur Award**  
for 2015

Received 2016 RepTrak®  
**top award**  
for **SA's most  
reputable company**

Awarded Reader's Digest  
**Most Trusted Brand**  
for 2015

**118 years**  
of experience

NATURAL  
CAPITAL

Coal consumption intensity  
▼ **5,0%**

Electricity consumption  
intensity  
▼ **12,0%**

Total carbon emissions  
▼ **10,01%**

**Celebrating 5 years**  
of our **green strategy**

SOCIAL AND  
RELATIONSHIP  
CAPITAL

**R2,7 million**  
spent on education,  
training and development

**R849 000**  
spent on infrastructure  
development

**Trained 2 022**  
since the start of the Clover  
Mama Afrika initiative

**42 Mamas**  
across the country

Caring for over  
**15 500 children**  
across South Africa

## DAIRY FLUIDS –

MILK (FRESH, UHT, STERI, AND ULTRA-PASTURISED) AND CREAM

- Dairy fluid volumes grew 5,9% for the period.
- MOM for fluids increased by 3,3% to R1 795,7 million.
- Dairy fluids contributed 48,6% to Clover's total sale of products for the period.





## CLOVER'S WAY BETTER STORY

# CLOVER'S VISION AND MISSION

## OUR VISION

To be a leading branded foods and beverages group in South Africa and other African countries, providing accessible nutrition to all consumers.

*In 2016, Clover outshone top South African companies in the RepTrak® study to clinch first place in this globally recognised reputation index. We are thrilled to be recognised as the most reputable company in South Africa for 2016.*

## OUR MISSION

Clover's mission is ambitious – yet well within reach. For more than a century Clover has steadily built itself up as a premium brand, based on quality products, close alignment to agricultural communities, exemplary service and visionary management.

Listing on the JSE in 2010 brought in fresh sources of capital and the incentive for Clover to restructure into a lean and efficient business that retains the human touch with clients, communities and our employees.

Nevertheless, staying with the pace as a market leader in hotly contested food sectors requires innovation and forward thinking, combined with expert management of every aspect of the Clover business model.

### Preferred employer

As a producer of food products consumed by millions of people daily, Clover is a people and community facing business entity. In that role we work hard to attract outstanding people into the Clover culture to infuse the expertise, innovation and passion that will continue driving Clover forwards and upwards.

*In 2014, Clover participated in the Deloitte "Best Company to Work For Survey" (BCTWF), for the first time. We achieved third place, which has spurred us on to improve further.*

### Being a responsible corporate citizen

Clover endeavours to impact as lightly as possible on the natural environment, given the reality that we must remain competitive. Clover is devoting considerable management time into materially reducing our environmental impacts by evaluating our production processes and motivating our suppliers to reduce their negative environmental impacts. As discussed in the six capitals report later in this document (as issued by Clover's Social and Ethics Committee), Clover is methodically addressing any negative environmental impacts occurring from our procurement, production and distribution operations.

*Each year, the Investment Analysts Society (IAS) of South Africa recognises JSE-listed companies for excellence in sustainability and financial reporting to the investment community. Clover Industries Limited has won prestigious awards in 2012, 2013 and 2014.*

*We established the Clover Mama Afrika project in 2004, to help restore dignity and livelihoods to vulnerable South Africans from disadvantaged communities. The Clover Mama Afrika project has won numerous PMR Diamond Arrow Awards and is a widely recognised CSI champion.*

### "Way better" operations across the supply chain to promote sustainable shareholder value

To be "way better", Clover must continuously look beyond "business as usual" processes to find new ways to tweak our business model. As a result, we are introducing new technologies and global best practices to all aspects of the Clover business. Today's business and consumer markets are evolving with increasing speed, therefore we work hard to remain ahead of change curves.



### Occupy number one or number two positions in chosen segments

Clover's mission required our brands to hold dominant positions in their market segments. To achieve these positions, Clover leverages our outstanding marketing, merchandising and distribution functions, while also reducing costs through improved efficiencies. We acquire brands and infrastructure that fit naturally into the Clover portfolio. Clover also moves into other African countries and new markets when these opportunities become viable.

*Clover brands have won numerous awards, including:*

- Agri Expo SA Dairy Championships
- Apex Awards
- Icon brands
- PMR.africa Awards
- Product-of-the-Year
- Qualite Awards
- Reader's Digest Most Trusted Brands
- Sunday Times Top Brands.



### Provide quality and trusted products, underpinned by leading dairy businesses

Over many decades Clover has built an outstanding reputation for quality products and we only add or acquire new brands that can further build out this premium status. Our marketing and sales teams will continue informing our markets that Clover never compromises on quality – from source ingredients to end product.

*In 2015, Clover was the winner of Reader's Digest's Most Trusted Brands Award.*

### Reaching the Clover's widely dispersed consumers and customers everyday

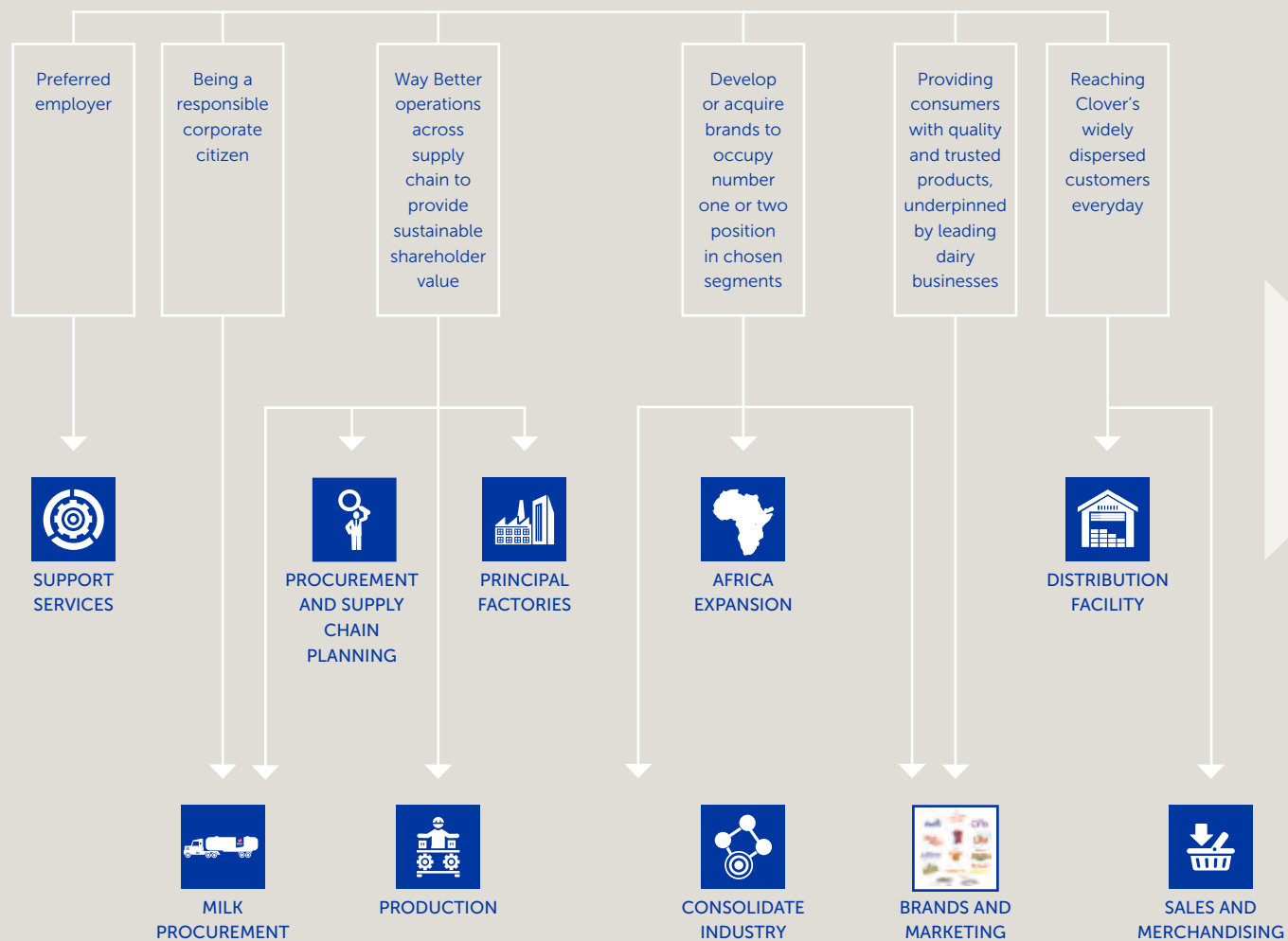
Clover's distribution network for food and beverage products is universally regarded as South Africa's finest. Large nationwide retailers and other businesses retain Clover to distribute and provide merchandising services for their chilled, ambient temperature and non-perishable inventories. Clover's thousands of distribution points and large fleet of owned and outsourced delivery vehicles enable daily, or several times per week, deliveries to Clover supply depots and client outlets. These include Shoprite, Pick n Pay and Spar, just to mention a few.



## OUR VISION

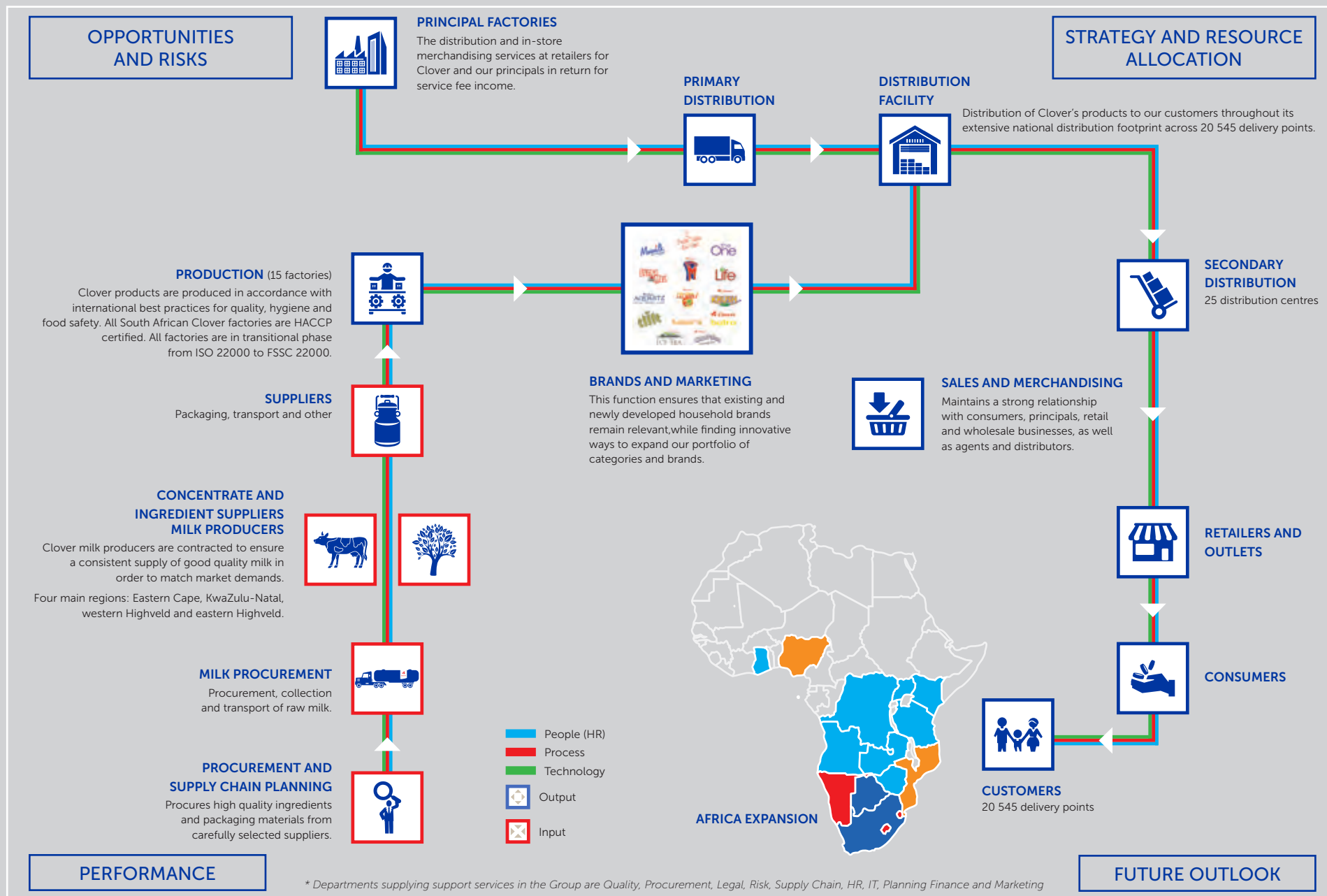
To be a leading branded foods and beverages group in South Africa and selected other African countries, providing accessible nutrition to all consumers

## OUR MISSION



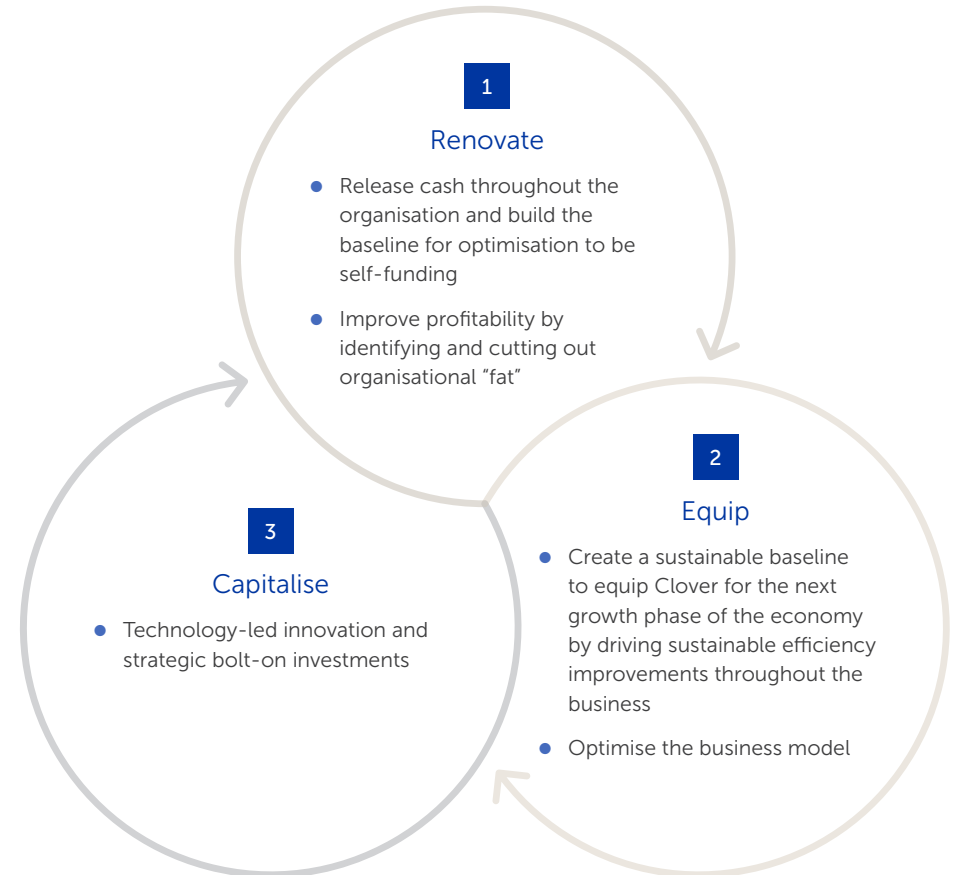
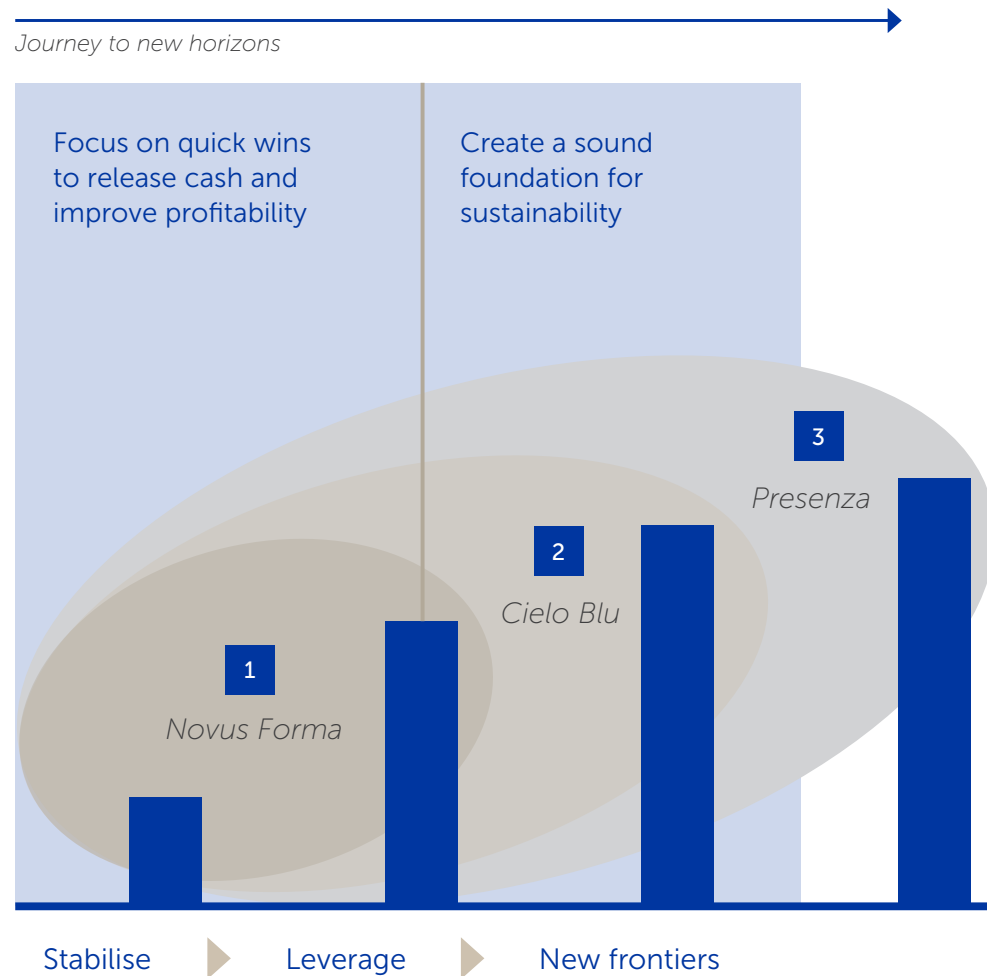
## GOVERNANCE

## VISION AND MISSION



# CLOVER AT A GLANCE

## THE STORY OF CLOVER



## Yesterday – “Renovate and Stabilise”

The Clover name is synonymous with South Africa’s green farmlands and fertile valleys. Founded in 1898 as a dairy farming co-operative in the bountiful Mooi River farming district of KwaZulu Natal, Clover has steadily evolved into one of South Africa’s largest dairy and fast-moving consumer goods groups, all the while remaining true to its founding ethos of providing premium quality products.

In 2010, Clover took the transformational step of listing on the JSE, which brought access to fresh investor capital, but demanded major internal refocusing and reorganising.

Clover restructured around a business model that dovetails its founding principles with best business practices that operate 24/7 to keep Clover moving and growing.

## Today – “Equip and Leverage”

This business model – as discussed in more detail later – is designed for long-term sustainability, regardless of market and political instability. People will always need food and drink, therefore Clover will always be there to make high-quality and safe products widely available.

Clover’s business model has been continuously optimised to attain tight integration throughout the value chain. Starting with the wide scale collection of raw milk at farm gates, we aggregate products at procurement points and transport them to our production facilities or distribution centres. Every step of the way is supported by best practice logistics and supply chain management.

Our market penetration as suppliers, distributors and merchandisers offers deep insights into the food and beverage markets. These guide our decision-making for organic and acquisitive growth into current or adjacent market segments.

Clover’s continuing success is measurable through financial results, market share growth in various segments, and the numerous awards we have won in recent years. Clover wins abundant awards each year for our superior products, appealing marketing, excellent reporting standards and ‘Mama Afrika’, our corporate social investment project.

Recognising that the nature of business is changing fundamentally through social and environmental pressures, Clover’s leadership decides strategy on the basis of sustainable business practices that value our investments in people and communities as equally worthy to capital spent on infrastructure, technology and acquisitions. Without communities and people, Clover’s vision would be meaningless. We accept the reality that Clover and communities we impact can only be sustainable when we consider and look after each other’s interests.

Corporate social investment (CSI) projects such as Mama Afrika reflect that Clover is a longstanding business with integrity that finds exceptionally practical ways to support under resourced and struggling communities. This is why Clover’s Mama Afrika project is a prime example of how to make an actual difference for vulnerable people.

Clover is rigorous about sourcing raw materials only from suppliers whom we have assessed as reliable producers of high quality product. Source quality is of utmost importance to Clover’s brand values. At present, we procure approximately 600 million litres of raw milk annually from 155 accredited producers. The raw milk is transported by Clover to 15 production centres around southern Africa that are HACCP certified, excluding Botswana. All factories are in transitional phase from ISO 22000 to FSSC 22000. All Clover products undergo a thorough 55-point safety and quality check.

Clover’s business model is underpinned by one of the finest distribution networks in South Africa, with a fleet of specialised vehicles serving close to 21 000 distribution points up to several times a week. Besides delivering Clover products to our customers, we also earn a significant portion of our revenue from distributing a wide range of principal products to many of South Africa’s larger retailers and other businesses.

## Tomorrow – “Reach New Frontiers and Capitalise”

Guided by a visionary management team that is well proven and respected, Clover is poised to continue its prudent and sustainable climb to greater heights. The Board and leadership is keenly aware of the need to balance short-term shareholder expectations against investments required to secure Clover for the longer-term. In the immediate future Clover will be riding out South Africa’s 0,2% growth economy and the after effects of the southern African drought. We will use this time to tighten up efficiencies and examine new country markets and segments, while planning for improved weather and the next economic upturn. There is always an upturn, and the signs are that it is on the way.

Clover will embark on adjacent plays by identifying like-minded companies for collaboration. Growth will be pursued through an acquisitive strategy as Clover’s business platform has been significantly upgraded for strategic bolt-on acquisitions. New products and markets will be developed.



## CONCENTRATED PRODUCTS

### CHEESE

- Pre-packed cheese volumes increased by 18,0%
- Clover's bulk mozzarella grated dices volume increased by 28,0%.
- Processed cheese slices volumes grew by 48,0%, albeit off a low base.
- Feta volumes increased by 9,3%.
- Concentrated dairy products contributed 14,9% to Clover's total sale of products for the period.





## BUSINESS REVIEW

## BUSINESS REVIEW (continued)

Clover's leadership reports have been structured in such a way to report on the environment in which Clover operates such as the dairy industry and global economy, how well Clover performs in these environments in the South African context and lastly, Clover's financial performance.

**Werner Büchner**  
*Chairman of the Board*



**Johann Vorster**  
*Chief Executive*



**Elton Bosch**  
*Chief Financial Officer*



Clover's Leadership  
Local Dairy Industry  
Global Dairy economy  
Global environment in which  
Clover operates

Clover and the world in which it operates  
South African economy  
Impact on 6 capitals  
Value creation journey

Reporting on Clover's  
financial performance



Clover's strategic pillars and competitive strengths drive the business forward as a sustainable and growing branded consumer goods giant. The roots are firmly established in the South African dairy industry and Clover strives to provide its customers with nutritional food and beverage products of the highest quality.

## CHAIRMAN'S REPORT

### Dear Stakeholder,

This is Clover's third Integrated Annual Report structured according to the principles of the International Reporting Council's framework. It is aimed at providing you with a concise and transparent overview of our business activities as well as our impact and performance against legislative requirements, standards, and best practice including the six capitals.

Since listing in December 2010, Clover's strategy has been to diversify away from bulk, commoditised foodstuff into branded, higher margin value-added products. Although our roots will always firmly remain in dairy, our short-term aim remains to achieve an equal margin contribution from non-dairy/new products and traditional dairy products respectively.

### MACRO-ECONOMIC ENVIRONMENT

The Bureau for Food and Agricultural Policy has published their 12<sup>th</sup> baseline agricultural outlook covering 2016 to 2025. It should be read for context on the global and domestic dairy industry and is available at: [www.bfap.co.za/documents/baselines/BFAP\\_Baseline\\_2016.pdf](http://www.bfap.co.za/documents/baselines/BFAP_Baseline_2016.pdf).

The past financial year has been a 'tale of two halves' with record raw milk volumes in the first two quarters diminishing sharply as one of the worst droughts on record impacted much of southern Africa. At the same time, a rising interest rate cycle, political instability (especially over December 2015) and the continued threat of a sovereign ratings downgrade wreaked havoc with the currency volatility.

For dairy processors such as Clover, these macro-economic dynamics resulted in downwards pressure on selling prices, rising input costs and a stagnant domestic economy, as South Africa

narrowly avoided a third quarter contraction in GDP growth. Growth is currently forecast at zero percent.

It is therefore all the more pleasing to report a solid improvement in headline earnings per share, up 8,9% or 15,3 cents to 188,9 cents (2015: 173,6 cents). Normalised earnings per share also improved by 8,7% to 192,2 cents. (2015: 176,9 cents.)

Operating margins increased to 5,7% from 5,5% whilst normalised operating margin (calculated as normalised operating profit as a percentage of revenue excluding raw milk sales) increased from 5,2% to 5,9%.

Mr Elton Bosch's report on page 34 elaborates more on Clover's financial performance.

What make these results more significant, is the record-high base from which it was achieved, after Clover reported an all-time high financial performance for its 2015 financial year.

We've always maintained that Clover has a number of levers to mitigate against risks and on behalf of the Board I commend the management team under the leadership of Mr Johann Vorster for their initiatives to reduce costs and optimise efficiencies in an environment where cost increases could not be passed on to the consumer without significant volume and market share risk. Johann shares more on how he and his team implemented and unlocked value from our strategy in his report on page 24.

The precarious operating environment, characterised by increased cost inflation and neutral selling prices resulted in the absorption of above inflationary cost increases into the margin of certain products to protect volumes and market share, as reflected in the margin growth lagging the strong volume growth reported.

By April 2016 stability was required in the primary industry and Clover successfully negotiated retail selling price increases for the benefit of our producers.

Despite these headwinds, our value-added products performed well with healthy volume growth. Following capacity upgrades, the 87% volume growth reported for our higher value fermented products and deserts is particularly pleasing.

Our non-alcoholic beverages portfolio performed above expectations, supported by successful price increases in July 2015 and heatwave conditions experienced over the December holidays.

Following our exit from the Danone contract, revenue from principles is still lower than in prior years, however I'm particularly encouraged by the progress made in filling excess capacity primarily with our own products, particularly the yoghurt and custard range. This was partially supported further by the acquisition of Nkunzi Milkyway Proprietary Limited (which saw us enter the Ayrshire and Organic Milk markets) Frankies and Good Hope (our entry into soya based milk alternative products and export markets) as well as new principal business.

Over the past number of years, Clover has invested significantly into its business. The Board is satisfied that plant and equipment has been sufficiently upgraded to support future growth and capacity requirements and no new significant capital projects are anticipated.

As this cycle in our evolution concludes, our focus is on delivering the expected targeted returns from these initiatives, improving cash flow and financial performance measures such as earnings per share.

Simultaneously we will maintain and build on the trust our stakeholders place in us as the most reputable company and one of the top ten brands in South Africa.

## REGULATORY ENVIRONMENT

During the review period, Treasury tabled the introduction of a proposed sugar tax in Parliament. Although glycaemic sugar is not included in this tax, the potential consequence if the regulation is imposed in its current form, will be severe.

As an industry we continue to engage with regulators on finding an optimal way forward that will have the minimal impact on output and employment.

## TRANSFORMATION AND EMPOWERMENT

Clover's B-BBEE status was assessed earlier this year and we maintained our rating as a level 4 contributor.

New B-BBEE codes for the dairy industry have been circulated and codes for the broader agricultural sector are still being debated. Realistically, Clover can only evaluate the potential impact of these once they've all been promulgated.

Internally, our employment equity planning is well on track in preparing a younger generation for leadership throughout Clover.

Given the low-growth environment and changes in the political landscape following the recently concluded local elections, it is likely that worker unions could significantly increase wage demands, which will protract the negotiation period and place the secondary industry under pressure. At the time of writing, we have successfully concluded the annual wage negotiations with representative unions, although at a higher rate than what we feel the current economic environment warrants.

What make these results more significant, is the record-high base from which it was achieved, after Clover reported an all-time high financial performance for its 2015 financial year.





## CHAIRMAN'S REPORT (continued)

### THE ENVIRONMENT AND OUR COMMUNITIES

Throughout our endeavours to create shareholder value and growth, we remain cognisant of our responsibility towards our stakeholders and our operating environment.

Our Report on Six Capitals detailing how we interacted as a corporate citizen with our stakeholders is available on page 99 of this report, as well as online at [www.clover.co.za](http://www.clover.co.za).

### GOVERNANCE

The Board continuously reviews and updates Clover's corporate governance approach, procedures and policies to reflect an evolving business environment and company, by aligning these to international best practices. More information is contained in the Report on Governance, Risk and Compliance on page 69.

Clover has come a long way since its listing in 2010 in building sturdy governance structures. In 2016, Clover was publicly acclaimed as the most reputable company in South Africa, as determined in a study conducted by the Reputation Institute. This is an accomplishment each staff member of Clover should truly be proud of.

I want to draw readers' attention to the letter by the Chairman of the Remuneration Committee on page 86. The Board views the substandard outcome of the non-binding approval of the Group's Remuneration Policy at the Annual General Meeting of shareholders held on 27 November 2015 in a serious light.

As a result the Remuneration Committee has been instructed to re-engage with our shareholders in order to find a sustainable way of balancing all stakeholders' interests.

### DIVIDEND

The Board declared a final dividend of 40,94 cents, representing a total dividend for the year under review of 65,15 cents. (2015 combined dividend: 56 cents per share).

Mr Elton Bosch elaborates on our progressive approach to dividend cover in his overview on page 38.

### APPRECIATION

In this year we bade farewell to three stalwarts of Clover's journey to becoming one of South Africa's leading branded groups, with Mr Tom Wixley, Dr Chris Lerm and Mr Jacques Botha retiring from the Board after many years of dedicated service.

Chris and Jacques were integral to Clover's preparation for listing in 2010 and the intensive reorganisation and repositioning of Clover that followed. On behalf of the Board and the entire company, I wish them well for their retirements and any other endeavours they decide on.

I had the privilege of working with Tom since his appointment to the Board in 2007. Over the past 12 years, Tom's consistent wise council, corporate experience and pragmatic approach to some very tough challenges had a direct impact on Clover's success to date. His standpoints not only impacted at Board level, but in many instances on a personal level too. On behalf of Clover, and the Board in particular, I thank you for your contributions over the years.

I would also like to thank Mr Peter Griffin who will be retiring from the Board and won't be standing for re-election. We wish you well in your future endeavours and I would like to thank you on behalf of the Board and everyone at Clover for your contributions over the past two years.

Our CE, Mr Johann Vorster was duly recognised by Ernst & Young as the EY entrepreneur for Southern Africa in 2016, which sent him off to Monaco as a finalist for the World Entrepreneur of the Year. Johann did not clinch the big prize, but being recognised in this unexpected manner on the global business stage shows how intrinsic Johann was to repositioning Clover as a world class food and beverage company.

These awards prove that "Way Better" is not just Clover's brand promise – it's how everyone in the Clover value chain actually performs.

Finally, I thank the Board, management and each and every Clover employee for working tirelessly to produce the robust results reflected in this report despite some very trying circumstances.



**Werner Büchner**  
*Chairman of the Board*

12 September 2016



# CHIEF EXECUTIVE'S REPORT

## INTRODUCTION

In the 2014/15 financial year, Clover reported record the earnings of its 118-year history. Although we are very proud of that performance, it set an exceptional benchmark against which we had to achieve this year. I am therefore all the more pleased to report continued strong growth across most performance measures.

Headline earnings per share increased by 8,9% or 15,3 cents to 188,9 cents per share, whilst earnings per share was down 2,4% to 185,9 cents (2015: 190,4 cents). A complete overview of Clover's financial performance is available in the Chief Financial Officer's report on page 34 of this Integrated Annual Report.

My overview will elaborate on how the business successfully mitigated a range of challenges and successfully created stakeholder value through leveraging opportunities. This report should be read in conjunction with the Chairman's report as well as the Chief Financial Officer's report for a holistic view of the Company and its performance during the year under review.

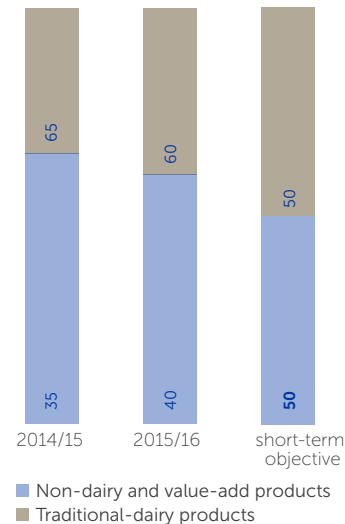
### Financial strategy

We came to market in 2010 with the objective of diversifying our business away from bulk, commoditised dairy products, into higher margin, value added branded foods and beverages. Although our roots will always remain firmly in dairy, our quest to achieve above average operating margins through a portfolio not exposed to dairy price fluctuations continued to gain traction. Our efforts were significantly bolstered by the strong performance in the beverages portfolio in particular, and the fermented products categories in general.

Management's short-term focus remains to achieve an equal margin contribution from non-dairy and new value-add products on the one hand, and traditional dairy products on the other.

As illustrated in the graph below, the contribution to overall margin on material (MOM) of non-alcoholic beverages, fermented products and desserts, and other value-add products, increased from 35% in the 2014/15 financial year to 40% in the year under review.

**Margin growth from non-dairy vs traditional dairy product (%)**



### Focus on cost reduction

The oversupply of raw milk in the earlier part of the reporting year, followed by the impact of a severe and protracted drought across most of the country in the latter part, accompanied by currency weakness and low economic growth, resulted in selling price stagnation and above inflationary cost pressures.

As a result, we focused on cost saving drives during the review period, with the management team driving efficiencies and cost savings exceptionally hard, with a specific on containing variable costs.

Selling and distribution costs were reduced by 2,6% or R52,1 million through re-negotiating contracts, especially on the delivery fleet.

We spent R30,6 million or 13% less on advertising, marketing, research and development costs compared to the prior year, by leveraging synergies through a "mother brand" approach.

Administrative expenses were consequently reduced by 2,8% or R8,5 million.

Head office incurred zero inflationary salary increases and expenses were reduced by 7,4% through:

- A freeze on filling vacant positions, especially at executive level
- A moratorium on legal and consulting fees
- The cancellation of conferences and special events.

Skills Development Levy grants received further offset the amount spent on training, compared to the prior year period.

Although the integration of certain manufacturing facilities created cost savings through synergies, a once-off retrenchment cost of R8,5 million was incurred, accounted for as restructuring expenses. (Refer to Human Capital, later in my report for more on the restructuring).

In the current financial year, Clover's senior management has committed to a salary freeze with no increases in order to contain costs further.

### Curtailing capex

As reported on at the interim results, the completion of Cielo Blu marked a step change in Clover's approach from being expansion orientated to focusing on fully utilising its capacities and asset base. The remaining challenge is that Clover has several dispersed concentrated factories which are currently



not being optimally utilised. Clover's butter factory is 280km from its main powder facility which produces most of the cream for butter production, and similarly its whey powder tower is 290km from its cheese factory that produces all Clover's liquid whey. There are currently two milk powder factories, one butter factory, one cheese factory and one whey powder factory, all in different towns, and this is not optimal for efficient functioning of our dairy supply chain.

The only exception is the Bloemfontein yoghurt capacity expansion which is due for completion in July 2018.

With our IT collaboration project with IBM (see Intellectual Capital below) and the Clayville chilled distribution expansion completed during the year under review, Clover's asset base is now substantially rejuvenated. Going forward, new capex investments will only be considered if there is a demonstrable, exceptional return on investment and a clear fit or bolt-on opportunity to the existing infrastructure.

#### Positive cash flow

A solid operational performance, supported by our cost savings drive and reduced capital expenditure, impacted favourably on Clover's cash flow, resulting in a positive cash flow position reported for the year under review, as highlighted below:

CIL Group	2016 R'000	2015 R'000	2014 R'000
Cash generated from operations activities	<b>673 448</b>	160 185	403 067
Cash used in investing activities	<b>(332 629)</b>	(556 822)	(351,734)
Cash (outflow)/flow from financing activities	<b>(212 426)</b>	218 097	(97 780)
Net increase/(decrease) in cash and cash equivalents	<b>128 393</b>	(178 540)	(46 447)

Management's short-term focus remains to achieve an equal margin contribution from non-dairy and new value-add products on the one hand, and traditional dairy products on the other.



## CHIEF EXECUTIVE'S REPORT (continued)

### Return on Equity (ROE)

Return on Equity is a paramount performance measure for a number of capital market investors. Throughout the year we engaged with these shareholders to integrate greater focus on this measure into the long-term incentives for especially senior management. (Refer to the Report on Remuneration, and especially the letter to shareholders on page 86 of this Integrated Annual Report.)

Given a stagnant selling price environment and above inflationary increases in variable costs during the reporting year, it is no surprise that return on equity excluding exceptional items decreased from the high base of 13,5% set in the prior reporting period, to 13,3%. Rising interest rates therefore impacted negatively on the ROE.

### South Africa – 2016 Top 10

1		78,1
2	Coca Cola	76,2
3	Woolworths	75,4
4	Spar	74,9
5	MassMart	73,3

### GOVERNANCE

I am particularly encouraged by Clover claiming the top spot in the 2016 South Africa RepTrak® study award for the most reputable company in South Africa, following the addition of the leading branded food and beverage company industry category this year.

Clover placed first in Governance and Citizenship, second in Products and Services, Workplace, Leadership and Performance and third in Innovation.

We pride ourselves on being a mature organisation, applying global best practice through an Enterprise Wide Risk Management Framework. The Board and management views corporate governance as paramount to sustainability and our risk

policy and framework incorporate guidelines by The Committee of Sponsoring Organisations (COSO).

More information on how we manage, monitor and measure compliance through the internal audit function (outsourced to Deloitte), and our Ethics Hotline and Clover's Competition Law Centre of Excellence, is available in the Report on Governance, Risk and Compliance on page 70 of this Integrated Annual Report.

### HUMAN CAPITAL

The Reptrak study mentioned above makes reference to Clover's ranking as "an ideal company to work for."



This accolade is supported by our exceptionally low staff turnover and high-performance culture. As a management team we go to great lengths to ensure staff across all levels in the organisation is well-informed of our objectives and the strategies to achieve this.

Establishing a "creative tension" drives our strategy and "Way Better" philosophy, retaining key skills within the business, such as with the City Deep facility integration into Clayville, where most staff were redeployed in the business.

The Board subscribes to and supports Government's equity objectives and broad-based black economic empowerment. To this end we work closely with the Jobs Fund to unlock opportunities, such as our Masakhane project, that has already created a significant number of permanent employment opportunities and is set to create hundreds more.

Launched in 2012, the Clover Masakhane initiative is Clover's channel of entry into emerging markets and less formal trading outlets such as spazas, tuck shops, corner cafés, bottle stores, shacks and shebeens.

6	Pick n Pay	72,6
7	FNB	72,1
8	Nestle	71,6
9	Sanlam	70,2
10	Old Mutual	69,9



This channel is growing vigorously into a game changer for the emerging market, bringing many new entrepreneurs and employees into the mainstream market, while also creating demand for Clover's quality and nutritious brands in areas where these were previously unavailable.

Clover trains emerging entrepreneurs in retail skills and supply chain management so that their businesses can grow and become sustainable. Masakhane is proving to be such a win-win situation that Clover has received positive feedback for the Masakhane project.

More information on Masakhane and other Human Capital initiatives can be found on page 123 and 109 of this Integrated Annual Report respectively.

## NATURAL CAPITAL

In 2015 South Africa produced a record three million tons of raw milk, followed by a sharp fall in raw milk supply through the first half of 2016 due to the severe drought and regular seasonal variations. The depressed prices for raw milk in 2015 rose considerably in the first half of 2016.

The high raw milk flow necessitated a reduction in farm gate milk prices which came into effect in August 2015 as the national milk intake was still 7,2% higher than the previous year. The impact of the drought towards the third quarter of the year under review was most notable in Kwa Zulu-Natal and the Highveld. Coupled with increasing feed cost as a result of a weak rand, farm gate milk prices were increased substantially above the levels at the time of overproduction in order to protect the primary industry.

Clover's proprietary Unique Milk Procurement System ("CUMPS") matches milk procurement to market demand through quotas and contracted delivery agreements. Our raw milk source



remains secure in the face of all foreseeable eventualities and we anticipate that the improved weather conditions forecasted for late 2016 and 2017 will normalise milk production.

The aim of CUMPS is to protect the primary industry in South Africa as dairy producers have greater see-through on potential milk offtake. The irony is that South Africa produces some of the highest quality milk internationally. Production capacity is not the challenge – finding a sustainable offset point for this production capacity is, but I will elaborate more on that under Manufactured Capital below.

The sustainability of Natural Capital is recognised throughout our value chain, including our carbon footprint, electricity consumption and wastage. Readers should refer to the chapter on Natural Capital on page 113 of this Integrated Annual Report for more information.

## MANUFACTURED CAPITAL

Following our highly successful "Cielo Blu" project, which optimised Clover's distribution network and delivered over R100 million per annum in supply chain savings, management took a long hard look at Clover's production facilities. Due to historic factors, some of these plants are geographically far apart and incur inefficient transport expenses from moving products and ingredients between them.

Over the past two financial years Clover has invested heavily in our production infrastructure and will significantly cut back on expenditure in this area for at least the next financial year. We integrated Dairybelle's and Nkunzi MilkyWay production facilities into Clover's manufactured capital, as well as installing two new production lines to meet a surge in demand for our incoming yogurt and custard brands.

We are optimising where we economically can, but a longer term solution is to centralise all our major production facilities



into a strategically located and purpose-built industrial park strategically located near supply sources, other production facilities and major transportation routes.

This purpose built industrial park will offer substantial cost efficiencies by producing many of the ingredients and concentrates required for Clover products. By producing longer life powders, this industrial park would be purposefully designed for exporting local dairy products.

This is a medium to long term project due to the large capital investment required, therefore management is considering the business case for the park in conjunction with various stakeholders and government.

I am equally excited about Clover Masakhane, as I elaborated on under "Human Capital" above. This project is a catalyst for growth in a previously untapped market segment. The nuts and bolts are discussed further under Manufactured Capital on page 117.

## INTELLECTUAL CAPITAL

The hyper competitive retail industry is moving towards planning its product selection and stocking levels through an average daily rate of sale, whereby future customer orders will be calculated by a statistical algorithm and the retailers themselves take hands-on control of their demand and in-store planning.

Clover's leadership decided on an aggressive approach to evaluating and adopting technologies that will future-proof Clover. To this end we have partnered with IBM to develop a proprietary business intelligence system to support management decision-making at all levels. This "Kolabo" project will enable managers to use "big data" analysis for insights into market dynamics, trends in consumer consumption and the needs of our clients.



## CHIEF EXECUTIVE'S REPORT (continued)

But these technological advances are not without risk, and could threaten Clover's distribution revenues if we don't react promptly: As Pick 'n Pay in the Western Cape is presently updating its ordering systems, Clover has temporarily halted distributing certain products for its stores.

Clover and one of the prominent retailers are collaborating closely on an enhanced distribution system based on the aforementioned evolution towards algorithms, which will provide important lessons for the remainder of our distribution network.

The largest component of Intellectual Capital is our brands, the performance of which is outline below. All the market share and market growth statistics discussed below are based on the independent "Nielsen Total Trade Desk" data ("Nielsen data"), which comprises Shoprite Checkers, Pick n Pay, Woolworths, Spar group and Fruit and Veg City data and is consistent with the measures applied in prior reporting years. We also compare the "Nielsen data" to our internal volumes as the Nielsen data is based on the top-end, and does not necessarily include data that relates to the bottom of the pyramid.

### Fresh and ultra-pasteurised milk

Clover's volume only increased 2,3% against the prior year, mainly as a result of the low market prices for UHT. The total market for fresh milk contracted by 2% against the comparative year also reflecting the low prices for UHT. Clover's market share for the year reduced from 27,9% to 24,1%.

### UHT milk

Continued aggressive pricing by retailer house brands resulted in overall total market volume growth of 9,9%, albeit slower than the 19% market growth recorded in the industry. The surplus experienced in the last quarter of the prior financial year curtailed Clover's ability to retain market share during that year. During the current year, Clover's UHT volumes in the Nielsen channels also contracted as a result of Clover's increased involvement in Dealer Owned Brands, Clover's market share contracted from 16,4% to 14,4 % for the year.

### Cream

Total market volume growth contracted 2,4 % for the year under review. Clover's market share however decreased by 8,9% to 28,8%, largely as a result of less cream available to sell due to the lower fresh milk sales during the year.

### Maas

Clover's volumes grew by 34,2% and we continued making inroads into this segment by growing market shares from 7,3% to 9,3%.

### Feta cheese

Clover grew its market share by 7,1% to 28% on the back of a 9,3% volume growth in Clover.

### Pure juices

Overall volumes in the pure fruit juice market continued to decrease, reflective of reduced discretionary consumer spend. Despite a contraction in the overall market, Clover's volumes increased by 4,14%, although its market share in the top end contracted by 6,9% to 42,9%.

### Iced-tea – ready to drink

The ice tea category continued its growth, and Clover's volumes increased by 11,1%. Clover's market share in this competitive category also increased by 1,7% to 17,5%.

### Dairy fruit mix

Clover maintained its market share at 79,3% through its popular "Tropika" and "Danao" brands at 79,3%. Given a strong performance at the bottom-end, however, Clover managed to achieve 5,9% volume growth in this category.

### Bottled water

The total market volume in this segment increased by 21,8% during the year under review although Clover Waters' market share in this segment declined by 16% to 10,9% from 13%, mainly as a result of strong competition.

### Pre-packed cheese

The overall volumes for natural pre-packed cheese grew by 18,0% during the year under review. Clover's market share in this category grew 24,8% to 23,8% due to more competitive pricing.

### Flavoured milk

Clover's "Super M" brand increased its volumes by 8,7%, although its market share contracted by 3,5 % to 25,6%.

### Yogurt

Clover entered the yoghurt category in January 2015 by introducing its own range of yoghurts under "The Classic" brand, in addition to the manufacturing and distribution of the acquired and relaunched "Fruits of the Forest" brand.

The total market volume grew by 136,6 % during the year under review. Clover's market share for the whole year (although only participating in this category for half of the year) came to 8,3%. The market share at June 2015 was 4%.

This marked improvement, was done to manufacturing capacity in Bloemfontein being increased.

### Custard

Similar to yoghurt, Clover only entered the custard market in January 2015. Volumes in this market category grew 199% and Clover's share of this market's annual sales volumes was 7,7% compared to 2,6% previously. Clovers total volumes grew 133% in this category.

### Butter

Total market volumes contracted by 5,1% as a result of low inventory levels and the availability of cream.

Carbonated drinks (Frankies), Soya and nut-based drinks (Good Hope), Smart drinks (Futurelife)

All of the above had no base year, and volumes and market share therefore grew 100%.

## SOCIAL AND RELATIONSHIP CAPITAL



I am proud of all the awards that Clover has won over the past year, which shows that we are doing much that is right and good. In particular, winning the 2016 South Africa RepTrak® study award as the most reputable company in South Africa was an eye-opening accolade, especially as we placed ahead of legendary brands such as Coca-Cola and Woolworths.

The Clover Mama Afrika project launched in 2004 is close to my heart, being such a practical and authentic means of channelling self-empowerment, skills development and dignity into marginalised communities. This worthy undertaking was again recognised by winning PMR's prestigious Diamond Arrow Award.

I underwent my own somewhat unexpected awards adventure by being selected as Southern Africa's EY Entrepreneur of the Year, which meant going to Monaco in June 2016 to face off against the EY regional winners from around the globe.

After a fascinating week of interacting with great international achievers – not all from the world of business – and rubbing shoulders with truly special entrepreneurs, we all had to face up to the fact that we had again lost to an Australian. Manny Stul was a worthy winner with a stirring story to tell of struggling to succeed against exceptionally unkind events – and he did. I was inspired and humbled, while learning much to bring home.

## OUTLOOK

Much of the world – including South Africa – has entered into such a precarious era that attempting to make any kind of prediction can be foolhardy.

Nevertheless, I will err on the side of optimism by predicting that South Africa's weather and milk production will normalise through the summer of 2016/17. Current indications are that the strong El Niño effect over the Pacific Ocean that is blamed for

Africa's drought has dissipated and is being replaced by weak La Niña, which is likely to bring heavier than average rains to southern Africa from November 2016 onwards.

In this scenario, food and beverage input costs should fall and bring down food price inflation. South Africa and its population should benefit from a multimillion rand turnaround in the agricultural sector that will ease balance of payment pressures from food imports and hopefully lower prices for producers and consumers alike.

## VALUE CREATION

In addition to innovative projects such as Masakhane, Clover will continue to expand its operations within the BNLS (Botswana, Namibia, Lesotho and Swaziland) region and will pursue further export opportunities on the continent where risks can be mitigated.

Our focus will remain on fully utilising capacities and the asset base we built over the past five years, and we will explore local consolidation opportunities where synergies can be leveraged.

## APPRECIATION

I would like to thank the Board, especially Mr Werner Büchner, for its continued support and guidance during a challenging 12 months. Mr Tom Wixley has been the lead independent director on our Board since listing in 2010. Tom decided not to stand for re-election and I wish him well in his retirement. Thank you for your sage advice and input over the past six years.

Our relationship with our producers remain a beachhead for our sustainability and once again I thank them for their continued support and interaction. Mr Peter Griffin, a producer shareholder, has decided to retire from the Board and won't be offering himself for re-election. I would like to thank Peter for his valuable guidance and look forward to engaging with him in future, especially as a representative voice for some of our producer

stakeholders. The Board has decided not to appoint any new directors to replace Mr Wixley and Mr Griffin at this point in time.

In particular I want to thank each staff member and their families for their devotion and hard work during a challenging year – your "Way Better" approach to challenges has carried us through.

Lastly, a final word goes to my executive team for their hard work and commitment. It is with a heavy heart that I say farewell on a professional level to Mr Jacques Botha and Dr Chris Lerm, who both retired from the Board during the year. Your contribution to our success as a company and a team was tremendous and something I personally cherish.

The strategy has always been to maintain a focused executive team, and our succession planning processes began many years ago as we knew some of the executives were due to retire. The appointment of Mr Elton Bosch, Mr Marcelo Palmeiro and Mr Jacques van Heerden to the executive team was part of succession planning, making them an integral part of the functioning of the Executive Committee assisted with adequate knowledge transfer. Together with their core skills sets, this enabled us to have a seamless transition in replacing Mr Jacques Botha, Dr Chris Lerm and Mr Manie Roode over the past three years. As a result, the Executive Committee has now been reduced from eight members to six members, which will assist us in curtailing costs further.

I welcome Mr Elton Bosch to the position of Financial Director and look forward to his continued contribution and insights as part of the Board.

**Johann Vorster**  
Chief Executive

12 September 2016

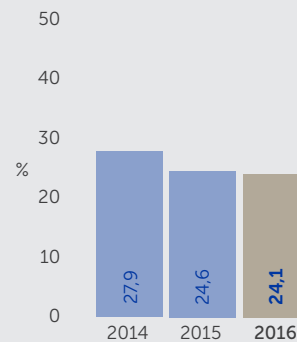
## CHIEF EXECUTIVE'S REPORT

(continued)

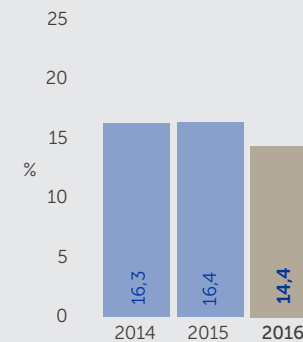
All market shares shown here are based on data received from Nielsen. Please note some market shares for 2015 have been restated due to changes made in the Nielsen database.



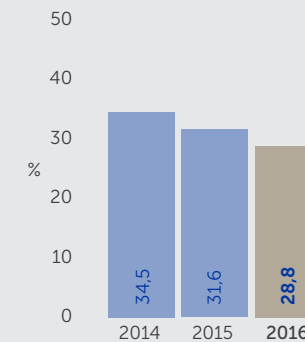
Fresh and UP milk



UHT Milk



Cream



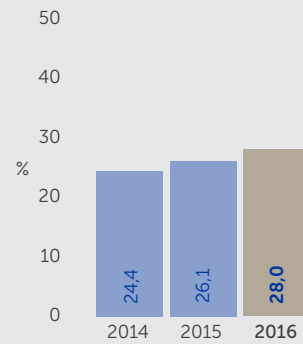
### KASI STAR BRANDS

Clover Fresh Milk achieved Kasi Star Brand status in the 2015 Ask Afrika/TGI survey and was chosen as one of the most loved brands in SA Townships

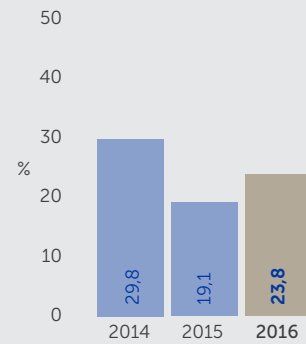




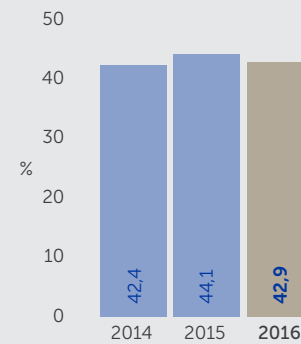
### Feta cheese



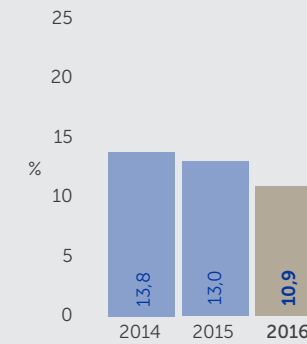
### Pre-packed cheese



### Pure fresh juices



### Water brands





## CHIEF EXECUTIVE'S REPORT

(continued)

### SAFTA AWARDS

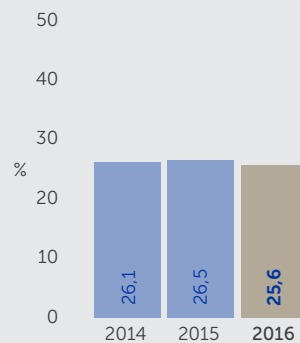
Clover Litre Big Cook off wins the Best Game Show category in the 9th SAFTA awards in 2015



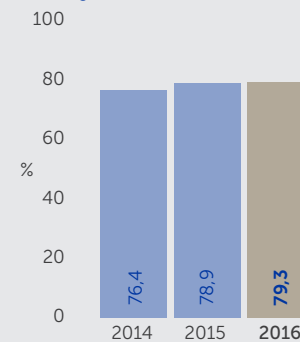
SAFTAS



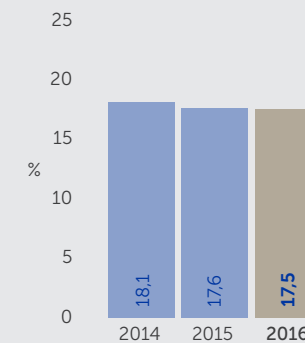
### Flavoured milk



### Dairy fruit mix

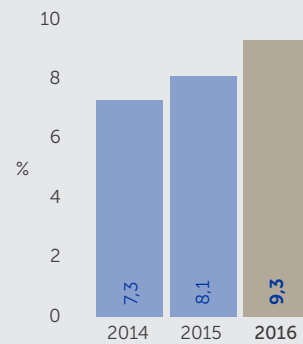


### Iced tea

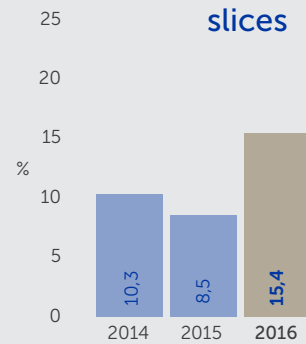




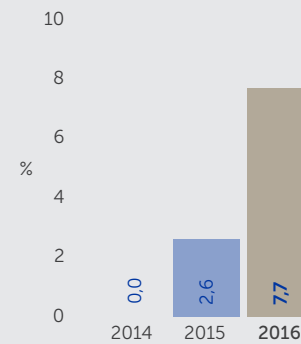
### Maas



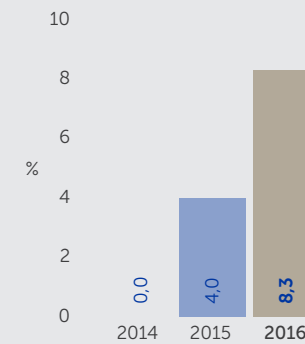
### Processed cheese slices



### Liquid custard



### Yoghurt



# CHIEF FINANCIAL OFFICER'S REPORT



## Financial highlights

	2015/2016 R'000 unless otherwise stated	2014/15 R'000 unless otherwise stated	% change
Revenue	9 818 717	9 266 251	6,0
EBITDA	753 092	686 659	9,7
EBITDA %	7,7	7,4	0,3
EBIT	564 450	509 072	10,9
EBIT %	5,7	5,5	0,2
Headline EBITDA	758 868	647 709	17,2
Headline EBITDA %	7,7	7,0	0,7
Headline EBIT	570 226	470 122	21,3
Headline EBIT %	5,8	5,1	0,7
Normalised EBITDA	767 361	656 181	16,9
Normalised EBITDA %	7,8	7,1	0,7
Normalised EBIT	578 719	478 594	20,9
Normalised EBIT %	5,9	5,2	0,7
Net finance cost	(112 825)	(74 064)	52,3
Effective tax rate (%)	24,5	22,5	2,0
Headline earnings	356 595	319 343	11,7
HEPS (cents)	188,9	173,6	8,9
Diluted HEPS (cents)	184,7	165,9	11,4
Normalised earnings	362 709	325 443	11,5
Normalised EPS (cents)	192,2	176,9	8,7
Capital Expenditure	423 071	489 753	(13,6)
Return on equity (%)	12,9	14,5	(1,6)
Return on equity excluding exceptional items (%)	13,3	13,5	(0,2)
Cash generated from operations	673 448	160 185	320,4
Dividends per share (cents) – interim	24,21	22,60	7,1
Dividends per share (cents) – final	40,94	33,40	22,6

Clover's Board of Directors believe the financial statements published in this Integrated Annual Report present fairly, in all material respects, the financial position, financial performance and cash flows of Clover Industries Limited in accordance with International Financial Reporting Standards (IFRS), and without material misstatements. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements section of this Integrated Annual Report. The Board and senior management is confident that Clover's internal control system is adequate for preparing accurate financial statements in accordance with IFRS and the requirements of the Companies Act of South Africa.

## OVERVIEW

Clover faced numerous economic headwinds for the year ended 30 June 2016. Our interim results released in March stated that the strong 8,1% growth in national raw milk supply during our 2014/15 financial year lowered dairy product market prices throughout the peak milk season in 2015/16. Our dairy segments therefore operated in a price neutral environment throughout the year, while the heatwave of December 2015 increased sales volumes in all product categories. Clover's new yoghurt and custard categories helped grow our overall sales volume growth by 9,7%.

Higher national milk flow increased our inventory levels substantially in the first six months of the year, although Clover did not increase dairy selling prices until April 2016 to protect market shares in the dairy categories. Clover's brands traded in line with expectations, buoyed by solid festive season demand for our beverages. As we had increased beverage portfolio selling prices in July 2015, the drought and heatwaves of the 2015/16 summer delivered an exceptional performance for our beverage brands.

The weakening foreign exchange rate throughout the period pushed up cost inflation, which forced Clover to raise selling prices on all product categories in April 2016.

On average, the rand weakened against the euro and dollar when compared to the prior year, which increased plastic and carton packaging material. The Group also experienced sharp increases in ingredients costs. To mitigate further volatility in selling prices, Clover took a decision to hedge diesel prices for the budget year. Although our diesel prices stabilised, we did not necessarily benefit to the same extent when diesel prices dropped from time to time.

Given the ending of our partnership with Danone in the previous financial year, Clover was able to largely replace the Danone volumes through new partnerships, acquisitions and healthy sales of our new and existing products.

Management embarked on a radical cost efficiency drive to mitigate the impact of higher than expected inflationary cost increases across Clover's value chain. Farm gate milk prices were reduced in August as the national milk intake was still 7,2% higher than the previous year, which had yielded unprecedented growth. Although Clover's unique milk procurement system (CUMPS) protects against oversupplied raw milk volumes from our own producers, it doesn't prevent lower prices in the market for dairy products.

A prolonged drought primarily in the Highveld and Kwazulu-Natal increased feed prices due to maize shortages and the scarcity of good quality roughage. Due to the resulting lower milk prices and higher feed costs, raw milk production eased downwards and Clover was compelled to pass price increases on to our producers to protect the primary industry. At the time of writing this report the availability and cost of feed still impacts the producers and there is a current challenge to supply the

forecasted market with milk. Nevertheless, milk flow during this spring and summer will determine market conditions for next winter. Businesses and consumers are under pressure due to the current economic headwinds and South Africa's 0,2% growth GDP forecast for 2016.

## ECONOMIC VIABILITY

The Board and management are keenly aware of the need to balance short-term shareholder expectations against investments required to secure Clover for the longer-term. In the immediate future Clover will be riding out South Africa's 0,2% growth economy and the after effects of the southern African drought. We will use this time to tighten up efficiencies and examine new country markets and segments, while planning for improved weather and the next economic upturn.

International research shows that traditional dairy companies have operating margins of 3% to 5%. Clover will therefore continue investing in newly launched products and adding to a portfolio that is not exposed to dairy price fluctuations. Clover's business model is continuously optimised to attain tight integration throughout the value creation chain in order to remain economically viable. Clover remains focussed on fully utilising the capacities and asset base that we invested into heavily during the last five years.

Clover's continuing economic viability is measurable through financial results and market share growth in various segments. In our quest to grow our range of branded and value-added products, we frequently identify and assess potential mergers, acquisitions or joint venture opportunities with the view of unlocking possible supply chain synergies. These investigations are done in parallel with maintaining Clover's traditional dairy business. Clover only considers opportunities that will sustainably enhance margin and shareholder returns.



## CHIEF FINANCIAL OFFICER'S REPORT (continued)

### COMPREHENSIVE INCOME

#### Headline Earnings

Headline earnings increased by 11,7% or R37,3 million to R356,6 million. This increase in headline earnings mainly consists of:

- headline operating profit, which improved by 21,3% or R100,1 million
  - net finance costs, which lifted by 52,3% or R38,8 million
  - headline income tax, which grew by 13,7% or R13,7 million.
- The effective tax rate based on headline profit before tax and headline tax increased by 2% to 24,5%, which is still well below the 28% companies tax rate as explained under "Profit for the year" later in this report
- share of profit from a joint venture, which increased by 30,4% or R3,3 million
  - non-controlling interests, which decreased by 121,2% or R5,6 million.

Headline earnings per share improved by 8,9% (15,3 cents), or 2,8% less than headline earnings, as a result of equity share appreciation rights settled during the year.

Total comprehensive income attributable to shareholders of the parent grew by R31,8 million above the growth in headline earnings. This was mainly due to profits of a capital nature of R22,7 million after tax (which is excluded from headline earnings), and translation of net investment in foreign operations accounted in other comprehensive income of R28,4 million reclassified to profit or loss, which is added back to headline earnings.

#### Revenue

Revenue improved by 6% or R552,5 million to R9 818,7 million. The cessation of raw milk supply to Danone southern Africa (at cost with no contribution to profit) at 31 December 2014, however, masks the real revenue growth of 7,5%. Raw milk sales

declined by 85,1% to R22,8 million as the supply of raw milk to Danone was systematically phased out, but some contract manufacturing proceeded beyond the 31 December 2014 cut-off.

Sale of products increased by 10,0% to R9 102,5 million within overall volume expansion of 9,7%. Clover's volume and mix changes were primarily due to the strong growth in national raw milk supply of 8,1% during our 2014/15 financial year.

Services rendered to principals contributed R684,5 million to revenue, which was 18,3% lower than the previous year. Notwithstanding the decreased contract manufacturing income from our Ola factory, the phasing out of services rendered to Danone Southern Africa during the second half of the year slowed revenue growth. Most services to Danone and revenue streams from that source were completely phased out by 31 December 2014.

#### Cost of sales

Cost of sales increased by 8,4% or R543,4 million. Our selling price increases necessitated by rising input costs required more vigorous advertising, causing charges against sales to rise by R28,8 million or 16%.

The cost of raw materials and finished goods acquired for resale increased by 4,3%. Average raw milk prices were 5,1% lower than the previous year, as milk flow only started to really decrease in December, following a year of unprecedented milk flow. Raw material cost increases resulted predominantly from volume and mix changes during the year of 9,7%. Ingredients costs increased by 25%, mainly due to price and mix changes of 15,3% and a 9,7% volume increase. The 15,3% price and mix change is primarily attributed to the weakening rand against the euro and dollar compared to the previous financial year.

The rand weakened in excess of 23% against the dollar and euro from July 2015 to June 2016. Packaging costs increased by 15,4% or R162,8 million primarily as a result of:

- Volume increases of 9,7%,
- a 3,7% HDPE bottle and closure price increase, while PET bottle prices increased by 4,3%
- new products and mix changes, which accounted for 3,1% of the total increase.

Fortunately, the price of cartons did not increase as Clover had already negotiated fixed prices and suppliers did offer discounts.

Milk collection costs lifted 3,2%, given the strong growth in national raw milk supply up to the end of February 2016. The increased milk flow, particularly in UHT volumes, pushed up the cost of transporting milk to long life and concentrated factories.

Manufacturing costs rose by 13,4% year on year. Inflation, volume increase and the newly acquired ex-Dairybelle yoghurt, ex-Dairybelle UHT, ex-Nkunzi MilkyWay, Frankies and Good Hope factories, were primarily responsible for this rise. The year started with higher inventory levels given the national milk flow, but from February 2016 the milk flow eased and production volumes started to decline. Due to the predominantly fixed nature of manufacturing costs and the new factories absorbed into the supply chain, unit manufacturing costs increased 5,2%. Savings achieved from consolidating Clover's Parow and Stikland factories helped curb these unit manufacturing cost increases.

Primary distribution costs grew by 12,2%, primarily due to inflationary increases, new factories and the resulting complexity and length of supply routes.



## Gross profit

Cost of sales increased 8,4% or R543,4 million, in contrast to the 6% or R552,5 million growth in revenue. As a result, gross profit percentage decreased from 30% to 28,4% and gross profit increased by 0,3% or R9,1 million. When excluding the effect of raw milk sales, revenue increased by 7,5% compared to an 10,6% increase in cost of sales, resulting in a decrease in the gross margin from 30,5% to 28,5%.

## Other operating income

Other operating income of R73,7 million mainly constituted:

- R20,9 million profit on the sale of property, plant and equipment (PPE) and scrap
- R36,9 million in foreign exchange gains
- Fair value adjustment and bargain purchase of R6,6 million primarily relating to Good Hope and Frankies
- Sundry income of R8,3 million, largely from the canteen.

## Selling and distribution costs

Selling and distribution costs fell by 2,6% or R52,1 million, due to a thorough cost efficiency drive to counter the sluggish economy, milk oversupply and unfavourable market pricing. Clover's staff structure was optimised and no new positions were filled, while Inflationary costs were contained by negotiating more keenly priced contracts, in particular for vehicle and fleet costs. While electricity and fuel costs were realised, Clover had stabilised its input costs to an extent by hedging our diesel usage. As a result, we did not realise the benefits from certain falls in diesel prices.

In total, Clover spent 13% or R30,6 million less on advertising, marketing, research and development costs compared to the prior year. Despite the reduced budget, Clover increased its marketing campaigns and spend by over 30% in the 2014/15 financial year. During the current year Clover leveraged

various synergies using an approach focusing on the previous investments in the mother brand.

## Administrative expenses

Clover reduced administrative expenses by 2,8% or R8,6 million.

Vacant staff positions were not filled, which helped limit the annual increase in personnel expenditure to just 2,7%.

Head office managed to avoid inflationary increases to overheads and reduced its overall spend by 7,4% or R21 million through:

- not filling vacant positions, particularly at executive level
- reducing training spend through higher Skills Development Levy (SDL) grants received in this period
- a moratorium placed on legal and consulting fees
- cancelling several conferences and special events scheduled for this year.

## Restructuring expenses

Approximately R8,5 million was spent on retrenchment costs, which are classified as restructuring expenses.

## Operating profit

Operating profit lifted by 10,9% to R564,5 million. Headline operating profit grew by 21,3% to R570,2 million when excluding capital profits and the R28,3 million loss in foreign currency translation reserve through profit or loss. Clover's restructuring costs remained the same and normalised operating profit also increased by 20,9% to R578,7million.

Our operating margin improved marginally to 5,7% from 5,5%. The normalised operating margin (normalised operating profit as a percentage of revenue excluding raw milk sales) similarly improved from 5,2% to 5,9%.

## Profit for the year

Profit for the year ended 1,8% or R6,2 million higher at R351,9 million. This result was the outcome of a R55,3 million increase in operating profit, a R38,7 million increase in net finance charges, a R13,7 million increase in the income tax expense and a R3,3 million increase in the share of profits from the Clover Fonterra Ingredients joint venture.

Clover's inventory during the first six months of the year was 20% higher and interest bearing debt was 42% higher than the previous corresponding period. Improved working capital and a reduction in capital expenditure largely contributed to an increase of just R19,3 million in interest bearing debt as at 30 June 2016. The higher net finance charges resulted predominantly from a rate increase in finance charges and the milk flow challenges of the first half of the year.

Clover's effective tax rate calculated to 24,5%, which was well below the 28% normal corporate tax rate. The effective tax rate increased by 2,0% from the prior year primarily as a result of:

- Increase in non-taxable income (1,35%)
- Increase in non-deductible expense 0,34%
- Increase in special deductions (0,29%)
- Reduction in SAR's exercised 0,46%
- Once off recognition of deferred tax asset in the prior year 2,97%
- Increase in JV profits (0,15%)

## Return on equity

Operating in a price inflationary environment, while variable costs increased ahead of inflation, resulted in Clover's return on equity (excluding exceptional items) decreasing from 13,5% to 13,3%.

## CHIEF FINANCIAL OFFICER'S REPORT (continued)

### DIVIDENDS

The Company declared and paid an interim dividend of 24,21 cents per share during April 2016. A final dividend of 40,94 cents was declared by the Board, which will bring the final dividend for the current financial year to 65,15 cents.

The Board previously stated that it will during the medium term progressively reduce the dividend cover to lower levels. The total dividends for 2015/16 represent a dividend cover of 2,9 times compared to the 2014/15 dividend cover of 3,1 times. The dividend cover for 2013/14 was 3,2 times although for that year dividends were maintained at the 2012/13 level in line with the Board's policy to as a minimum maintain dividends in the event that HEPS are less than the previous year.

### FINANCIAL POSITION

#### Non-current assets

Since listing in 2010, Clover has invested heavily in acquisitions and rejuvenating our factories and distribution assets for continual and sustainable growth. This level of investment was needed to maintain Clover's outstanding reputation for quality products. New acquisitions or the internal development of brands and products must support the further build out of this premium status. Our brand reputation is underpinned by Clover's chilled distribution network, which is universally regarded as South Africa's finest. This invaluable asset also required a significant investment to maintain its hard earned reputation.

All of these assets need to be funded, while also maintaining an optimal debt to equity ratio.

Clover invested capital of R366,7 million into tangible assets. This amounts to a R362,5 million increase in property, plant and equipment for the financial year, which excludes depreciation and takes into account capital work in progress movements.

#### MAJOR CAPITAL PROJECTS DURING THE YEAR WERE:

Description	R'm
Relocate Inhle Production	50,6
Yoghurt Facility	48,1
UHT Optimisation	22,5
Visitors Centre	23,9
Good Hope fixed assets	20,9
Gouda & Feta Expansion	9,6
Relocate Ayrshire MilkyWay	13,3
Expansion Capacity	33,3
IBM Collaboration	44,4

Clover has aligned with government initiatives to grow manufacturing capacity and local business competitiveness, while reducing the consumption of natural resources, especially energy and water. In order to achieve this, Clover engages current government grants such as the Department of Trade and Industry's Manufacturing Competitive Enhancement Program (MCEP). The Group received R16,1 million in government grants of which R4,5 million was recognised as income through the income statement and the rest applied to reduce the cost of the assets purchased. These grants received are dealt with in terms of section 12P of the Income Tax Act.

The Board and management are keenly aware of the need to balance short-term shareholder expectations against investments required to secure Clover for the longer-term. In the immediate future Clover will be riding out South Africa's 0,2% growth economy and the after effects of the southern African drought. We will use this time to tighten up efficiencies and examine new country markets and segments, while planning for improved weather and the next economic upturn.

## Current assets

Clover stated in its December interim results that the strong 8,1% growth in national raw milk supply during our 2014/15 financial year led to a 20% increase in inventory in December 2015. The effects of a prolonged drought primarily in the Highveld and Kwazulu-Natal then caused a sharp decrease in milk supply from early 2016. Clover's volume and mix changes were caused by the strong growth in national raw milk supply up until December 2015 that provided a 9,7% increase in volumes. Lower selling prices, increased volumes, and a diminished milk flow resulted in inventory levels decreasing by 2,5% or R23,2 million in comparison to the previous corresponding reporting period.

Trade and other receivables were 7,6% higher than at June 2015 resulting from:

- the 9,7% volume increase and the higher values of custard and yoghurt products
- the additional VAT included in accounts receivable caused by the introduction of the vatable custard and yoghurt products also marginally increased debtors
- trade support increased by 17,5% or R29 million as a result of support to new products

Trade receivable days outstanding and bad debts remained at minimal levels when compared to the combined sales of Clover and those principals for which we provide credit management. (Analysts should note that trade receivable days outstanding cannot be deduced from the financial statements as the full receivables of certain distribution principals are included in trade receivables while the revenue of such principals is not included in the Statement of Comprehensive Income. Only fees earned from providing the services involved are included in revenue).

## Equity

The share premium account increased by R44,4 million over the prior financial year due to the issue of new ordinary shares that settled vested share appreciation rights in terms of Clover's SAR Scheme.

## Non-current liabilities

An increased investment in working capital and capital expenditure was the primary contributor to a R19,3 million net increase in interest bearing debt (both current and non-current).

Apart from interest bearing debt, non-current liabilities were similar to the previous year, with the exception of the deferred tax liability that increased by R4,1 million due to accelerated wear and tear allowances.

## Current liabilities

Clover's higher volumes, together with our new yoghurt and custard lines, accounted for R33 million or 2,5% increase in trade and other payables.

## GEARING

Group gearing decreased from 48,6% to 44,1% at 30 June 2016. The decreased gearing was primarily as a result of retained earnings and enhanced sales. Clover's gearing is well within our ability to service interest and repayments, while we have the reserve capacity to extend gearing if necessary to fund additional growth opportunities.

## CASH FLOW

Clover's net current assets ratio improved from 1,4 to 1,6. Excluding inventory, the position improved from 0,9 to 1,1. Lower capital expenditure from operating cash flows and improved sales largely drove this improvement.

Cash generated from operations, before working capital changes, totalled R709,7 million compared to R566,7 million reported in the prior year. Higher cash generation was primarily due to the higher profit recorded. In this year, working capital absorbed just R36,2 million of cash compared to the R406,5 million of the prior year. Due to lower milk prices and higher feed costs, milk production slowed from the exceptionally high levels of the preceding 18 months, which considerably eased the need for investment in inventory, trade and other payables. Clover spent a massive R396,6 million less on inventory in comparison to the previous corresponding period. The increases recorded in trade and other receivables was in line with Clover's growth in invoiced revenue.

Investment activities consumed R332,6 million in cash compared to R556,8 million in the previous year, following the acquisitions of the Dairybelle yoghurt and UHT businesses and the Nkunzi MilkyWay business. Clover also spent R101,4 million less capital on tangible assets.

In terms of financing activities R231,7 million was paid for finance costs and dividends, compared to R154,7 million in the previous year. Clover utilised R19,3 million of additional debt at the end of the year when compared to the previous year to fund investing activities.

Clover reported a net increase in its cash position for the year of R128,4 million.

## CHIEF FINANCIAL OFFICER'S REPORT (continued)

### SEGMENTAL PERFORMANCE

Segmental information is only disclosed to Margin on Materials (MOM) level as Clover's assets and operations are largely integrated between segments, which makes the allocation of overhead costs to the different segments impractical. Overheads are managed at Group level.

MOM refers to revenue, less raw material, ingredients and packaging costs. Clover's entry into the yoghurt and custard under our own brands necessitated the establishment of a dedicated fermented products and desserts division to manage our yoghurt, custard, maas (previously included under dairy fluids) and dessert interests.

#### Dairy Fluids

The dairy fluids segment is now made up of fresh milk, UHT milk, steri milk, ultra-pasteurised milk and cream. It no longer includes maas (traditional fermented milk), which is now reported as part of fermented products and desserts.

Dairy fluids volumes grew by 5,9% for the period. Clover's UHT volumes increased by 9,9% whilst fresh and ultra-pasteurised milk volumes increased by 2,3%.

The MOM margin, improved by 1% to 40,6%, mainly as a result of lower milk prices given the high milk flow experienced during the last season and the first six months of this financial year. MOM for fluids increased by 3,3% to R1 795,7 million. Price deflation was 5,0% on average while the cost of raw materials and packaging decreased by 1,6% net of the volume effect, following the lower 5,1% average raw milk prices for the year.

#### Concentrated products

The concentrated dairy products division consists of cheese, butter, condensed milk and retail powders.

Clover's concentrated dairy product volumes increased by 5,9% following from:

- significant competition in the market as traditional bulk cheese (Clover exited this category during 2009) volumes are being replaced by price competitive 800 or 900-gram bulk pre-packed cheeses;
- Clovers volumes decreased 12% on bulk processed cheese.
- Clovers bulk mozzarella grated dices volumes improved by 28%
- Pre-packed cheese volumes increased 18%
- Processed cheese slices grew 48%, albeit off a low base.
- Feta volumes improved 9,3 %
- Condensed milk volumes were up 7,4%.

The biggest volume contributor to this category is butter, and given limited availability of cream, volumes were down 5,1%.

Revenue for this product group grew by 7,6% based on average price inflation of 1,2%. The price of packaging and raw materials increased 11,2% net of the volume effect. As a result MOM decreased by 1,0% and the MOM margin decreased 2,4% to end the year on R400,7 million.

#### Ingredients

Although Clover does not at present participate actively in the international dairy ingredients market, we balance seasonal milk and cheese production by annually selling excess skimmed milk and whey powder into the local ingredients market.

The high milk flow caused an increase in the sale of skimmed milk powder during 2015/16 and consequently sales volumes

grew by 15,6%. On average prices decreased by 18,5%, mostly due to low commodity prices of skim milk powder. Material and packaging costs were higher given the volumes produced. Revenue decreased by 2,9%, MOM was 54,6% less than the prior year, and the MOM% decreased by 17,1% to 15,0% primarily as a result of the lower pricing.

#### Non-alcoholic beverages

The Group's sales of fruit juices, dairy fruit mixes, flavoured milk, water and ice tea are recorded in this segment.

Clover managed to increase its beverage portfolio selling prices in July 2015 as anticipated. The severe heat wave and drought conditions resulted in an exceptional performance of the beverage portfolio during the summer, with beverage volumes increase by 7,3%.

Dairy fruit mix and fruit juice volumes increased by 5,9% and 4,1 % respectively when compared to the previous year. Flavoured milk volumes increasing 8,8%.

Water and ice tea volumes increased 13% on the previous year.

Prices were 7,3% up on the previous year resulting in revenue increasing by 14,6% and the MOM% improving by 2,3% to 55,5%.

#### Fermented products and desserts

This product group houses the Group's yoghurt, maas, custard and other desserts products. All these products were launched since January 2015 with the exception of maas that was previously included in dairy fluids.

Volumes grew by 87,2% on the previous year given that the Group only traded in this category for six months in the prior year.



Overall product Group revenue was up 151,8% following the volume increase and the introduction of higher value yoghurt and custard. The MOM % improved from 25,3% to 28,8% given better pricing and improved efficiencies.

## CONCLUSION

The pedestrian growth and outlook of the sub-Saharan economy does not create a conducive environment for growth. Consumers remain under pressure and discretionary spend will be further affected by rising inflation and resultant interest rate increases. This will be further compounded by the impact of the recent drought, and a key determining factor for the industry's success would be the rainfall and resultant milk flow in the upcoming spring. The recent currency volatility and foreign exchange liquidity will also mute potential growth prospects. The industry has been subject to evolving and increasing legislation, and the impact of the recently proposed sugar tax could have far reaching consequences.

Clover remains focussed on fully utilising its capacities and the asset base that was heavily invested in during the last five years. Clover will continue to explore local consolidation opportunities to leverage its existing value chain, and continues to invest in new products to grow a portfolio that is not exposed to dairy price fluctuations. Management remains committed to rapidly adapting to market changes, and will employ numerous levers to mitigate the major effects of cyclical in the business for the year that lies ahead.



**Elton Bosch**  
Chief Financial Officer

12 September 2016





## SIX YEAR FINANCIAL REVIEW

Summarised results for the year	Increase/ (decrease) 2016 vs 2015	2016 R'000	2015 R'000	2014 R'000	*2013 R'000	*2012 R'000	*2011 R'000
Revenue	6,0%	9 818 717	9 266 251	8 530 237	7 832 911	7 223 863	6 542 321
Operating profit	10,9%	564 450	509 072	282 276	371 624	371 232	319 019
Net financing cost							
Current and long-term liabilities	52,3%	(112 825)	(74 064)	(57 809)	(46 717)	(1 855)	(16 081)
Debt portion of preference share capital	–	–	–	–	–	(22 007)	(21 359)
Profit before tax from continuing operations	3,8%	451 625	435 008	224 467	324 907	347 370	281 579
Taxes	13,7%	(113 992)	(100 286)	(49 791)	(99 022)	(137 654)	(97 534)
Share of profit of joint ventures	30,4%	14 268	10 939	14 306	13 974	–	–
Profit after tax from discontinued operations	–	–	–	–	–	–	–
Non-controlling interest	(121,2%)	(995)	4 684	(2 316)	(1 233)	(4 426)	(4 446)
Profit attributable to equity holders of the parent	0,2%	350 906	350 345	186 666	238 626	205 290	179 599
Headline earnings attributable to equity holders of the parent	11,7%	356 594	319 343	187 464	214 894	207 800	175 177
Normalised earnings			2015 R'000	2014 R'000	2013 R'000	2012 R'000	2011 R'000
Operating profit		564 450	509 072	282 276	371 624	371 232	319 019
Adjusted for exceptional items:							
(Profit)/loss on sale and scrapping of property plant and equipment and other assets		(20 869)	(38 950)	5 102	(11 680)	(878)	(7 277)
Gain on fair valuing of existing investment in joint venture due to acquiring control		–	–	–	(16 747)	–	–
Discount on acquisition of PPE by Clover Waters through issue of shares		–	–	(20 716)	–	–	–
Bargain purchase at acquisition of stake in Clover Good Hope		(1 721)	–	–	–	–	–
Retrenchment costs		8 493	8 156	7 174	17 184	3 629	6 628
Legal and professional services costs associated with the listing		–	75	141	49	–	8 499
Release of foreign currency translation reserve in abandonment of foreign operations		28 366	–	–	–	–	–
Other restructuring cost		–	241	8 721	18 517	5 944	1 780
Normalised operating profit		578 719	478 594	282 698	378 947	379 927	328 649
Net financing cost		(112 825)	(74 064)	(57 809)	(46 716)	(23 862)	(37 440)
Tax expense							
Total tax expense		(113 992)	(100 286)	(49 791)	(99 022)	(137 654)	(97 534)
Other non-recurring tax adjustments		–	–	–	–	18 254	–
Taxation adjustment on exceptional items		(2 466)	5 576	(4 286)	(8 453)	(2 745)	(1 845)
Share of profit of joint ventures after tax		14 268	10 939	14 306	13 974	–	–
Non-controlling interest		(995)	4 684	(2 316)	(1 233)	(4 426)	(4 446)
Non-controlling interest's portion in discount on acquisition of PPE by Clover Waters through issue of shares		–	–	6 215	–	–	–
Non-controlling interest's portion of restructuring cost of subsidiary		–	–	(741)	–	–	–
Normalised profit attributable to equity holders of the parent		362 709	325 443	188 276	237 497	229 493	187 384

\* From 2014 all joint ventures were equity accounted. The figures for 2013 were restated to show this effect, the figures from 2011 to 2012 have not been restated.

	2016 R'000	2015 R'000	2014 R'000	**2013 R'000	**2012 R'000	**2011 R'000
<b>Dividends</b>						
Equity dividends – ordinary shares	108 755	71 624	69 342	41 912	53 734	58 720
Preference dividends recognised as interest	–	–	–	20 346	22 007	21 359
<b>Earnings and dividends per share</b>	<b>Cents</b>	<b>Cents</b>	<b>Cents</b>	<b>Cents</b>	<b>Cents</b>	<b>Cents</b>
Equity dividends per ordinary share – Interim	24,21	22,6	16,0	10,0	15,0	10,0
Equity dividends per ordinary share – Final	40,94	33,4	16,0	22,0	13,4	15,0
Preference dividend recognised as interest per preference share	–	–	–	22,7	24,6	23,9
Earnings per ordinary share	185,9	190,4	102,3	133,1	114,6	116,7
Diluted earnings per ordinary share	181,8	182,0	97,3	123,8	107,4	108,9
Headline earnings per ordinary share	188,9	173,6	102,7	119,9	116,0	113,8
Diluted headline earnings per ordinary share	184,7	165,9	97,8	111,5	108,7	106,2
Normalised earnings per share, calculated by dividing the normalised profit by the weighted average number of ordinary shares	192,2	176,9	103,2	132,5	128,1	121,8
<b>Summarised statement of financial position</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Non-current assets	2 972 730	2 752 656	2 302 052	1 997 482	1 526 306	1 361 355
Deferred taxation asset	37 019	32 696	8 919	6 722	492	3 262
Current assets	2 856 294	2 689 485	2 298 621	2 413 733	2 336 745	2 180 874
<b>Total assets</b>	<b>5 866 043</b>	<b>5 474 837</b>	<b>4 609 592</b>	<b>4 417 937</b>	<b>3 863 543</b>	<b>3 545 491</b>
Shareholders' funds	2 865 412	2 571 338	2 252 270	2 113 116	1 894 244	1 742 362
Non-controlling interest	23 305	13 510	20 471	2 309	1 796	9 443
Non-current portion of interest-bearing borrowings	931 455	681 601	662 357	666 640	21 686	432 833
Non-current portion of provisions	73 474	74 901	67 615	60 814	61 637	62 522
Non-current portion of trade and other payables	19 311	21 459	4 351	9 267	6 904	13 357
Other non-current financial liabilities	2 199	2 716	–	–	–	–
Deferred taxation liability	192 358	188 253	179 023	137 313	116 950	32 015
Current portion of interest-bearing borrowings	343 015	573 576	214 495	172 646	421 376	173 828
Current liabilities excluding interest-bearing borrowings	1 415 514	1 350 199	1 209 010	1 255 832	1 338 950	1 079 131
<b>Total equity and liabilities</b>	<b>5 866 043</b>	<b>5 474 837</b>	<b>4 609 592</b>	<b>4 417 937</b>	<b>3 863 543</b>	<b>3 545 491</b>
<b>Net assets</b>	<b>2 888 717</b>	<b>2 584 848</b>	<b>2 272 741</b>	<b>2 115 425</b>	<b>1 896 040</b>	<b>1 751 805</b>
Replacement value of property, plant and machinery*	9 116 408	7 577 153	7 577 153	6 106 300	5 746 800	5 445 700

\* Replacement value of property, plant and machinery is determined by an external valuator.

\*\* From 2014 all joint ventures were equity accounted. The figures for 2013 were restated to show this effect. The figures from 2011 to 2012 have not been restated.

A list of all definitions used in the above calculation is set out on page 242.

## SIX YEAR FINANCIAL REVIEW (continued)

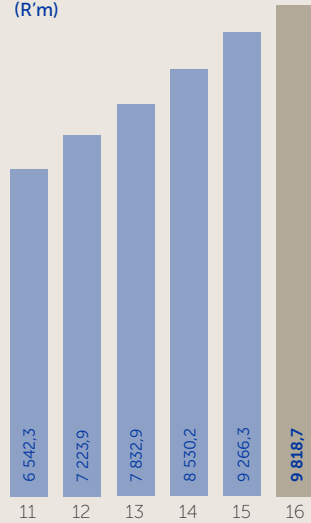
Number of shares in issue	2016	2015	2014	*2013	*2012	*2011
Number of ordinary shares in issue at year-end	190 314 350	187 731 138	182 478 589	181 218 149	179 111 867	179 111 867
Weighted average number of ordinary shares	188 733 409	183 989 596	182 478 589	179 267 674	179 111 867	153 882 447
Weighted average number of ordinary shares for calculation of diluted earnings	193 021 978	192 466 775	191 767 408	192 750 186	191 127 152	164 890 519
Number of preference shares in issue at year-end	–	–	–	–	89 442 022	89 442 022
Weighted average number of preference shares	–	–	–	–	89 442 022	89 442 022
Cash flow	R'000	R'000	R'000	R'000	R'000	R'000
Cash flow from operating activities	673 448	160 185	403 067	219 198	417 910	256 927
Cash (used in)/from investment activities	(332 629)	(556 822)	(351 734)	(515 811)	(256 150)	(253 323)
Cash flow/(outflow) from financing activities	(212 426)	218 097	(97 780)	297 159	(272 951)	391 333
Cash flow from operating activities per share (cents)	356,8	87,1	220,9	122,3	233,3	167
Ratios and returns	%	%	%	%	%	%
Operating profit to revenue	5,7	5,5	3,3	4,7	5,1	4,9
Normalised operating profit	5,9	5,2	3,3	4,8	5,3	5
Return on net assets	13,2	13,5	8,6	13,1	14,9	15
Return on net assets excluding exceptional items	13,5	12,7	8,6	13,4	15,2	15,4
Return on equity holders' funds	12,9	14,5	8,6	11,9	11,3	12,9
Return on equity holders' funds excluding exceptional items	13,3	13,5	8,6	11,9	12,6	13,7
Gearing percentage (net of cash)	23,2	30,2	9,8	6,4	(14,2)	(12,4)
Effective tax rate	24,5	22,5	20,9	29,3	39,6	34,6
	Times	Times	Times	Times	Times	Times
Net asset turn	4,5	5,0	5,6	6,2	6,8	8,3
Current ratio	1,6	1,4	1,6	1,7	1,3	1,7
Employees statistics	Number	Number	Number	Number	Number	Number
Average number of employees	8 456	7 177	6 393	6 519	6 555	6 353
	R'000	R'000	R'000	R'000	R'000	R'000
Revenue per employee	1 161,2	1 291,1	1 334,3	1 201,6	1 102	1 030
Operating profit per employee	66,8	70,9	44,2	57,0	57	50
Normalised operating profit	68,4	66,7	44,2	58,0	58	52
Average net assets per employee	323,6	338,4	343,2	307,7	278	223

\* From 2014 all joint ventures were equity accounted. The figures for 2013 were restated to show this effect. The figures from 2011 to 2012 have not been restated.

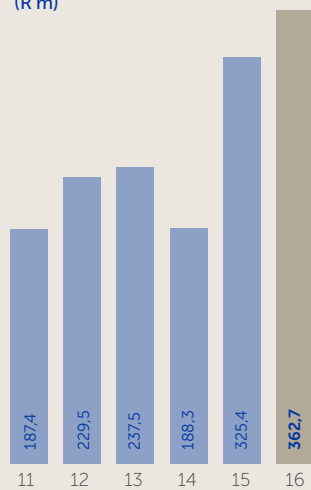
A list of all definitions used in the above calculation is set out on page 242.

# FINANCIAL HIGHLIGHTS

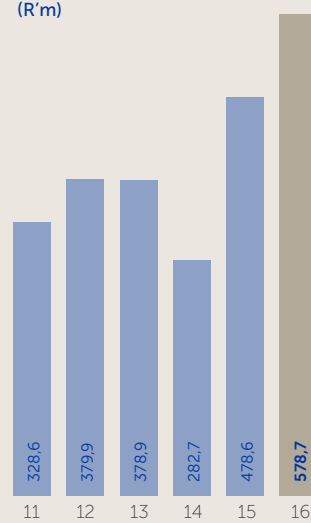
Revenue  
(R'm)



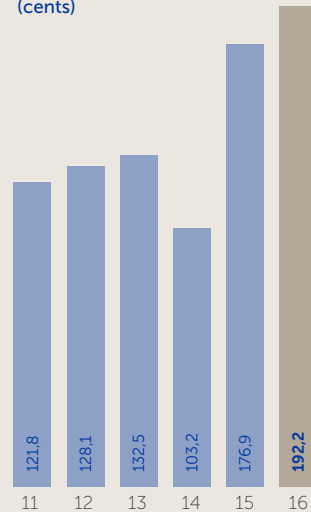
Normalised profit attributable  
to equity holders of the parent  
(R'm)



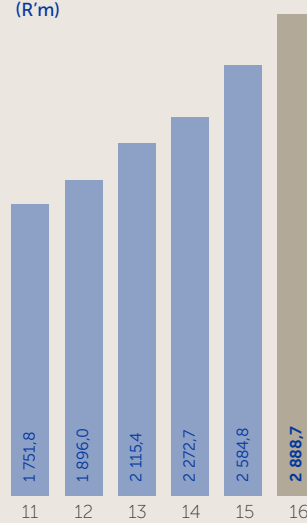
Normalised Operating Profit  
(R'm)



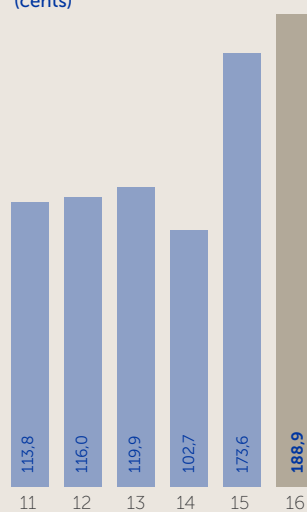
Normalised earning per share  
(cents)



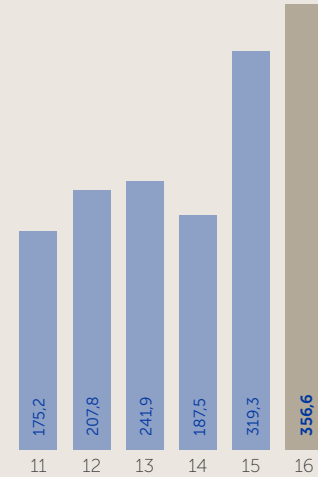
Net asset value  
(R'm)



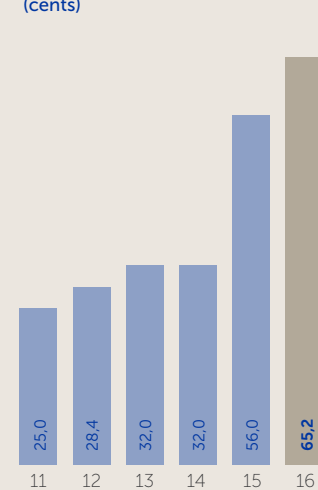
Headline earnings per share  
(cents)



Headline earnings attributable  
to equity holders of the parent  
(R'm)



Dividends per share declared  
relating to each financial year  
(cents)



## CONCENTRATED PRODUCTS

### CONDENSED MILK

- Condensed milk volumes grew by 7,4% for the period.
- Revenue for the concentrated product group grew by 7,1%.





## THE SHAPE OF CLOVER

## GEOGRAPHIC FOOTPRINT

Clover is omnipresent throughout South Africa and has a strong presence in central and southern Africa.

As viable opportunities arrive, Clover will enter into new partnerships across Africa while growing our presence in existing markets.

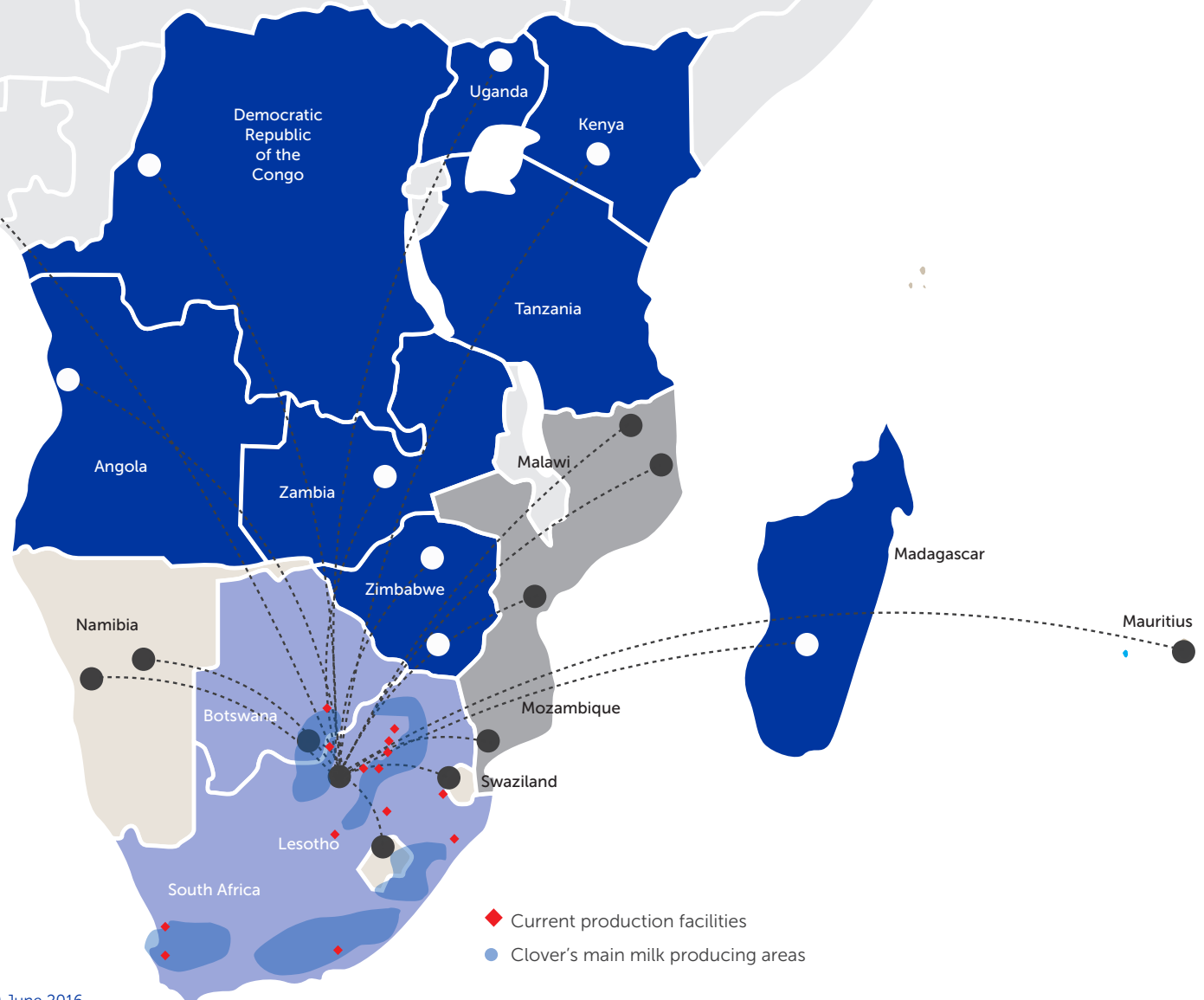
With the current financial crisis experienced in Nigeria, which is fuelled by the low oil price, the Group decided to withdraw from future investments in Nigeria.

Clover fully present

Clover has distribution in these countries

Clover has outsourced distribution and production in these countries

Export and potential growth opportunities



## GROUP STRUCTURE

Established in 1898, as the Natal Creamery Limited, the fast growing business was reorganised in 1934 as the National Cooperative Dairies (NCD), operating country wide. Clover Industries Limited emerged in 2003 and in 2010 listed on the JSE.



Clover Industries Ltd



Clover SA (Pty) Ltd  
100%

## DIVISIONS

Milk Procurement, Production, Primary Distribution and Supply Chain Management, Marketing, Sales, Secondary Distribution and Support Services.

 <b>Clover West Africa</b> Clover West Africa Ltd 100% <sup>1</sup>	 <b>Clover Swaziland</b> Clover Swaziland (Pty) Ltd 100%	 <b>Clover Namibia</b> Clover Dairy (Namibia) (Pty) Ltd 100%	 <b>Clover Botswana</b> Clover Botswana (Pty) Ltd 100%	 <b>Quali Tails Forest</b> The Real Beverages Company (Pty) Ltd 100%
 <b>Clover Fonterra Ingredients</b> Clover Fonterra Ingredients (Pty) Ltd 51%	 <b>CLOVER WATERS</b> Clover Waters (Pty) Ltd 70%	 <b>Clover MilkyWay</b> Clover MilkyWay (Pty) Ltd 100%	 <b>Lactolab (Pty) Ltd</b> Lactolab (Pty) Ltd 100% <sup>2</sup>	
 <b>Clover Frankies</b> Clover Frankies (Pty) Ltd 51% <sup>3</sup>	 <b>Clover Good Hope</b> Clover Good Hope (Pty) Ltd 51% <sup>4</sup>			

<sup>1</sup> Clover West Africa placed in liquidation from 29 February 2016.

<sup>2</sup> The entire issued share capital of Lactolab (Pty) Ltd was sold to Mérieux MultiSciences with effect from 1 July 2016.

<sup>3</sup> With effect from 1 November 2015, Clover and Frankies Olde Soft Drink Company formed a new company called Clover Frankies (Pty) Ltd, which acquired the entire soft drink business from Frankies Olde Soft Drink Company (Pty) Ltd. Clover SA (Pty) Ltd owns 51% of Clover Frankies (Pty) Ltd.

<sup>4</sup> With effect from 1 May 2016, Clover and Good Hope International Beverages SA (Pty) Ltd formed a new company called Clover Good Hope (Pty) Ltd, which acquired the entire soya milk business from Good Hope International Beverages SA (Pty) Ltd. Clover SA (Pty) Ltd owns 51% of Clover Good Hope (Pty) Ltd.

Note: Clover Futurelife (Pty) Ltd has been removed from the group structure as this company did not become effective.

# OUR SHAREHOLDERS AND SHAREHOLDER INFORMATION

## SHAREHOLDER ANALYSIS – CLOVER INDUSTRIES LTD – ORDINARY SHARES

Shareholder spread	Number of shareholdings	%	Number of shares	%
1 – 1 000 shares	1 215	48,29	423 021	0,22
1 001 – 5 000 shares	645	25,64	1 572 258	0,83
5 001 – 10 000 shares	128	5,09	965 769	0,51
10 001 – 50 000 shares	211	8,39	5 402 987	2,84
50 001 – 100 000 shares	95	3,78	6 803 273	3,57
100 001 shares and over	222	8,81	175 147 042	92,03
<b>Totals</b>	<b>2 516</b>	<b>100,00</b>	<b>190 314 350</b>	<b>100,00</b>

Distribution of shareholders	Number of shareholdings	%	Number of shares	%
Banks	39	1,55	27 462 578	14,43
Close Corporations	20	0,79	328 394	0,17
Endowment Funds	18	0,72	448 174	0,24
Individuals	1 851	73,57	20 018 486	10,52
Insurance Companies	24	0,95	4 556 633	2,39
Investment Companies	13	0,52	2 908 258	1,53
Medical Schemes	4	0,16	469 384	0,25
Milk Producers Trust	1	0,04	23 100 000	12,14
Mutual Funds	107	4,25	47 561 006	24,99
Other Corporations	10	0,40	77 055	0,04
Private Companies	39	1,55	4 005 971	2,10
Producers	78	3,10	12 771 730	6,71
Public Companies	1	0,04	44 000	0,02
Retirement Funds	150	5,96	41 276 424	21,69
Trusts	161	6,40	5 286 257	2,78
<b>Totals</b>	<b>2 516</b>	<b>100,00</b>	<b>190 314 350</b>	<b>100,00</b>

Public/non-public shareholders	Number of shareholdings	%	Number of shares	%
<b>Non-Public Shareholders</b>	20	0,79	48 986 015	26,09
Directors of the Company	19	0,76	25 886 015	13,79
Strategic Holdings (more than 10%)	1	0,04	23 100 000	12,30
<b>Public Shareholders</b>	2 496	99,21	141 328 335	73,91
<b>Totals</b>	<b>2 516</b>	<b>100,00</b>	<b>190 314 350</b>	<b>100,00</b>

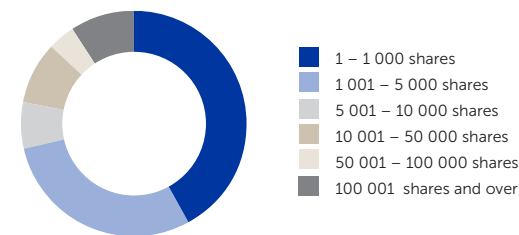
Beneficial shareholders holding 3% or more	Number of shares	%
Clover Milk Producers Trust	23 100 000	12,30
Allan Gray	16 943 360	9,03
Government Employees Pension Fund	11 603 289	6,18
Vorster, JH	9 754 846	5,20
Letko Brosseau	7 287 733	3,88
Development Capital Partners	6 062 791	3,23
<b>Totals</b>	<b>74 752 019</b>	<b>39,82</b>

Company:  
Clover Industries Limited

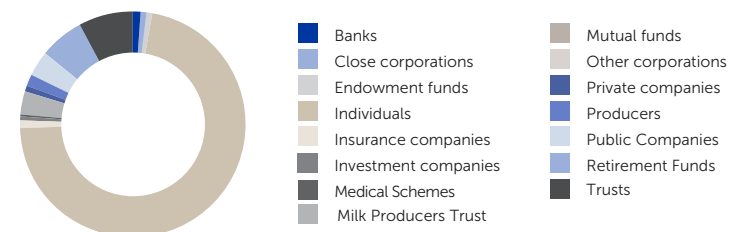
Register date:  
24 June 2016

Issued Share Capital:  
190 314 350

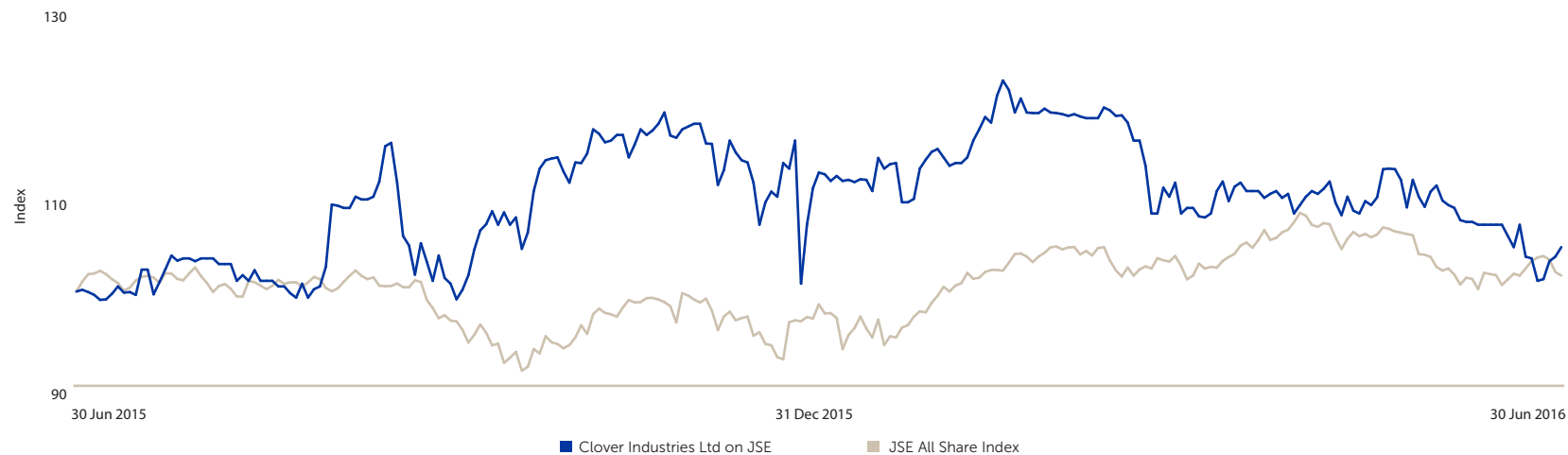
**Shareholder spread**  
Number of shareholders (percentage)



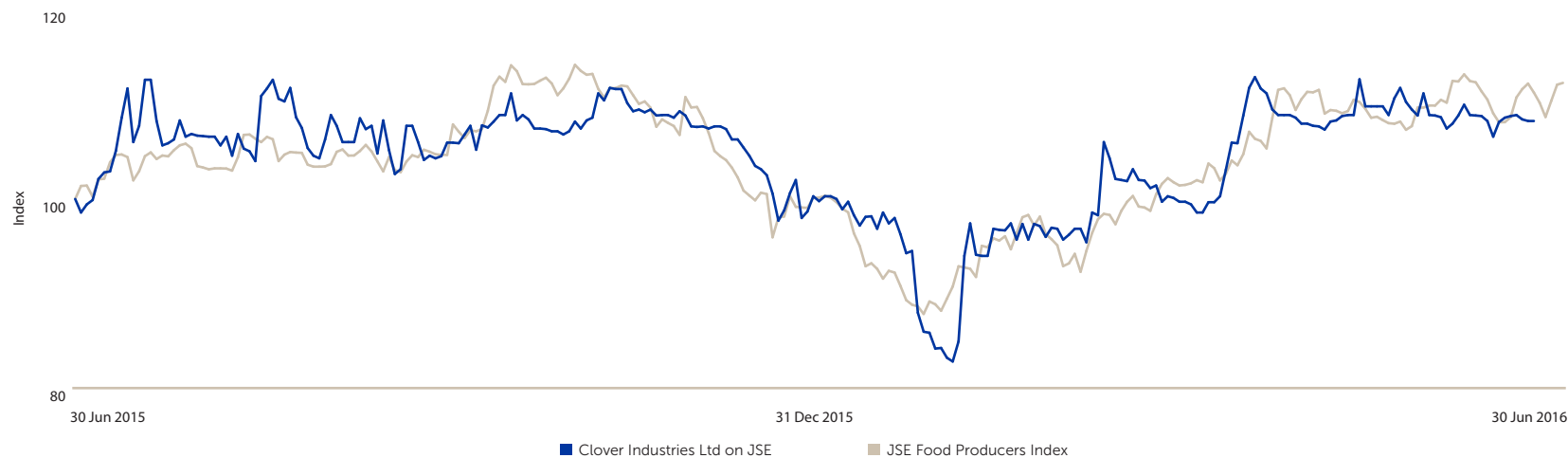
**Distribution of shareholders**  
Number of shareholders (percentage)



Clover Industries Ltd vs All Share Index



Clover Industries Ltd vs Food Producers Index





## DIRECTORATE AND MANAGEMENT

The Board is ultimately responsible for the management of Clover's business and determining its strategy and policies.

In addition, the Board is responsible for approving Clover's financial objectives and targets. Clover's Executive Directors, who are members of the Executive Committee, are involved in the day-to-day business activities and are responsible for ensuring that Board decisions are implemented in accordance with Board approved mandates.

### Executive Committee



**DR JAMES HENRY FERREIRA BOTES** (53)

**Executive**  
Commercial  
**Appointed**  
2009  
**Qualification**  
DPhil

**HENDRIKUS LUBBE** (46)

**Executive**  
Supply Chain  
Distribution and  
Milk Procurement  
**Appointed**  
2006  
**Qualification**  
MCom (Transport  
Economics) MBA

**MARCELO MARQUES PALMEIRO** (51)

**Executive**  
Brands & Corporate  
Development  
**Appointed**  
2012  
**Qualification**  
BA, IME

**JACQUES VAN HEERDEN** (31)

**Executive**  
Legal, Secretarial and  
Human Resources  
**Appointed**  
2014  
**Qualification**  
LLB (Cum Laude),  
ACIS

**LOUIS JACQUES BOTHA** (54)

**Chief Financial Officer  
and Executive\***  
Information Services  
**Appointed**  
2006  
**Qualification**  
BCom (Hons), CA(SA),  
ACIS

\* Resigned as from 2 January 2016

### LENGTH OF SERVICE OF DIRECTORS



● 45,4% – 5 to 11 years    ● 0% – 11 to 15 years  
● 54,5% – 6 to 11 years    ● 0% – 15 years or more

### EXECUTIVE DIRECTORS AS AT 30 JUNE 2016

27,3%



BOARD COMPOSITION

### NON-EXECUTIVE DIRECTORS AS AT 30 JUNE 2016

72,7%



BOARD COMPOSITION



Read the full biographies at  
[www.clover.co.za](http://www.clover.co.za)

## Board of Directors

## EXECUTIVE DIRECTORS

**JOHANN VORSTER** (52)**Chief Executive**

**Appointed**  
Appointed to Exco in 2000 and as CE in 2006

**Qualification**  
BCompt (Hons), CA(SA), MBA

**Role at Clover**  
Member of Executive Committee

**ELTON RONALD BOSCH** (39)**Chief Financial Officer and Executive**

Business Development, Risk & Africa

**Appointed**  
Appointed to Exco in 2012 and as CFO in 2016

**Qualification**  
BCompt (Hons), CA(SA)

**Role at Clover**  
Member of Executive Committee

**DR CHRISTIAAN PHILIPPUS LERM** (59)\***Executive Brands & Marketing**

**Appointed**  
Appointed to exco in 2002 and the Board in 2007

**Qualification**  
DCom

**Role at Clover**  
Member of Executive Committee

## NON-EXECUTIVE DIRECTORS

**WERNER IGNATIUS BÜCHNER** (50)**Chairman**

**Appointed**  
2006

**Qualification**  
BEng

**Role at Clover**  
Member of Remuneration Committee, Nomination Committee and Investment Committee

**THOMAS ALEXANDER WIXLEY** (76)\*\***Lead Independent Director**

**Appointed**  
2007

**Qualification**  
BCom, CA(SA)

**Role at Clover**  
Member of Audit & Risk Committee, Remuneration Committee, Social & Ethics Committee, Nomination Committee and Investment Committee

**BABALWA NGONYAMA** (42)**Independent Non-Executive**

**Appointed**  
2013

**Qualification**  
CA(SA), MBA, Higher Diploma in Banking Law

**Role at Clover**  
Member of Audit & Risk Committee

**NIGEL ATHOL SMITH** (60)**Non-Executive**

**Appointed**  
2011

**Qualification**  
Agric Dip

**Role at Clover**  
Member of Investment Committee

**NEO VIOLET MOKHESI** (55)**Independent Non-Executive**

**Appointed**  
2013

**Qualification**  
BCom, AMP

**Role at Clover**  
Member of Social & Ethics Committee

**JOHANNES NICOLAAS STEPHANUS DU PLESSIS** (66)**Independent Non-Executive**

**Appointed**  
2010

**Qualification**  
BCom, LLB

**Role at Clover**  
Member of Audit & Risk Committee and Remuneration Committee

**PETER RONALD GRIFFIN** (57)\*\***Non-Executive**

**Appointed**  
2014

**Qualification**  
BSc Agric

**DR STEFANUS FRANCOIS BOOYSEN** (54)**Independent Non-Executive**

**Appointed**  
2010

**Qualification**  
BCompt (Acc) (Hons), MCompt (Unisa), DCom (Acc), CA(SA)

**Role at Clover**  
Member of Audit & Risk Committee, Remuneration Committee, Social & Ethics Committee, Nomination Committee and Investment Committee

\* Retired as from 30 June 2016 \*\* To retire at the 2016 AGM.

## Board Committees

## AUDIT AND RISK COMMITTEE

Dr SF Booysen	4/4
JNS du Plessis	4/4
B Ngonyama – Chairman as from 1 May 2016	4/4
TA Wixley	4/4

## REMUNERATION COMMITTEE

Dr SF Booysen – Chairman	3/3
WI Buchner	3/3
JNS du Plessis	3/3
TA Wixley	3/3

## SOCIAL AND ETHICS COMMITTEE

Dr SF Booysen	4/4
ER Bosch	4/4
N Mokhesi – Chairman as from 1 May 2016	4/4
TA Wixley	4/4

## NOMINATION COMMITTEE

Dr SF Booysen	2/2
WI Buchner	2/2
TA Wixley – Chairman as from 1 March 2016	2/2

## INVESTMENT COMMITTEE

Dr SF Booysen – Chairman	3/3
WI Buchner	3/3
NA Smith	3/3
TA Wixley	3/3

## CONCENTRATED PRODUCTS

### BUTTER

- Volume for butter decreased by 5,1%, given limited availability.
- MOM for the concentrated product category decreased by 1,0% and the MOM margin decreased by 2,4% to end the year on R400,7 million.

## HOW CLOVER CREATES VALUE

### Overview of Clover's value creation process

Clover's value creation process begins with our vision and mission, as the business model is designed to put these into effect. Our business model is the engine of Clover's value creation and is driven by the resources fed through it in accordance with Clover's strategy. Its outputs and outcomes are the short, medium and long-term value created in terms of Clover's vision and mission. Clover's leadership, support services and our people at all levels must ensure that Clover's vision flows seamlessly and accurately through the entire value chain and the business model to be transformed into outputs and outcomes that actualise this vision.

### Yesterday

Since its founding 118 years ago, Clover was always about milk and its related products. As the decades have rolled by, Clover has spread across southern Africa, added new products and amended its legal identity and business model on several occasions to fit visions and strategies of the time.

Clover underwent a major shift in 2010, which required a rethink of its core vision and mission, followed by a comprehensive reorganisation of the corporate structure and business model to align with the revised mission.

In the following years Clover began leveraging the King III code and Integrated Reporting principles to guide the development of our value creation processes for the long term sustainability of the Company and the environments that we impact.

### Today

Since the 2008 global crisis, the risk of company failure or financial losses due to inaccurate or incomplete corporate

reporting is a growing priority in investor decision-making. Investors are demanding to see clear and accurate reporting on how companies' business models work and how they make their money, or create value.

Clover has long taken the view that the Integrated Annual Report is not simply a compliance document that takes up management time. On the contrary, we utilise it as a worthy management tool for conducting a regular "reality check" of our performance and strategies.

We also devote considerable time to transparently and concisely laying out the Clover value creation story for all stakeholders to see. This enables stakeholders, shareholders and potential investors to evaluate our actions from an informed basis, as well as gaining their confidence and trust.

### Tomorrow

How a company creates value is its "reason for existence". Clover has taken the view that company value creation chains, incorporating their business models, will soon become the single most important measure against which companies will be judged.

Investors that go beyond purely financial results to examine company value creation processes will understand why businesses at times need to invest now for longer-term outcomes in future. These are the calibre of investors that every company wants.

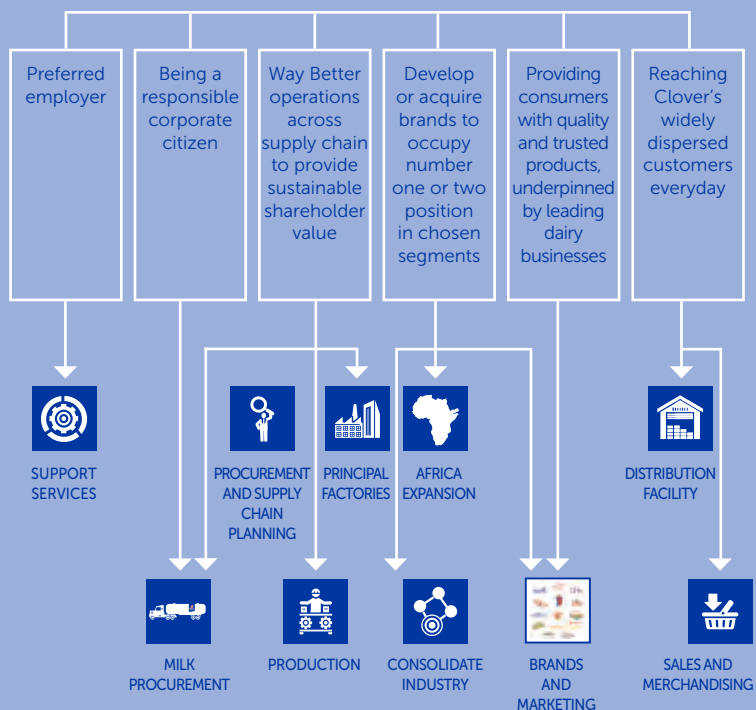
In this report, Clover has endeavoured to use King III and Integrated Reporting <IR> principles to clearly show how our value creation chain and business model works for you.

## CLOVER'S BUSINESS MODEL

### Our vision

To be a leading branded foods and beverages group in South Africa and selected other African countries, providing accessible nutrition to all consumers

### Our mission



## CAPITAL



### Human

- Employees competencies, capabilities and motivations to innovate
- Training
- Leadership



### Natural

Air, water, land minerals, forests, bio-diversity and ecosystem health



### Manufactured

- Infrastructure, buildings and equipment
- Machinery
- Transportation



### Intellectual

Patents, copyrights, software, licences, systems, procedures and protocols



### Social and relationship

Shared norms, common values, behaviours, stakeholder relationships and dependencies



### Financial

Equity, debts and grants

## INPUTS

Total number of employees: 8 456

- Raw milk and other ingredients
- Packaging materials
- Electricity
- Fuel

- Production facilities
- Secondary distribution network
- Customer delivery points
- Plant and Equipment

- 11 patents registered in South Africa and Namibia
- Brands including Tropika, Butro and Krush, just to name a few
- Licenced software and systems
- 2 385 permanent merchandisers deployed

- 42 Clover Mama Afrika's collectively care for over 15 500 children and more than 2 500 elderly people across South Africa.
- Sponsorships from third parties as well as from Clover

- Revenue
- Cash
- Funding

## OPPORTUNITIES AND RISKS



## VISION AND MISSION

PRODU

SUP

CONCENTRATE AND  
INGREDIENT SUPPLIERS  
MILK PRODUCERS

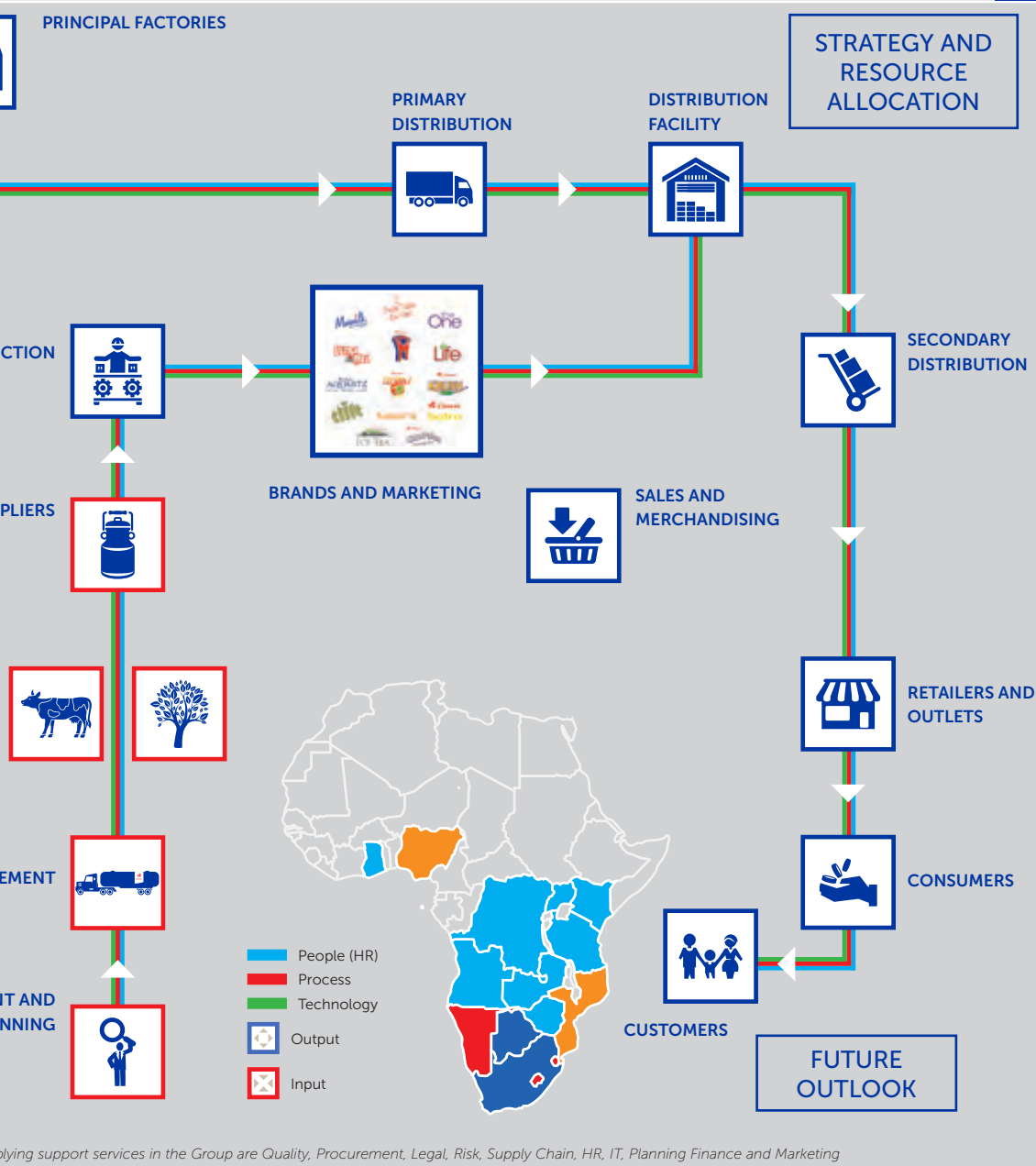
MILK PROCUR

PROCUREMENT  
SUPPLY CHAIN PLA

## PERFORMANCE

\* Departments supp





## OUTPUTS

- 2 786 employees trained
- 659 bursaries/learnerships
- 92,02% staff retention
- Level 4 B-BBEE status

- Water usage
- Carbon emissions
- Waste
- Environmental Management System
- "Green" technologies and infrastructure

- Integrated Business Planning project
- Best farming practices
- Phased consolidation of production
- Automated palletising
- Network optimisation
- Quality testing

- Marketing and merchandising
- Expanding portfolio of brands
- The Customer Collaboration Project
- Increased sales and delivery of innovative solutions
- Improved packaging, working towards 'greener' alternatives

- Sustainable CSI Projects through effective skills transfer
- Clover's excellent reputation, attested by numerous awards

- Statement of comprehensive income
- Statement of financial position
- Statement of cash flows

## OUTCOMES

- Rising expertise at all staff levels in preparation for new technologies, more efficient systems and internal transformation
- Reskilling and realignment of HR function

- More efficient processes to reduce costs and quantities of inputs
- Less impact on environment and reduced production costs per unit
- Reduced emissions and non-recyclable waste

- Reduced financial capital due to capital investments in infrastructure and systems
- Heightened customer service due to improved logistics and production
- Clover better prepared for long term sustainability

- Feedback from stakeholders used to make better decisions.
- Vertical growth will be achieved by utilising better customer insights, analytics, and research
- Horizontal growth through improved existing structures and new or better route-to-market methods

- Targeted, effective CSI (Mama Afrika) that sets a benchmark
- Gains the trust of stakeholders and support for forward planning and longer term capital investments

- Revenue
- Headline earnings
- Operating profit
- Total dividends per share

Refer to page 7 for highlights of the year.

## NON-ALCOHOLIC BEVERAGES

### TROPIKA AND KRUSH

- Dairy fruit mix volumes increased by 5,9% for the period.
- Fruit juice volumes increased by 4,1% for the period.
- The non-alcoholic beverages segment contributed 26,0% to Clover's total sale of products for the year.



## CLOVER'S WAY FORWARD

## WAY BETTER VALUE CREATION

### CLOVER'S VALUES



## RESPECT

We value our employees and treat them fairly and with respect, while acknowledging our differences.

Our organisational culture is based on **INTEGRITY**

We build trust by forming strong relationships with all stakeholders, enabling us to make better, more effective internal decisions.

## FAIRNESS

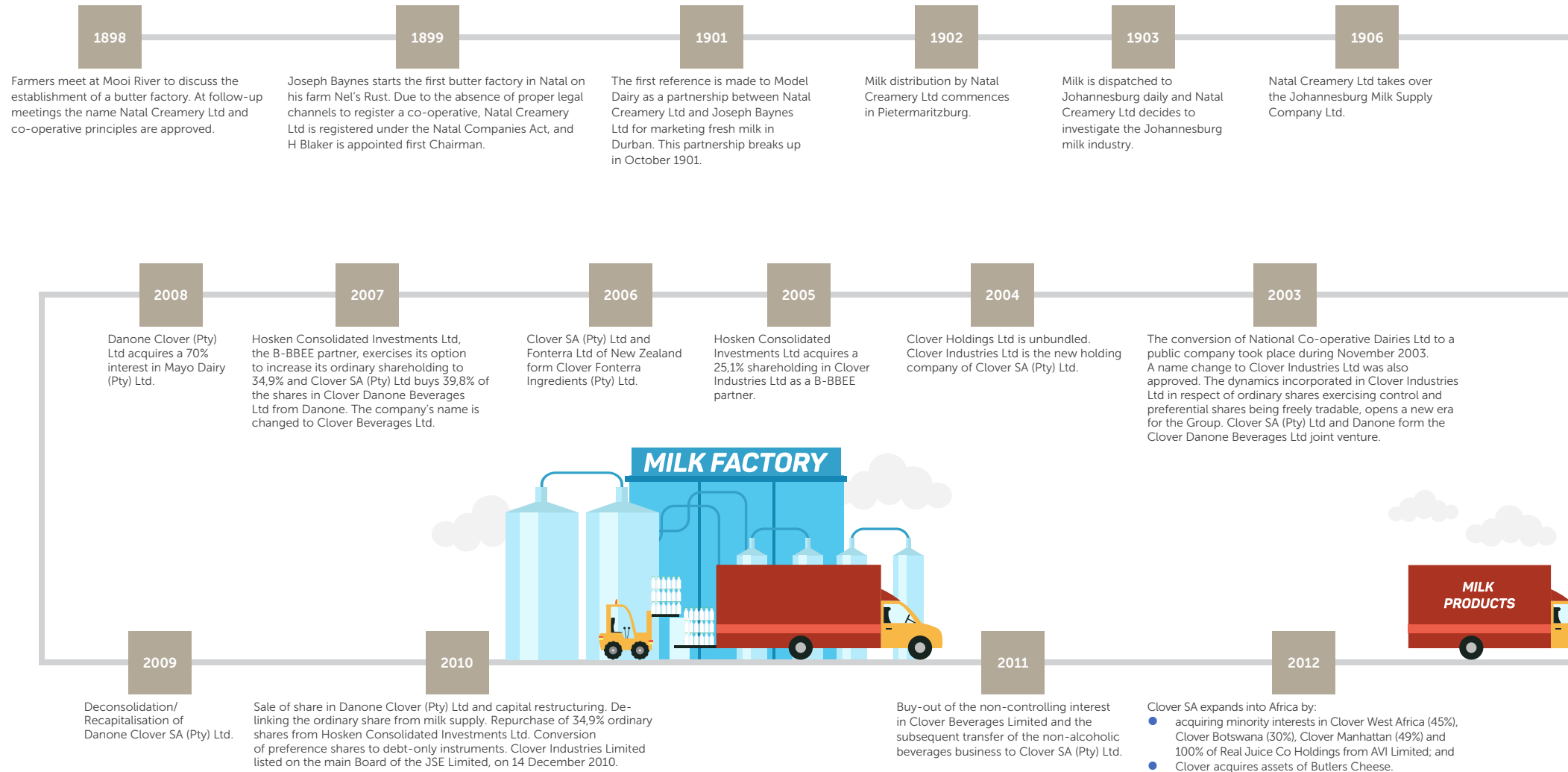
We are committed to fair labour practices and to promote fair competition. We avoid illegal and anti-competitive activities, such as price fixing, terms of sale, allocation of markets or customers.

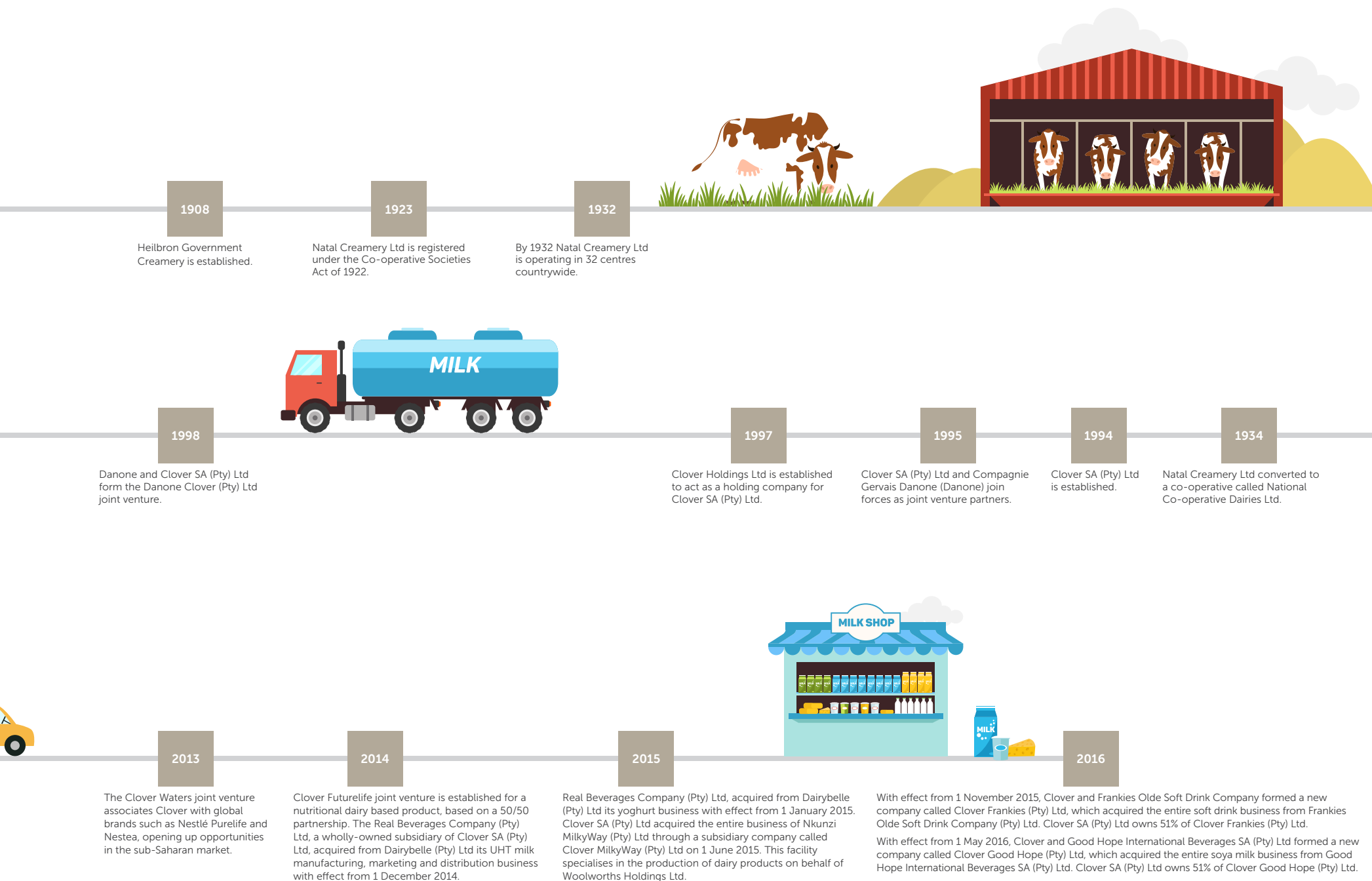
We take ownership and are **RESPONSIBLE AND ACCOUNTABLE**

Our commitment to all our stakeholders is to always exercise our obligations with due care, diligence and skill, while aligning Clover's business strategy with economically, socially and environmentally sustainable practices.



## CLOVER'S TIMELINE





## CLOVER'S FUTURE VALUE CREATION PHILOSOPHY

Clover is a dynamic

### DEMAND-DRIVEN CONSUMER PRODUCTS BUSINESS WITH ATTRACTIVE GROWTH PROSPECTS.

Originally a co-operative society, Clover converted to a public company in 2003 and listed on the JSE in 2010.

"Way Better" is not just a slogan, it's also our philosophy and the rationale behind...

### PROJECT CIELO BLU.

This project was implemented to address historical inefficiencies within the supply chain to...

*Increase production capacity and improve long-term profitability. By strategically relocating and upgrading key factories and warehouses, we significantly reduced cost, streamlined logistics...*

### AND OPTIMISED KEY OPERATIONAL ASPECTS OF THE BUSINESS.

In rolling out this project we have created the perfect platform for future expansion, making Clover an attractive investment.

TODAY



### HUMAN CAPITAL VALUE CREATION

- to be a sought after employer by providing employees with flexible work conditions and purpose-driven challenges
- enable employees to pursue excellence and establish themselves as major assets of Clover
- offer employees the opportunity to explore multi-chapter career paths that progress through our various businesses.



### NATURAL CAPITAL VALUE CREATION

South Africa faces significant water, sanitation and electricity constraints at present, which require heavy investment in natural infrastructure from government and the private sector to rectify. Tariffs will inevitably increase and we anticipate that increases will exceed the average rate of inflation for an extended period of time. Clover has therefore embarked on a journey of continuous efficiency improvements to reduce resource consumption. These efficiency improvements will be self-financing through reduced usage and will contribute to Clover's financial sustainability in the medium to long term.

Clover intends partnering with specialist service providers to ensure economies of scale through new technologies that will make Clover the efficiency leader in our market segments. Projected efficiencies include eliminating waste to landfill and effluent initiatives, among other environmental impacts.

Clover makes use of available grants and tax allowances to implement "Green technologies".

Clover's our end goal is to create long term value through good corporate citizenship.



## MANUFACTURED CAPITAL VALUE CREATION

Clover's recent investments in upgrading our manufactured capital is building long term value for our stakeholders. We foresee future value creation in manufactured capital as follows:



### Commercial

- Acquire new customers
- Retain and grow current customers
- Identify and enter untouched markets
- Acquire and invest in higher margin products
- Focus on all segments of the market, both formal and informal



### Supply chain and procurement

- Improve pricing strategy with suppliers and other role-players
- Integrate supply chain modelling
- Integrate business planning
- Procurement – supplier collaboration
- Development of suppliers to limit the risk of milk shortages
- Improve Clover's B-BBEE status and promote job creation
- Milk procurement – supplier collaboration to commence export initiatives and promote growth in national dairy industry.



### Distribution

- Optimise the distribution network through real time monitoring of execution
- Distribution mobility by delivering a paperless system to promote streamlined product returns and driver reconciliations
- Distribution retailer centralisation
- Expand basket of principal products through strategic partnership focus
- Collaboration with customers.



### Production

- Improve asset utilisation through consolidation
- Promote industry development, export opportunities and job creation
- Carbon footprint reduction
- Dairy industrial park for all concentrated products
- Increase capacity utilisation.



## INTELLECTUAL CAPITAL VALUE CREATION

Adding brands to the Clover stable

- Bolt on new brands such as Sip Up, Clover Soy Milk products and Frankies Olde Soft Drink and extract the synergistic value from their addition to the portfolio
- Bolt on additional brands to Clover's basket of products
- New brands
- New products
- Improved recipes in the light of the new sugar tax to be implemented in South Africa in the near future.

# STRATEGY



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## MATERIAL STRATEGIC PILLARS OF THE CLOVER GROUP

To constantly adapt Clover's human resources capabilities in order to fit its business model.

To actively support the business in the most effective and efficient manner.

To successfully complete value-enhancing capital projects through proper planning, project management and the tracking of the business case benefits.

To optimise the brand portfolio.  
To actively seek value-enhancing corporate activity.

To increase market share through sales and distribution by leveraging off Clover's strong distribution capabilities. Constantly redesign service offerings to customers and principals to increase sales volumes and profitability of the route to market.

To simplify and reduce costs in the supply chain by changing the operational model to fit with the business model.

## CLOVER'S MOST MATERIAL ISSUES

### Materiality

Clover's Board and executive management consider the information presented in this Integrated Annual Report as relevant or 'material' to our shareholders and key stakeholders. It supports a balanced understanding of Clover's performance over the past year, as well as insights into our planning for the future. The Board and executive management evaluated the source information with two primary questions in mind: "Who is our reporting aimed at" and "can they make well informed decisions regarding Clover from our reporting?"

When deciding on the information to be included in this report, the leadership considered the relative importance of each matter in terms of the known or potential effects of these on Clover's ability to continue creating value. These were prioritised for

relevance to the report users, so that non-pertinent information could be set aside, or shared through other channels.

An accurate and complete Integrated Annual Report should not be weighed down with peripheral data that tends to confuse rather than enlighten.

Clover's stakeholder engagement activities are aimed at identifying and responding to all legitimate expectations of shareholders, investors and stakeholders.

Clover's potential material matters emerge through our risk management process and shareholder feedback. The Board and Audit and Risk Committee meets at least once a quarter to review all risk management processes, procedures and outcomes.

Potential material issues are subjected to a materiality process that considers a topic's qualitative and quantitative aspect; the influence, legitimacy and urgency of the stakeholder raising the topic; the boundary of the topic; and Clover's ability to affect change with regard to our impact on the topic. Materiality levels are based on Clover's risk bearing capacity and risk appetite. All material risks are reported to the Board's Committees. The materiality process further involves getting the Board and executive management to workshop and prioritise identified issues for consideration and inclusion in the Integrated Annual Report.



## COMPETITIVE STRENGTHS OF THE CLOVER GROUP



Dynamic management team with significant experience in the dairy and fast moving consumer goods industry.

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Exposure to an attractive industry with favourable fundamentals. Attractive growth opportunities.



The largest chilled and one of the largest ambient distribution networks in South Africa.



An iconic South African consumer brand with market recognition.



Strong and unique relationships with its milk producers and suppliers.



Value-enhancing optimisation and expansion projects.

## STRATEGY AND RESOURCE ALLOCATION

Resources flow through Clover's business model as one or more of the six capitals. Based on Clover's vision, objectives, risks and opportunities, the Board decides on short, medium and long term strategy. Depending on these strategic decisions, Clover's management will decide on the blend of resources (capitals) to be drawn into the business model and will allocate these to various operations.

Resources, as capitals, flow out of Clover's business model as outputs and outcomes, ideally enhanced through the processes operating in the business model.

## NON-ALCOHOLIC BEVERAGES

### WATER AND ICED TEA

- Severe heat and drought conditions resulted in exceptional performance of the beverage portfolio with volumes increasing by 7,3%.
- Revenue increased by 14,6% for the non-alcoholic beverage portfolio and the MOM margin increased by 2,3% to 55,5%.



## REPORT ON GOVERNANCE, RISK AND COMPLIANCE

As the most trusted brand in South Africa, Clover vigilantly protects and builds on its reputation.\*

\* 2016 South Africa Reprtrak® Study

# REPORT ON GOVERNANCE, RISK AND COMPLIANCE

## COMPANIES ACT: REGULATION 43

\* Social and Economic Development

Good corporate citizenship

\* Environmental, Health and Public Safety

\* Consumer relationship

\* Labour and employment

\* Dealt with in the Report on Six Capitals.

## REPORT ON GOVERNANCE, RISK AND COMPLIANCE

Ethical leadership and corporate citizenship

Board and Directors

Audit Committees

The governance of risk

IT Governance

Compliance with laws, codes, rules and standards

Internal Audit

Integrated reporting

## KING III

Ethical leadership and corporate citizenship

Board and Directors

Audit Committees

The governance of risk

IT Governance

Compliance with laws, codes, rules and standards

\* Governing stakeholder relationships

Internal Audit

Integrated reporting and disclosure

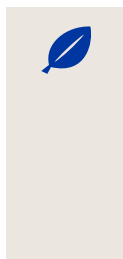


## SIX CAPITALS

HUMAN



NATURAL



MANUFACTURED



INTELLECTUAL



SOCIAL AND  
RELATIONSHIPS



FINANCIAL



## Reputation as a value driver

In June 2016, Clover was awarded the first prize in the Reputation Institute's study of the most reputable companies in South Africa. This is the first time that Clover participated, following the addition of the leading branded food and beverage company industry category this year.

Reputation House's study measures reputation in terms of four key themes, namely esteem, admire, trust and feeling. It also includes seven reputation dimensions: product/services, innovation, workplace, governance, citizenship, leadership and performance.

To be included in the study, companies had to score at least a 50% familiarity level with the general public. Fifty well recognised companies in South Africa, across various industries from retail to financial and telecommunications, were measured.

Clover scored 78 out of a possible 100. In terms of the seven reputation dimensions, Clover placed first in governance and citizenship, second in products and services, workplace, leadership and performance and third in innovation.

More information is available at:

<https://www.reputationinstitute.com/CMSPages/GetAzureFile.aspx?path=~\media\media\documents\southafrica-retrak-2016>.

## Responsibility to ensure good governance

Good corporate governance underpins transparency, fairness, integrity and accountability in Clover's daily interactions with all stakeholders and the environment. The underlying objective of governance is to counterbalance the interests of investors, consumers, producers, the environment, employees, communities, government and any other groups impacted by Clover's business.

## Statement of compliance

The Board endorses the King Code of Governance Principles for South Africa 2009 ("King III" or "the Code") and has satisfied itself that Clover conformed throughout the reporting period to

King III and the JSE's listings requirements with certain limited exceptions. Where Clover has partially complied or not complied with these provisions, we have provided motivations and reasons as listed in the King III index on page 81 of this report.

Deloitte Touche Tohmatsu Limited (Deloitte) performed the function of Internal Auditor and conducted an audit review to assess the governance infrastructure and processes that executive management has established. Deloitte found the internal controls over all operations of the corporate governance process and related activities to be adequate and effective. Deloitte also found Clover's governance practices to be mature.

The table below indicates management's conclusions on Clover's governance process:

Review area	Conclusion regarding adequacy	Conclusion regarding effectiveness
Ethical Leadership and Corporate Citizenship	Adequate	Effective
Boards and Directors	Adequate	Effective
Audit and Risks Committee	Adequate	Effective
The Governance of Risk	Adequate	Effective
The Governance of Information Technology	Adequate	Effective
Compliance with laws, Codes, Rules and Standards	Adequate	Effective
Internal Audit	Adequate	Effective
Governing stakeholder Relationships	Adequate	Effective
Integrated Reporting and Disclosure	Adequate	Effective

## Ethical leadership and corporate citizenship

The Board has adopted a Code of Ethics which is continuously reviewed and updated as required. This code defines Clover's main ethical standards of responsibility, integrity, fairness, accountability and respect. The Code of Ethics contains examples of unethical conduct and disclosure requirements for gifts and outside interests that would require pre-approval.

Employees are kept aware of the importance of ethical behaviour through regular branch level ethics awareness sessions. These position Clover's Ethics Hotline as a key feedback channel and educate on when and how it should be used. This code is used as a benchmark against which Clover is managed, taking into consideration the social, political and operational environments in which the business conducts itself.

As an iconic brand in the branded consumer goods industry, Clover is aware of and vigilantly protects its outstanding reputation. During the reporting period, no material ethical leadership or corporate citizenship deficiencies were identified or reported.

The Board is responsible for Clover's compliance with the Code of Ethics. It has delegated the responsibility of oversight and monitoring to the Audit and Risk Committee as well as the Social and Ethics Committee, which are both subcommittees of the Board. These Committees monitor and measure compliance through various reporting channels, such as:

- its Internal Audit department, outsourced to Deloitte
- the Ethics Hotline
- Clover's competition law centre of excellence.

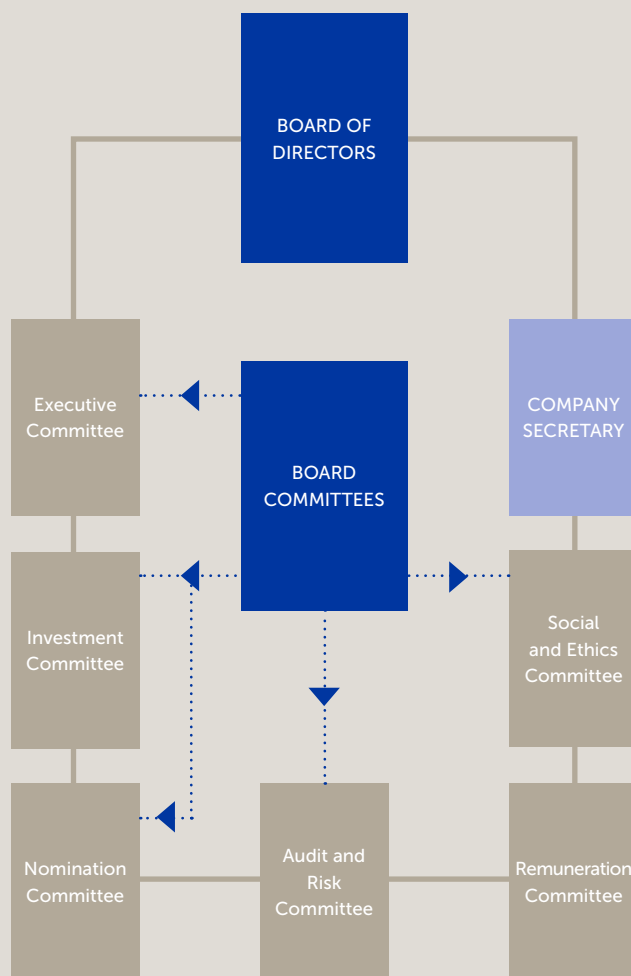
No requests for information in terms of the Promotion of Access to Information Act (PAIA) were received during the reporting period. Clover complied in all material aspects with all relevant legislation and was not subject to any material penalties, fines or criminal procedures.

The Board is ultimately responsible for effective corporate governance.

# REPORT ON GOVERNANCE RISK AND COMPLIANCE

(continued)

## Governance structure



The Board's responsibilities are formalised in a charter, which is reviewed on an annual basis. All Board subcommittees operate under Board approved mandates and terms of reference. Save for the Executive Committee, all other Committees are chaired by Independent Non-Executive Directors.

## The Board

The Board is accountable to shareholders and ultimately responsible for the management of Clover's business, including determining strategies and policies. The Board is also responsible for approving the Group's financial objectives and targets.

Although the Board members are appointed by Clover's shareholders, the Board has the authority to appoint directors to fill any vacancy that may arise from time to time. These appointments are ratified by shareholders at the subsequent Annual General Meeting.

Directors are appointed based on their specific skills set, industry expertise and experience, as well as the overall level of contribution they can offer. The Nomination Committee, as a subcommittee of the Board, is tasked with identifying and recommending suitable candidates for the Board's formal consideration. Clover's empowerment and transformation objectives are considered as part of this exercise.

New appointees are formally inducted and familiarised with Clover's business.

Clover's day-to-day business activities are overseen by its Executive Committee. This Committee is responsible for ensuring that Board decisions are effectively implemented in line with its mandates.

Clover's memorandum of incorporation gives the Board the authority to indemnify directors. Deeds of indemnification have

been issued to all directors and prescribed officers of Clover, to the extent permitted by the Companies Act. During the reporting period, appropriate director and prescribed officer liability insurance was in place.

## Board composition

At the end of the review period, the Board consisted of three Executive Directors and eight Non-Executive Directors, five of whom are independent.

During the review period, Dr Chris Lerm and Mr Jacques Botha retired as Executive: Brands and Marketing and Chief Financial Officer respectively. Mr Elton Bosch was appointed as Chief Financial Officer, following Mr Botha's retirement. It is not anticipated that a third Executive Director will be appointed.

Mr Tom Wixley, who served as Clover's lead independent director since listing, announced his retirement subsequent to the year end, effective from 28 November 2016 (date of the Annual General Meeting). Following Mr Wixley's retirement, Dr Steve Booysen will fulfil the role of lead independent director. No new Non-Executive Director will be appointed in Mr Wixley's stead.

Mr Peter Griffin, a Non-Executive Director has also indicated that he will retire from the Board and did not offer himself for re-election at the upcoming Annual General Meeting scheduled to take place on 28 November 2016. The Board does not anticipate appointing a new Non-Executive Director.

Following the above retirements, the Board will consist of two Executive Directors and six Non-Executive Directors, four of whom are independent.

Ms Babalwa Ngonyama has been appointed as chairperson of the Audit and Risk Committee with effect from 1 May 2016, while Ms Neo Mokhesi was appointed as the chairperson of the Social and Ethics Committee with effect from 1 May 2016.



Details of the directors are available on pages 52 and 53 of this report. Clover's Board comprises a majority of Independent Non-Executive Directors, to entrench the desirable balance of power and authority at Board level. No individual director has unfettered powers of decision-making.

Director	Board		Audit & Risk Committee		Remuneration Committee		Social & Ethics Committee		Investment Committee		Nomination Committee	
	A	B	A	B	A	B	A	B	A	B	A	B
<b>Independent Non-Executive</b>												
TA Wixley	5	5	4	4	3	3	4	4	3	3	2	2
Dr SF Booysen	5	5	4	4	3	3	4	4	3	3	2	2
JNS du Plessis	5	5	4	4	3	3	-	-	-	-	-	-
NV Mokhesi	5	5	-	-	-	-	4	4	-	-	-	-
B Ngonyama	5	5	4	4	-	-	-	-	-	-	-	-
<b>Non-Executive</b>												
WI Büchner	5	5	-	-	3	3	-	-	3	3	2	2
NA Smith	5	5	-	-	-	-	-	-	3	3	-	-
PR Griffen	5	5	-	-	-	-	-	-	-	-	-	-
<b>Executive</b>												
JH Vorster	5	5	-	-	-	-	-	-	-	-	-	-
LJ Botha (resigned 2 January 2016)	2	2	-	-	-	-	-	-	-	-	-	-
Dr CP Lerm (retired 30 June 2016)	5	5	-	-	-	-	-	-	-	-	-	-
ER Bosch	3	3	-	-	-	-	4	4	-	-	-	-

A – Number of meetings held during the period the director was a member of the Board/Committee.

B – Number of meetings attended during the period the director was a member of the Board/Committee.

## Company Secretary

Mr J van Heerden is the Company Secretary of Clover and was appointed as such with effect from 1 September 2012. He is not a director of Clover, although he serves as a director on the Boards of various Clover subsidiaries. This relationship does not affect his arm's length relationship with the Board. The Company Secretary is appointed and removed by the Board and is responsible to the Board for ensuring that procedures and regulations are complied with and that directors are conversant with their duties and responsibilities. Clover's directors have unfettered access to the advice and services of the Company Secretary and may

seek independent professional advice on Clover's affairs if they believe that such actions will best serve the interests of Clover.

The Company Secretary is further responsible for the duties set out in section 88 of the Companies Act and for ensuring compliance with the listings requirements of the JSE Limited. The Company Secretary also provides a communication link with investors and liaises with the Group's transfer secretaries and sponsors on relevant matters. As required by King III, the Company Secretary also acts as secretary to the various subcommittees of the Board and attends all meetings of the Board and the Committees. The Company Secretary is also the compliance officer and ensures

that the Group complies with all the required legislation and regulations applicable to its various business activities.

In compliance with the JSE Listings Requirements, a detailed assessment was conducted by the Board to satisfy itself of the competence, qualifications and experience of the Company Secretary. This was performed through:

- A review of qualifications and experience: Mr van Heerden holds a LLB (with distinction) degree from the University of Pretoria and is an associate of Chartered Secretaries of Southern Africa.

## REPORT ON GOVERNANCE RISK AND COMPLIANCE (continued)

- Assessments by the directors of the competency of the Company Secretary: A formal assessment is done by the Board annually requesting the views of each director on his/her view on the competence, qualifications and experience of the Company Secretary. No exceptions were noted during any of the assessments conducted since Mr van Heerden's appointment.

Having duly considered the above, the Board is comfortable that the Company Secretary maintains an arm's length relationship with the Board and individual directors in terms of Section 3.84(j) of the JSE Listings Requirements and is satisfied with the competence, qualifications and experience of Mr van Heerden to act as the Company Secretary.

The certificate of Jacques van Heerden, the Company Secretary, appears on page 150 of this Integrated Annual Report.

### Board Committees

The Board has mandated a number of subcommittees to assist it in discharging its responsibilities. Each subcommittee's scope and nature of authority is stipulated in its terms of reference, which is approved by the Board. Clover's Audit and Risk Committee as well as its Social and Ethics Committee have certain specific responsibilities in terms of the Companies Act and its regulations. Copies of the respective terms of reference are available at [www.clover.co.za](http://www.clover.co.za).

#### EXECUTIVE COMMITTEE

ER Bosch  
 Dr JHF Botes  
 LJ Botha (resigned 2 January 2016)  
 Dr CP Lerm (retired 30 June 2016)  
 H Lubbe  
 MM Palmeiro  
 J van Heerden  
 JH Vorster – Chairperson

Directors, executives and operational management have clearly defined responsibilities and levels of authorisation for their respective areas of the business. The delegation of these responsibilities is reviewed annually.

The Executive Committee reviews and identifies risk, current operations and the management thereof. This Committee is tasked with developing strategies and recommending policies for the Board's consideration, as well as the implementation of the Board's directives and decisions.

#### AUDIT AND RISK COMMITTEE

Dr SF Booysen  
 JNS du Plessis  
 B Ngonyama (appointed as chairperson – 1 May 2016)  
 TA Wixley – Chairman (retired as chairperson – 1 May 2016)

The Audit and Risk Committee comprises only of Independent Non-Executive Directors. The CEO, CFO as well as other Executive and Non-Executive Directors attend meetings of the Audit and Risk Committee by invitation.

The report of the Audit and Risk Committee is available on pages 148 to 149 of this report and sets out the responsibilities and delivery of the Committee against these objectives during the review period.

#### REMUNERATION COMMITTEE

Dr SF Booysen – Chairperson  
 WI Büchner  
 JNS du Plessis  
 TA Wixley  
 The Chief Executive and other Executives attend meetings of the Remuneration Committee as invitees and are recused from

discussions pertaining to their own remuneration and benefits. The report of the Remuneration Committee is on pages 85 to 97 and sets out its responsibilities as well as its delivery against these.

#### SOCIAL AND ETHICS COMMITTEE

Dr SF Booysen  
 ER Bosch  
 N Mokhesi (appointed as chairperson – 1 May 2016)  
 TA Wixley – Chairman (retired as chairperson – 1 May 2016)

The mandate of this Committee is specified in Regulation 43(5) of the Companies Act. Its responsibilities and functions are governed by terms of reference that are regularly reviewed and approved by the Board. As a subcommittee of the Board, the Social and Ethics Committee is tasked with the monitoring, developing, reviewing and improvement of Clover's social, ethical, environmental impact and governance policies against pre-set benchmarks. In terms of the Committee's work plan, the implementation of certain actions has been prioritised to enable it to fully discharge its statutory functions over a three-year period. This Committee meets four times per year and reports through one of its members to shareholders at the company's Annual General Meeting on all sustainable matters within its mandate. Its report on the six capitals approach to Clover's sustainability is available on [www.clover.co.za](http://www.clover.co.za) as well as on pages 99 to 145 of this report.

#### NOMINATION COMMITTEE

Dr SF Booysen – Chairperson (retired as chairperson – 1 March 2016)  
 WI Büchner  
 TA Wixley (appointed as chairperson – 1 March 2016)  
 The Nomination Committee is tasked with the regular review of the Board's structure, size and composition and with

making recommendations in this regard, taking cognisance of the company's strategies and operating environments. The Committee will nominate applicant directors to the full Board, which will formally and transparently consider these nominations. The Committee is furthermore responsible for ensuring that an appropriate balance exists between Executive, Non-Executive and Independent Non-Executive Directors, as well as for classifying directors as being independent in line with King III principles. It assists with the identification and nomination of potential new directors for appointment by the Board and/or shareholders and oversees the induction and training of the directors. The Nomination Committee assists the Chairperson of the Board with the annual performance reviews of Board and subcommittee members. It supports the proper and effective functioning of the Board, including appropriate succession planning. This Committee meets as and when required during every financial year.

#### INVESTMENT COMMITTEE

Dr SF Booyesen – Chairperson

WI Büchner

NA Smith

TA Wixley

The Investment Committee guides and acts as a sounding Board for the Executive Committee when considering growth plans, especially with regards to mergers and acquisitions. The Investment Committee has been mandated with the authority to approve transactions ranging in value from R50 million to R350 million and meets as and when required during the course of the financial year.

Good corporate governance underpins transparency, fairness, integrity and accountability in Clover's daily interactions with all stakeholders and the environment.

The underlying objective of governance is to balance the interests of investors, consumers, producers, the environment, employees, communities, government and any other groups impacted by Clover's business.

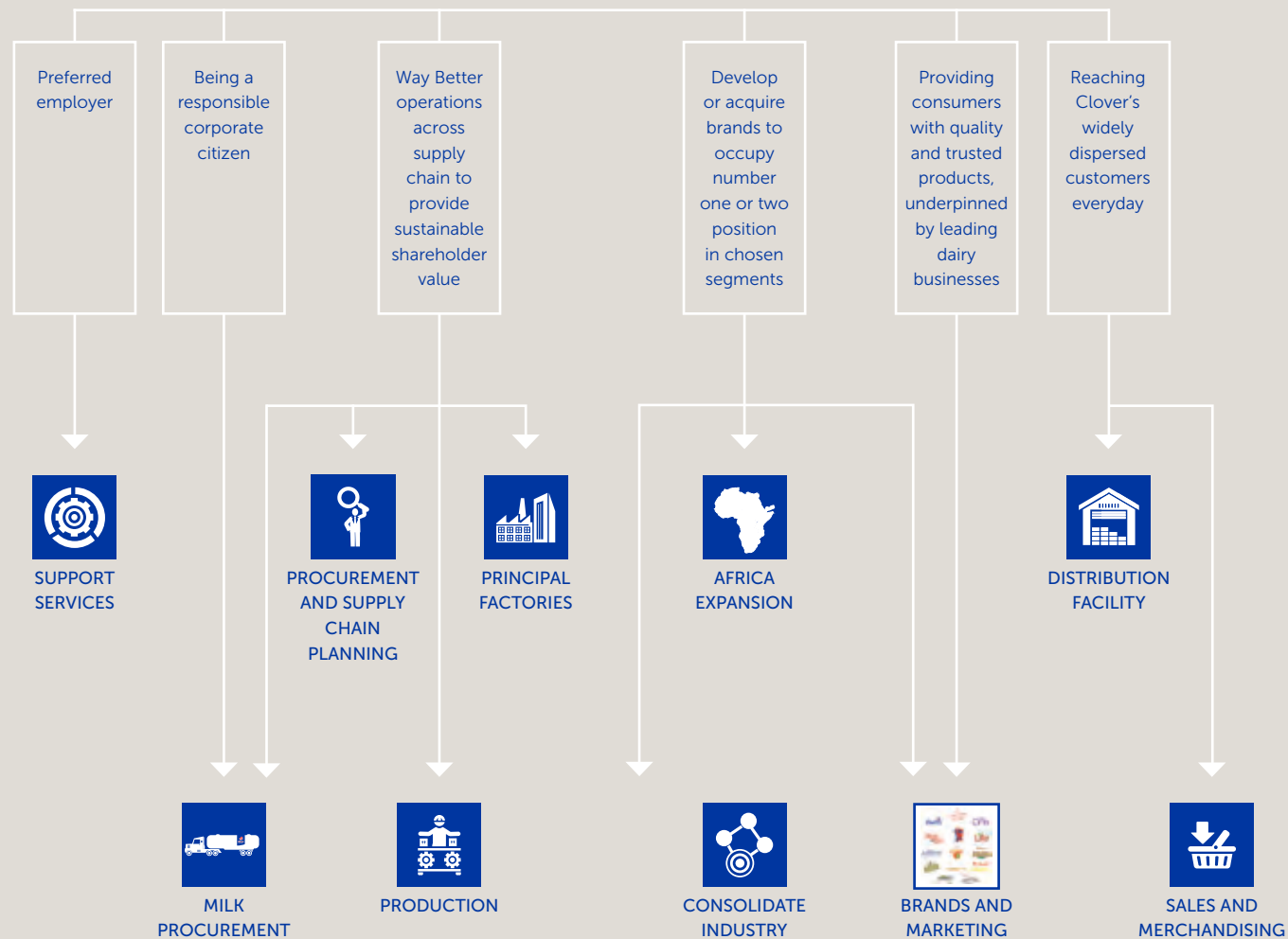




## OUR VISION

To be a leading branded foods and beverages group in South Africa and selected other African countries, providing accessible nutrition to all consumers

## OUR MISSION



## 1ST LINE OF DEFENCE

- Management

## 2ND LINE OF DEFENCE

- Policies and procedures
- Internal controls
- Risk management
- Legal
- Regulatory compliance
- Management Executive Committee

## 3RD LINE OF DEFENCE

- Internal Audit
- External Audit
- Other external assurance providers

## 4TH LINE OF DEFENCE

- Board
  - Board Committees
- (see diagram on page 72)

## CLOVER'S RISK UNIVERSE

Inherent risk on business model	Risk mitigation
<ul style="list-style-type: none"> <li>• Consumers are under pressure with rising inflation putting pressure on price and volume</li> </ul>	Continuously monitor sales prices to ensure price premiums are justified. Clover continuously considers potential actions to drive further cost efficiencies.
<ul style="list-style-type: none"> <li>• Competitors on the rise with new brands</li> </ul>	Continuously monitor sales prices to ensure price premiums are justified. Clover is considering potential actions to drive further cost efficiencies.
<ul style="list-style-type: none"> <li>• Weakening exchange rates, impacting packaging and other costs negatively</li> <li>• Commodity prices are low for the export market</li> </ul>	Supplier agreements are continuously renegotiated to improve efficiencies. Commodity prices are monitored on a monthly basis through the CFI trading desk, through which best prices are realised.
<ul style="list-style-type: none"> <li>• Milk producers under pressure with rising input costs and facing the drought</li> <li>• Few growth opportunities for producers</li> </ul>	Clover continuously monitors the milk price to feed cost ratio to protect its milk sources. New growth markets are being pursued through Clover Fonterra Ingredients (CFI) and our African expansion initiatives.
<ul style="list-style-type: none"> <li>• Increased pressure on labour costs</li> <li>• Unstable labour environment</li> </ul>	Communication channels with labour are being enhanced to address the business risks.
<ul style="list-style-type: none"> <li>• Factories are too dispersed, requiring consolidation</li> <li>• Global commodity market under pressure</li> </ul>	Synergies can be unlocked by having a centralised Industrial park which will assist Clover and the milk producers of South Africa to grow and create new markets. Commodity pressure is cyclical.
<ul style="list-style-type: none"> <li>• Distribution centralisation (retailers)</li> <li>• Increased competition for distribution</li> </ul>	A retailer has embarked on a process that requires Clover to only deliver to its distribution centre, while all distribution to its stores will henceforth be done by themselves. From Clover's perspective, our fleet would have to be changed to cater for bulk loads. Clover is currently considering action plans to change its distribution model to enhance efficiencies, while considering new distribution opportunities.
<ul style="list-style-type: none"> <li>• Compliance with legislation</li> </ul>	Continuous compliance monitoring and training of personnel. Mitigation measures are formulated into written policies.
<ul style="list-style-type: none"> <li>• Competition Law compliance</li> </ul>	A Competition Law Centre of Excellence has been established and is supported by Bowman Gilfillan. This centre will draft Clover's policies and train personnel in compliance.
<ul style="list-style-type: none"> <li>• Cyber Security</li> </ul>	Clover IT has implemented a variety of security tools to monitor its infrastructure and activity on the network. These include scans that identify and rate the infrastructure's external and internal vulnerabilities, enabling Clover to take immediate action should security threats be identified. Clover has a Security Information and Event Management (SIEM) tool used for real-time analysis of security alerts, supported by a comprehensive antivirus system and a firewall that protects against advanced digital threats.

## REPORT ON GOVERNANCE RISK AND COMPLIANCE (continued)

### GOVERNANCE OF RISK

Effective risk management aligns risk and opportunities to Clover's vision and mission. Furthermore, it informs a strategy of taking calculated risks in a manner that does not jeopardise the direct interest of stakeholders. Clover's risk profile stipulates a prudent approach to corporate risk, as shown in decisions on risk tolerance and mitigation.

Clover's Board assumes full responsibility for the governance of risk through a formal risk management framework. It effects its duties through the Audit and Risk Committee.

To ensure a consistent approach to risk management throughout Clover, the Board approved an Enterprise Wide Risk Management Framework that defines Clover's risk-bearing capacity, risk appetite and risk tolerance. This policy and framework incorporates generally accepted and annually reviewed risk management practices and the integrated framework on Enterprise Risk Management disseminated by the Committee of Sponsoring Organisations (COSO). All service organisations, support functions, processes, projects and entities controlled by Clover are required to conform to this policy and framework. Management is continuing to integrate risk limits into business processes. This exercise includes setting authorisation thresholds for pursuing strategies within the predetermined levels of risk appetite, as well as establishing risk tolerances for operational functions.

These risk limits are used to compile the risk impact categorisation table, which is used for measuring and prioritising risk according to the materiality of impact values.

Management has been charged with the design, implementation and monitoring of Clover's risk management structures. Each business unit conducts quarterly risk assessments to monitor the efficiency of these structures. Clover records and manages its risk universe on the BarnOwl risk management system, which prioritises material, inherent and residual risks.

The Management Risk Committee meets each quarter to table Clover's key risks as well as the status of mitigating action plans. Key risks and mitigating actions are reported to the Audit and Risk Committee each quarter.

In the last financial year, Deloitte was appointed by Clover as part of the internal audit coverage plan to review the maturity and effectiveness of risk management function against Clover's Enterprise Wide Risk Management Framework and the principles of the King III Code. Deloitte was tasked with providing appropriate recommendations for improving Clover's risk management policy and processes. Deloitte concluded that management had solidly embedded risk management processes across the organisation to establish a well-defined risk function. Based on its review of risk management in other organisations, Deloitte concluded that Clover is generally more advanced in its risk management processes than comparable organisations. Deloitte has, however, made several recommendations to further embed risk management practices for deeper insights into risks and incidents.

Clover runs ongoing fraud awareness campaigns at branch level across all levels of staff to raise awareness of Clover's Ethics Policy, the use of the ethics hotline and the fact that all calls to this line are treated confidentially by an independent party. Tip-offs received are actively investigated, followed-up on and resolved. The Board, assisted by the Audit and Risk Committee, are satisfied with the effectiveness of Clover's risk management function.

### GOVERNANCE OF INFORMATION TECHNOLOGY (IT)

Information technology is an integral part of the business and fundamental to ongoing operations. In view of the strategic importance of IT, Clover aligned its business requirements to available IT resources and technology to ensure appropriate IT

strategy is formulated to improve Clover's competitiveness for its future sustainability. Clover's IT department (Clover IT) developed an IT Governance Framework that considers relevant structures and processes for meeting Clover's business requirements. Relevant IT best practises, such as those in the COBIT framework, have been adopted to ensure appropriate mitigation of IT risks.

IT governance is a set of business processes that imposes management and control disciplines on IT activities to help ensure the integrity and protection of IT operations, while achieving business goals. This requires a system in which all stakeholders, including the Board, internal customers, and in particular departments such as finance, have the necessary input into the decision making process.

The Board is responsible for IT governance, which is included in the Board's work plan. The Board delegated the responsibility to implement the IT Governance Framework to management under the oversight of the Audit and Risk Committee, which considers the major IT risks and opportunities quarterly. In this financial period, Deloitte performed advisory reviews on Clover's IT Governance against the COBIT framework, including the protection of personal information and the adequacy of Clover's IT disaster recovery procedures.

#### ● IT Governance Review

- Deloitte conducted an IT Governance Review with the intention to measure certain key governance objectives within the Clover IT environment against the COBIT 5 IT Governance Framework.
- The results indicated that Clover's IT strategy is effectively linked to business goals and objectives and that IT is viewed as a strategic enabler that is essential to the business in achieving its goals.
- Clover performs regular IT risk assessments, in which IT risks are tracked and monitored.



- Clover's IT Governance is conducted through formal structures, underpinned by supporting documentation such as IT Governance Charter, Clover Board Charter, IT Governance Framework, IT Risk Management and IT Strategy. Management monitors Clover's risk exposure and the effectiveness of risk controls through a formalised IT Steering Committee and Management Risk Committee.
- **PoPI IT Readiness and Data Classification Review**
  - In anticipation of the Protection of Personal Information Act (PoPI), Deloitte performed an advisory review on Clover's IT readiness for PoPI.
  - From this review Clover IT has formalised a data classification policy for personal and confidential information
  - This is supported by a formal privacy policy which governs the collection, processing, use and transfer of personal information.
- **Disaster Recovery**
  - During the past financial year Deloitte, as Clover's Internal Auditors, performed an advisory review on disaster recovery procedures for Clover's material IT infrastructures, including:
    - Server Infrastructure:
    - Network Infrastructure
    - iSeries Environment (ERP Platform)
    - Customer Service Centre (CSC).
  - The outcome of these reviews indicated that Clover's disaster recovery processes and procedures were adequate. Clover's procedures are to be continuously improved for effective execution in line with best practice.

## COMPLIANCE WITH LAWS, CODES, RULES AND STANDARDS

The Company Secretary is responsible for facilitating compliance throughout Clover.

Clover ensures that all employees are inducted and have a consistent understanding of compliance policies and procedures. Clover is in the process of finalising its compliance policy, which documents the Board's stance on compliance within Clover for:

- assessing applicable laws, regulations and supervisory requirements
- rating and prioritising risks
- training employees to comply with applicable supervisory requirements.

Non-adherence with the documented standards will lead to disciplinary action, which could result in dismissal.

During the year under review, Clover consulted with business bodies to enhance its regulatory universe and documented processes for ensuring adequate and effective controls. Clover's regulatory universe consists of more than 80 legislated and non-legislated supervisory requirements that are applicable to Clover's business.

After consultation with business bodies and by adopting its risk rating methodology, the following acts and other regulations, in no particular order, have been identified as priority areas:

- Competition Act 89 of 1998
- National Building Regulations and Building Standards Act 49 of 1995
- Consumer Protection Act 68 of 2008.
- Foodstuffs, Cosmetics and Disinfectants Act No.54 of 1972.
- Income Tax Act 58 of 1962 (as amended).
- JSE Listings Requirements (not an Act but considered relevant).
- Occupational Health and Safety Act 85 of 1993.

- Value-Added Tax Act 89 of 1991 (as amended)
- Tax Administration Act 28 of 2011 (as amended)
- Employment Equity Amendment Act 47 of 2013
- Labour Relations Amendment Act 2014
- Companies Act 71 of 2008
- Agricultural Product Standards Act No. 119 of 1990.

### Compliance with provisions of the Consumer Protection Act and Competition Act

Clover trains its staff and promotes a culture of compliance through online educational campaigns on the requirements of the Competition Act and the Consumer Protection Act.

During the review period, more than 840 employees from various departments completed the online training and refresher valuations (2015: 690 employees) for the Competition Act. Over 400 employees completed online training and assessments for the Consumer Protection Act.

It is compulsory for all management employees and those who may be exposed to anti-competitive or collusive behaviour to complete the training.

Clover has established a Competition Law Centre of Excellence (CLCE), in conjunction with Bowman Gilfillan as its Competition Law advisors. The CLCE has the function of ensuring proper standards of competition law compliance within Clover.

During the year under review, Bowman Gilfillan commenced a full review of Clover's compliance with the Competition Act with a particular focus on areas of milk procurement, commercial arrangements and joint ventures. Bowman Gilfillan advised the Board that it did not identify any contravention of the Competition Act.

On 13 March 2014, the Acting Commissioner of the Competition Commission initiated a complaint against Clover Industries Ltd

## REPORT ON GOVERNANCE RISK AND COMPLIANCE *(continued)*

(Clover), Parmalat (Pty) Ltd (Parmalat) and Midlands Milk (Pty) Ltd (Midlands Milk), alleging that these three parties agreed, at some stage in or around 2012, to fix the purchase price of raw milk or trading conditions in terms of which the raw milk is purchased. This alleged transgression was in possible contravention of section 4(1) (b)(i) of the Competition Act 89 of 1998, as amended. The complaint only came to Clover's attention during March 2015 and Clover immediately conducted an internal investigation in conjunction with Bowman Gilfillan. Bowman Gilfillan's investigation did not reveal any conduct on Clover's part that suggests that in 2012 it directly or indirectly co-ordinated with Parmalat and Midlands Milk to fix the purchase price of raw milk, or trading conditions in terms of which the raw milk is purchased, as alleged by the Commission.

At the time of writing, Clover has received no further communication from the Commission with regard to the above complaint.

During the review period, Clover complied in all material aspects with all relevant legislation. Apart from several legal proceedings arising from the routine course of business, the Board is satisfied that Clover does not face any material pending or threatening legal actions.

### Insider trading

The Board has approved a Price-Sensitive Information Policy and an Insider Trading Policy for Clover. Directors, officers, relevant employees and service suppliers have been informed that they are compelled to comply with these policies.

Salient features of these policies are:

- no Clover employee may deal directly or indirectly in Clover shares on the basis of unpublished price-sensitive information regarding the business
- no director or officer of Clover may disclose trade information of the business

- directors and officers are precluded from trading in Clover shares during closed periods or prohibited periods as determined by the Board.

Closed periods are imposed from:

- the end of the first six-month period to the time of the publication of the interim financial results on the JSE's Securities Exchange News Service (SENS)
- the financial year-end date to the time of the publication of the final financial results on the JSE's SENS.

Any director wishing to trade in Clover's shares must obtain clearance from the chairman of the Board or the designated director prior to trading in these shares.

## INTERNAL AUDIT

Deloitte has been given responsibility for implementing the annual internal audit plan approved by Clover's Audit and Risk Committee. As with any policy or protocol, there are inherent limitations to the effectiveness of any system of internal controls due to human error, or the deliberate circumvention or overriding of controls. Accordingly, an effective internal control system can provide only reasonable assurance with regards to preparing financial statements and safeguarding assets. Clover's internal controls and systems are designed and monitored to provide reasonable assurance regarding the reliability of the financial statements and to protect, verify and maintain accountability for its assets. These controls are based on established policies and procedures, as implemented by trained personnel with segregated duties and responsibilities. Internal control systems are managed by way of a documented organisational structure with segregated responsibilities and established policies and procedures which are communicated throughout the business. Internal audit personnel are carefully selected, trained and developed to effectively execute their duties. Significant findings

are reported to the Executive Committee as well as the Audit and Risk Committee, which will take corrective actions to address identified deficiencies in internal control.

During the review period, no material breakdowns in internal controls were reported within the key areas reviewed. These evaluations were the main input considered by the Board in reporting on internal control effectiveness.

Clover's external auditors, Ernst & Young Incorporated (EY), performed a limited assurance review of management's assessment of internal controls for financial reporting. This was a separate exercise done in addition to the internal audit conducted by Deloitte. No material findings were reported to the Audit and Risk Committee and nothing has come to the attention of the directors or the auditors that indicates any material breakdown in the effectiveness of the internal controls during the reporting period.

## DISCLOSURE OF COMPLIANCE WITH CODE

As required by the JSE Listings Requirements, the Board endorses the King III code and is satisfied that Clover has conformed throughout the reporting period to all material aspects of the Code, except where it has applied the principle of "apply or explain" as indicated in the King III index.



**Jacques van Heerden**  
Company Secretary

12 September 2016

## KING III INDEX

### ETHICAL LEADERSHIP AND CORPORATE CITIZENSHIP

### BOARDS AND DIRECTORS

#### Exceptions

① The Chairman of the Board, WI Büchner, is a Non-Executive Director who is not independent insofar as he is a milk producer and supplier of raw milk to the Group. In the opinion of the Board, it is in the interests of the Group to maintain a close relationship with its raw milk suppliers and his appointment serves the long-term interests of the Group. As recommended by the Code, Mr TA Wixley acted as the Lead Independent Director to fulfil the functions of the Chairman whenever a conflict arises and in the other circumstances envisaged in the Code. Upon retirement of Mr TA Wixley, Dr S Booyens will take up the role as Lead Independent Director as from 28 November 2016. The role of Chairman and Chief Executive vest in two separate individuals as required by the Code.

② Until the Group's sustainability reporting systems have matured sufficiently, it is the opinion of the Board that no purpose will be served by having its Report on Six Capitals fully independently assured. Partial combined assurance has been obtained, refer to page 145.

✓ Apply

✗ Under review/Do not apply

- ✓ Effective leadership based on an ethical foundation
- ✓ Responsible corporate citizen
- ✓ Effective management of Clover's ethics

- ✓ The Board should act as the focal point for and custodian of corporate governance
- ✓ The Board should appreciate that strategy, risk, performance and sustainability are inseparable
- ✓ The Board should provide effective leadership based on an ethical foundation
- ✓ The Board should ensure that the company is and is seen to be a responsible corporate citizen
- ✓ The Board should ensure that the company's ethics are managed effectively
- ✓ The Board should ensure that the company has an effective and Independent Audit Committee
- ✓ The Board should be responsible for the governance of risk
- ✓ The Board should be responsible for information technology (IT) governance
- ✓ The Board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards
- ✓ The Board should ensure that there is an effective risk-based internal audit
- ✓ The Board should appreciate that stakeholders' perceptions affect the company's reputation
- ✓ The Board should ensure the integrity of the company's Integrated report
- ✓ The Board should report on the effectiveness of the company's system of internal controls
- ✓ The Board and its directors should act in the best interests of the company

- ✓ The Board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act
- ✗ 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
- ✓ The Board should appoint the chief executive officer and establish a framework for the delegation of authority
- ✓ The Board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent
- ✓ Directors should be appointed through a formal process
- ✓ The induction of and ongoing training and development of directors should be conducted through formal processes
- ✓ The Board should be assisted by a competent, suitably qualified and experienced Company Secretary
- ✓ The evaluation of the Board, its Committees and the individual directors should be performed every year
- ✓ The Board should delegate certain functions to well-structured Committees but without abdicating its own responsibilities
- ✓ A governance framework should be agreed between the group and its subsidiary Boards
- ✓ Companies should remunerate directors and executives fairly and responsibly
- ✓ Companies should disclose the remuneration of each individual director and prescribed officer
- ✓ Shareholders should approve the company's remuneration policy

✓ Apply

✗ Under review/Do not apply

## KING III INDEX (continued)

### AUDIT COMMITTEE

- ✓ The Board should ensure that the company has an effective and Independent Audit Committee
- ✓ Audit Committee members should be suitably skilled and experienced independent non-executive directors
- ✓ The Audit Committee should be chaired by an independent non-executive director
- ✓ The Audit Committee should oversee integrated reporting
- ✓ The Audit Committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities
- ✓ The Audit Committee should satisfy itself of the expertise, resources and experience of the company's finance function
- ✓ The Audit Committee should be responsible for overseeing of internal audit
- ✓ The Audit Committee should be an integral component of the risk management process
- ✓ The Audit Committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process
- ✓ The Audit Committee should report to the Board and shareholders on how it has discharged its duties

### THE GOVERNANCE OF RISK

- ✓ The Board should be responsible for the governance of risk
- ✓ The Board should determine the levels of risk tolerance
- ✓ The Risk Committee or Audit Committee should assist the Board in carrying out its risk responsibilities
- ✓ The Board should delegate to management the responsibility to design, implement and monitor the risk management plan
- ✓ The Board should ensure that risk assessments are performed on a continual basis
- ✓ The Board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks
- ✓ The Board should ensure that management considers and implements appropriate risk responses
- ✓ The Board should ensure continual risk monitoring by management
- ✓ The Board should receive assurance regarding the effectiveness of the risk management process
- ✓ The Board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders

✓ Apply

✗ Under review/Do not apply

## THE GOVERNANCE OF INFORMATION TECHNOLOGY

- ✓ The Board should be responsible for information technology (IT) governance
- ✓ IT should be aligned with the performance and sustainability objectives of the company
- ✓ The Board should delegate to management the responsibility for the implementation of an IT Governance Framework
- ✓ The Board should monitor and evaluate significant IT investments and expenditure
- ✓ IT should form an integral part of the company's risk management
- ✓ The Board should ensure that information assets are managed effectively
- ✓ A Risk Committee and Audit Committee should assist the Board in carrying out its IT responsibilities

## COMPLIANCE WITH LAWS, CODES, RULES AND STANDARDS

- ✓ The Board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards
- ✓ 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
- ✓ Compliance risk should form an integral part of the company's risk management process
- ✓ The Board should delegate to management the implementation of an effective compliance framework and processes

## INTERNAL AUDIT

- ✓ The Board should ensure that there is an effective risk based internal audit
- ✓ Internal audit should follow a risk based approach to its plan
- ✓ Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management
- ✓ The Audit Committee should be responsible for overseeing internal audit
- ✓ Internal audit should be strategically positioned to achieve its objective

## GOVERNING STAKEHOLDER RELATIONSHIPS

- ✓ The Board should appreciate that stakeholders' perceptions affect a company's reputation
- ✓ The Board should delegate to management to proactively deal with stakeholder relationships
- ✓ The Board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company
- ✓ Companies should ensure the equitable treatment of stakeholders
- ✓ Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence
- ✓ The Board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible

## INTEGRATED REPORTING AND DISCLOSURE

- ✓ The Board should ensure the integrity of the company's Integrated report
- ✓ Sustainability reporting and disclosure should be integrated with the company's financial reporting
- ✗ Sustainability reporting and disclosure should be independently assured



## FERMENTED PRODUCTS

### YOGHURT, CUSTARD AND DESSERTS

- MOM increased from 25,3% to 28,8%, given better pricing for the period.
- Fermented products and desserts contributed 7,5% to Clover's total sale of products for the period.
- Volumes grew by 87,2% on the previous year, given that Clover only traded in this category for six months in the year.







## REPORT ON REMUNERATION

Clover's Group remuneration Policy (the "Remuneration Policy") is aimed at attracting and retaining key, specialist skills in order to generate a return on investment for shareholders that is sustainable in the long term.

# REPORT ON REMUNERATION

Clover's dynamic remuneration policy is designed to ensure Clover's ongoing sustainability by balancing the attraction and retention of key or specialist skills with optimised investor returns.

This Report on Remuneration covers the period 1 July 2015 to 30 June 2016 and complies with the recommendations on remuneration contained in the King Report on Governance for South Africa 2009 (King III). This report should be read in conjunction with note 32 to the Annual Financial Statements included in this Integrated Annual Report, which contains various statutory disclosures regarding Clover's remuneration.

Additional information is available in Clover's letter of appointment, disciplinary code, ethics policy, employment legislation such as the Labour Relations Act and the Basic Conditions of Employment Act, as well as Clover's amended short- and long-term incentive scheme rules.

## LETTER TO SHAREHOLDERS

### Introduction

Finding an optimal balance between retaining and appropriately remunerating key strategic management skills, remains a challenge for corporates.

In the case of Clover, this challenge was further compounded by a number of prevailing issues since listing:

- Perceptions created by legacy share appreciation rights (SARs) that vested following Clover's capital restructuring as approved by shareholders on 31 May 2010
- Clover's natural evolution as a publicly listed company and alignment of its traditional performance measures with those applied by the market to value constituents of the sector
- The lack of listed competitors against which to benchmark like-for-like performance

- A short-term approach to value creation by opportunistic market participants.

Despite regulations, industry benchmarking and engaging with our stakeholders, finding the balance between attracting the right calibre leadership to evolve the business and appropriately incentivising them is a stiff challenge.

As discussed in my previous letter to shareholders, Clover's remuneration policy is ultimately aimed at supporting a strong alignment of management and shareholder interests to generate sustainable and healthy returns on investment, yet without deviating from our focus on maintaining long-term growth objectives.

### Managing for long-term growth

Following extensive shareholder engagement on remuneration in 2012, Clover appointed PricewaterhouseCoopers (PWC) to review and benchmark executive emoluments over a 24-month period.

In 2014, subsequent to further shareholder engagement and following the outcome of a PWC benchmarking exercise, Clover introduced new financial performance measures for the long-term incentive plan. These were applicable to executives for the 2015 reporting year.

The substandard outcome of the non-binding approval of Clover's remuneration policy at the Annual General Meeting (AGM) of shareholders held on 27 November 2015 prompted the Remuneration Committee to re-engage with our shareholders. At this AGM, 58,31% of shareholders approved the remuneration policy, while 41,69% voted it down.

We had robust and candid conversations with Allan Gray, Kagiso, PIC and Clover Milk Producers Trust in an attempt to address their concerns. It should be noted that these shareholders had irreconcilable views.

Bearing these concerns in mind, the Remuneration Committee recommended to the Board that specific targets and measurements should be amended. The salient features of these proposed amendments follows as Annexure A to this letter.

Shareholders should take note that ongoing engagement with key investors will continue subsequent to the publication of this Integrated Annual Report.

The key targets and measurements applied in the year under review are contained on pages 92 to 94 of the remuneration report.

### Salary review

In light of the ongoing economic headwinds, increased consumer indebtedness and forecasts of little to no economic growth, Clover has no choice but to pass certain price increases on to consumers. As part of mitigating the resulting impact on volumes, Clover implemented an interim measure with regards to salary increases to support other cost saving initiatives.

Clover's executive management volunteered for a pay-freeze, considering the weak economy.

As an interim measure, the following salary increases will be applicable for the current financial year:

- F band – voluntary 0% increase
- E band – 0% increase
- D4 and D5 – 3% increase
- D1 to D3 – 4% increase

- C band – 6% increase
- A to B band – 7,5% increase.

### Short-term incentive bonuses

Short-term incentive (STI) bonuses were achieved in accordance with applicable individual performance targets and profit targets during the review period.

STI bonuses are self-funded, as all bonuses are budgeted for in full before the Remuneration Committee sets annual profit targets.

### Legacy SARs issues and loans to executives

With regard to the challenges around remuneration mentioned above, we can report that all legacy SARs issued have vested and the majority thereof have been settled. Loans to executives, with the exception to one individual, have been repaid. These were linked to Clover's management participated capital restructuring exercise (MPCRE) as approved by shareholders on 31 May 2010. All aspects of this scheme have vested in full and the major portion thereof have also been settled.

### Conclusion

Consumers and producers remain under pressure as a result of downward economic growth forecasts, currency weakness and over-indebtedness. This Remuneration Committee and the Board are of the opinion that Clover's remuneration policy should continue to incentivise innovative thinking and initiatives that benefit shareholders and provide for Clover's sustainability. We will continue engaging Clover's shareholders and management in this regard.



**Dr Steve Booyesen**  
*Chairman Remuneration Committee*

12 September 2016



## REPORT ON REMUNERATION (continued)

### Annexure A – salient highlights of proposed changes to executive remuneration and performance targets, applicable for the financial year ending 30 June 2017

The Remuneration Committee engaged with key shareholders on executive remuneration and performance targets in quarter two of this reporting period.

Following these discussions, the Remuneration Committee recommended to the Board that certain targets and measurements should be amended. The Board duly accepted these recommendations for implementation during the financial year ending 30 June 2017.

The amendments are as follows:

#### STI workings

Proposed amendments to the Short Term Incentive (STI) placed greater emphasis on group financial performance targets, with a reduced focus on personal performance targets.

STIs are designed to drive annual improvements to Clover's results. These proposed STI workings are to be implemented in the 2017 financial year as listed in the table at the top.

#### AMENDED STI WORKINGS

Paterson Band	Group profit %		Individual performance %		Group profit cap %		Individual performance cap %	Max annual entitlement (months base salary)	
	2016	2017	2016	2017	2016	2017	2016/17	2016	2017
Chief Executive	70	70	30	30	171	171	100	18	18
Other Executives	60	70	40	30	183	171	100	15	15
E	50	70	50	30	200	171	100	7,5	7,5
D3 – D5	50	66,7	50	33,3	200	175	100	4,5	4,5
D1 – D2	25	50	75	50	200	150	100	2,5	2,5
C5	33,3	33,3	66,7	66,7	200	200	100	2	2

Shaded area indicates areas which were reviewed.

For further detail regarding the STI please see page 92 of this report.

#### LTI workings

The Remuneration Committee proposed the following amendments to the financial component of the Long Term Incentive (LTI) performance conditions:

#### AMENDED LTI FINANCIAL PERFORMANCE CONDITIONS

Measurement	Weight	2015	Measurement	Weight	2016
		Targets			Targets
HEPS	50%	Threshold (30%) = CPI	HEPS	35%	Threshold (30%) = CPI +4%*
		Target (65%) = CPI + 2%			Target (65%) = CPI + 6%*
		Stretch (100%) = CPI +4%			Stretch (100%) = CPI +8%*
ROE	20%	Threshold (30%) = base year	ROE	35%	Threshold (30%) = base year**
		Target (65%) = base year + 0,4%			Target (65%) = base year** + 0,4%
		Stretch (100%) = base year + 0,9%			Stretch (100%) = base year** + 0,9%

\* Base year – the year in which allocations are made.

\*\* Base year – will be calculated by taking the actual ROE, excluding exceptional items, as at 30 June 2015 (13,5%) and applying a 0,3% annual incremental increase.

For further detail regarding the LTI please see page 92 of this report.

The personal performance conditions to remain the same.

### SARs allocations

The Committee proposed that the number of SARs allocations per annum may not exceed 1,5% of the issued share capital (previously 2%).

Furthermore, the Committee proposed that allocations must be exercised within five years from the date of allocation (previously seven years). The Share Appreciation Rights Plan has been amended accordingly.



## REPORT ON REMUNERATION (continued)

### CLOVER'S AMENDED REMUNERATION POLICY

#### REMUNERATION PHILOSOPHY

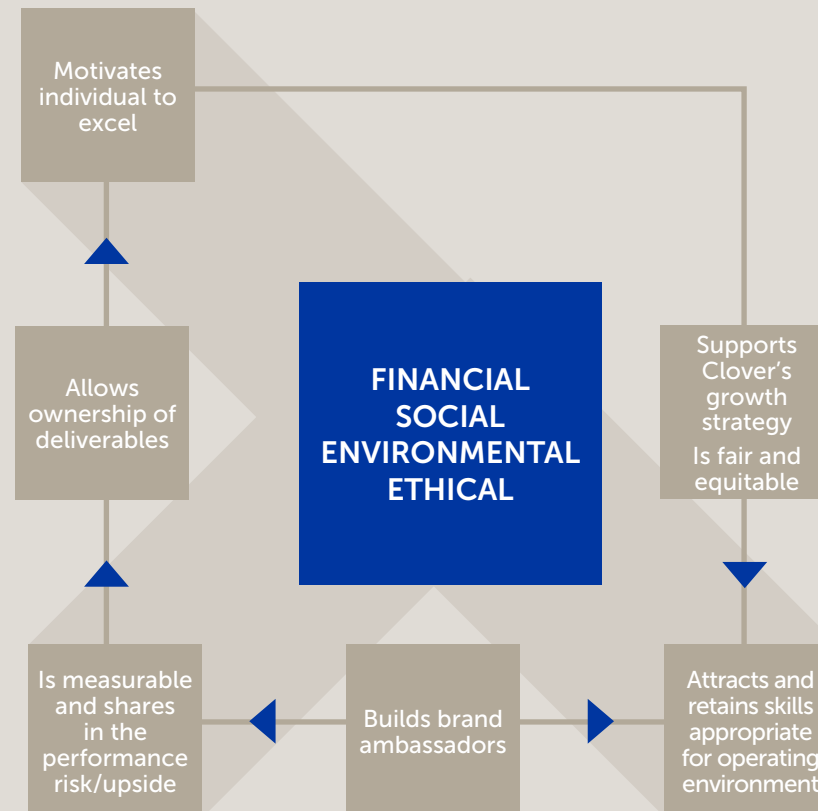
Clover's Remuneration Policy is aimed at attracting and retaining skills that will support the generation of returns on investment for shareholders in a manner that preserves Clover's ongoing sustainability. In line with international best practice, this remuneration policy establishes remuneration practices that are fair, reasonable and market related, by combining short-term remuneration with longer-term incentives. It is designed to align the long-term interests of the executive and senior management (who have the most significant influence on sustained growth) with the interests of shareholders.

Clover's Remuneration Policy is based on the following key principles:

- Remuneration should support Clover's strategies and be consistent with the organisation's culture of fairness and equity
- Remuneration should take into account Clover's size, the complexity of the business and the competitive environment
- By attracting and retaining appropriate talent, remuneration should support Clover's vision to be the most admired branded consumer goods company in South Africa and other emerging markets
- Remuneration should directly correlate with Clover's growth objectives, financial performance targets and actual achievements
- Remuneration should be reviewed and benchmarked regularly through independent service providers to ensure that Clover remains competitive in its diverse markets. Percentiles should not be rigidly applied, but must take into account industry type, skills scarcity, performance, and legislative structures and requirements
- Remuneration should motivate and allow for differentiation (i.e. reward high performers)
- Individual contributions, based on role and responsibilities, should have a direct bearing on levels of remuneration.

### CLOVER'S REMUNERATION POLICY

Driving value





## GOVERNANCE

Clover's Remuneration Committee is a subcommittee of the Board and oversees the approach to and governance of remuneration matters. It also determines the remuneration of Executive Directors, other executives as well as recommending the remuneration of Non-Executive Directors. These are ultimately approved by shareholders. Details on Remuneration Committee members, meetings and attendance are set out in the Corporate Governance section of this Annual Integrated Report, on page 73. The Remuneration Committee actively engages with independent advisors and stakeholders, to ensure that the remuneration policy and practices are aligned to best practice and achieve Clover's objectives. The Executive Committee determines and approves the remuneration structures for all non-executive employees in line with the existing remuneration mix set out below.

## REMUNERATION MIX

The remuneration structure comprises three components and is aligned with achieving Clover's objectives:



### Remuneration mix: Guaranteed Fixed Income component

#### GUARANTEED FIXED INCOME COMPRISES:

- monthly salary
- compulsory benefits (i.e. retirement)
- discretionary benefits (i.e. medical aid).

Employees on the Paterson Grade C3 and lower can choose to join the Discovery Health Medical Scheme or Umvuzo Medical Scheme. For these employees, membership to a medical scheme is not compulsory. For Paterson Grade C4 and higher, the Discovery Health Medical Scheme is compulsory.

#### GUARANTEED FIXED INCOME CONSIDERATIONS:

- Regular benchmarking exercises are performed internally and externally to ensure equity, fairness and market relatedness
- The fixed income component is reviewed annually in May and is revised on 1 July of each year, following quarterly performance management reviews of each employee
- Interim reviews of the fixed income component are undertaken to retain talent, taking into account market adjustments or employee promotions

#### DIFFERENTIATION BETWEEN PATERSON GRADES

Paterson Grade	Guaranteed fixed income	Short-term incentive	Long-term incentive
B5 and below	Base pay and benefits: 13th cheque	N/A	N/A
C1 to C5	Base pay and benefits: 13th cheque	Merit bonus based on formal performance management. Short-term incentive scheme for selected Paterson Grade C5 employees	N/A
D1 to D5	Base pay and benefits	Short-term Incentive Scheme	Long-term Incentive Scheme for selected employees
E	Base pay and benefits	Short-term Incentive Scheme	Long-term Incentive Scheme
F	Base pay and benefits	Short-term Incentive Scheme	Share Appreciation Rights Scheme

- Clover's employment profile is based on the competencies, outputs and behaviour required for a specific position
- The employment profile must fit within the organisational structure and an appropriate employment grade should be assigned to the position.

#### SCARCE SKILLS

Scarce skills are those of which market demand outstrips the available supply. Scarce skill sets are identified annually and the strategy is adjusted to reduce business risk. If scarcity results from a unique combination of skills and experience being required, Clover will attempt to reduce business risks by building talent pools around incumbents with these scarce skill profiles.

Scarce skills incumbents are graded as "S"-band employees in Clover's employment scale.

To reduce the risk of losing highly specialised skills, the fixed income component applied to this category is targeted at the top-end (90th percentile) of the market range and also includes a discretionary retention bonus (8% of annual basic salary) payable at the end of each financial year, provided that the necessary performance criteria are met. Clover has presently qualified 18 for "S"-band status. The Executive Committee annually reviews the "S" band category and its incumbents.

## REPORT ON REMUNERATION (continued)

### Remuneration mix: Annual Short-Term Incentive component

#### ANNUAL SHORT-TERM INCENTIVE SCHEME (STI)

STIS ARE DESIGNED TO DRIVE ANNUAL IMPROVEMENT OF CLOVER'S RESULTS.

Paterson Band	Individual performance %	Group profit %	Individual performance cap %	Group profit cap %	Entitlement (months base salary**)	Max entitlement (months base salary**)	Profit target
C5	66,7	33,3	100	200	2	2	Operating profit
D1 – D2	50	50	100	150	2	2,5	Operating profit
D3 – D5	33,3	66,7	100	175	3	4,5	Operating profit
E*	30	70	100	171	5	7,5	Operating profit
Other Executives***(F)	30	70	100	171	10	15	Normalised attributable profit
Chief Financial Officer(F)	30	70	100	171	10	15	Normalised attributable profit
Chief Executive(F)	30	70	100	171	12	18	Normalised attributable profit

\* For example, if a staff member on the Paterson E band achieves a 100% individual performance bonus and a 171% Group profit bonus the employee will be able to earn 7,5 months' additional base salary in bonuses.

\*\* For Paterson Grades D1 to D5 the base salary consists of the employees' monthly basic salary, for Paterson Grades E, the base salary consists of the employees' monthly basic salary, plus 22% car allowance plus 10% pension fund contribution and for Paterson Grade F, the base salary consists of the employees' total monthly guaranteed fixed income.

\*\*\* Marcelo Palmeiro and Jacques van Heerden's STI differ from what is stated above as it has been agreed to individually between them and the Company.

#### STI MEASURES AND TARGETS

##### For Paterson Grade C:

- Individuals who score an annual individual performance rating of 4 or 5 qualify for a merit bonus
- This merit bonus is calculated as a percentage of annual basic salary and is paid in August or September of each year.

##### For Paterson Grade E and D:

- The individual performance portion of the STI is based on specific key performance indicators agreed to between the employee and his/her direct manager it is calculated on operating profit before restructuring costs
- The profit target is triggered once 100% of target is reached

- An additional 1% is added to the bonus for every 1% achieved over the profit target.

##### For Paterson Grade F (executive):

- The individual performance portion of the STI is based on specific key performance indicators approved annually by the Remuneration Committee and includes, inter alia
  - leadership and team building
  - optimising the brand portfolio
  - increase market shares through sales and distribution achievements
  - successful completion of capital projects
  - mergers, acquisitions and rest of Africa
  - employment equity
  - investor relations.

- calculated using normalised attributable profit
- the profit target is triggered once 100% of the profit target is reached. If the profit exceeds the target, an additional bonus of 3,55% for the CE and 3,55% for the CFO and other executives will be paid for every 1% achieved over the profit target.

STIs are self-funded since all bonuses are budgeted for in full before the profit target is approved annually by the Remuneration Committee. The final profit figure is confirmed by the Remuneration Committee and approved by the Board following completion of the annual audit. It is not necessarily linked to the budget approved by the Board. Incentives are paid in August and/or September of each applicable year. The Remuneration Committee has the sole and absolute discretion to make adjustments for extraordinary factors, taking into account external factors beyond the control of employees, such as cyclicity. Employees found guilty of gross misconduct will not be entitled to STI participation. Quarterly performance management sessions are scheduled with each employee to guide them to achieving profit targets and bonuses.

### Remuneration mix: Long-Term Incentive component

#### LONG-TERM INCENTIVE SCHEME (LTI)

Clover's LTI is a deferred bonus scheme that serves as a retention mechanism. It awards employees on Paterson Grade E and certain positions on grade D5 for adding tangible value to Clover's business.

#### LTI MEASURES AND TARGETS ARE:

- calculated using normalised attributable profit
- a percentage of annual base salary
- paid out in equal amounts over a three-year period (with the first tranche paid out 12 months after becoming entitled).

Target achieved	Bonus payable
Normalised attributable profit target as per budget	20% of annual base salary
Normalised attributable profit target as per budget plus 10%	40% of annual base salary
Normalised attributable profit target as per budget plus 20%	60% of annual base salary

#### SHARE APPRECIATION RIGHTS SCHEME (SAR SCHEME) OR (SARs)

The purpose of the SAR Scheme is to attract, retain, motivate and reward Clover's executives (Paterson Grade F) and other participants able to significantly influence Clover's performance by aligning their interests to those of the shareholders. The SAR Scheme is governed according to rules approved by Clover's shareholders in November 2010 (as amended from time to time).

#### SARs MEASURES AND TARGETS

The eligibility criteria, the quantum of allocations and the conditions governing each allocation are determined by the Remuneration Committee. This assessment takes into account seniority within Clover, work function and the participant's ability to add value to Clover.

#### FIRST TIME ALLOCATION OF SARs

The market-related formula that follows is used to determine the number of share appreciation rights a participant may gain when participating in SARs for the first time:

$$A = (B \times C) / D$$

Where:

<b>A</b>	The total number of SARs to be allocated
<b>B</b>	Guaranteed Fixed Income component of the participant
<b>C</b>	Market related multiple <ul style="list-style-type: none"> <li>Other executives = 4</li> <li>CFO = 6</li> <li>Chief Executive = 8</li> </ul>
<b>D</b>	The volume weighted average price of an ordinary share listed on the JSE over seven trading days immediately prior to the allocation date.

#### SUBSEQUENT SARs ALLOCATIONS (FOLLOWING A PARTICIPANT'S FIRST ALLOCATION)

Following a PWC conducted benchmarking exercise, the Remuneration Committee resolved with effect from 1 July 2012 (the fourth allocation) that the following smoothed average face value allocation formula will be used when allocating SARs to a participant who has already earned a first allocation:

$$A = (B \times C) / D$$

Where:

<b>A</b>	The total number of SARs to be allocated
<b>B</b>	Guaranteed Fixed Income component of the participant
<b>C</b>	Market related multiples set out below
<b>D</b>	The volume weighted average price of an ordinary share listed on the JSE over seven trading days immediately prior to the allocation price.

Participant	Annual smoothed face value multiple
CE	267%
CFO	200%
Other Executives	167%

#### CHANGE OF CONTROL PROVISIONS

Prior to 1 January 2014, if Clover is the subject of any transaction whereby any person or persons acting in concert, other than the Clover Milk Producers Trust and/or participants, acquire (whether directly or indirectly) 30% of the entire ordinary issued share capital in Clover, then all SARs held by participants shall immediately vest. All SARs shall (whether or not the vesting dates in respect thereof have passed and/or the performance criteria, if any, in respect thereof have been met) be exercisable on the basis that participants shall be settled in accordance with the SARs Plan.

In respect of any SARs allocated to participants on or after 1 January 2014, if 30% of the entire issued share capital of Clover

is acquired by any person or persons acting in concert (other than the Clover Milk Producers Trust and/ or the participants), not all of the SARs shall immediately vest in participants but only the proportionate number thereof, having regards to (i) the period of time that has lapsed between the allocation date and the vesting date at the time of the acquisition (whether directly or indirectly) and (ii) the extent to which the performance criteria (if any) have been satisfied as at the date of the acquisition, as may be determined by the Remuneration Committee to be fair and reasonable to the participants concerned. Should a dispute arise between the participants and the Remuneration Committee such dispute shall be referred to the Board for determination, provided that should such dispute not be resolved within a period of 60 (sixty) days from such referral to the Board the dispute shall be referred to the expert in terms of section 15 of the SARs Plan for final determination.

#### PERIOD OF VESTING OF SARs AND PERFORMANCE CRITERIA

The SAR Scheme rules provide that all SARs allocated on or after 30 June 2016:

- will vest in full after the third anniversary of the allocation date, provided that the relevant performance criteria were met
- SARs that are vested already must be exercised by the participant on or before the fifth anniversary of the allocation of these SARs.

#### SARs PERFORMANCE CRITERIA

For information relating to the performance criteria that will apply to SARs allocated prior to 30 June 2016, please see pages 70 to 72 of Clover's 2015 Annual Integrated Report.

All SARs allocated on or after 30 June 2016 will be subject to the following performance criteria:

## REPORT ON REMUNERATION (continued)

### Individual performance condition

30% of the allocation to be subject to the achievement of individual performance, measured as the average over three years. 30% vests at 70% performance and 100% vests at 90% performance as follows:

Performance	Weighting	Targets
Individual performance condition	30%	Average individual performance measured over 3 years 30% vests at 70% performance 100% vests at 90% performance.

### Financial performance conditions

70% of the SARs allocation will be subject to financial performance:

- headline earnings per share constituting 35%
- ROE constituting 35%.

The HEPS performance condition targets will be as follows:

Performance	Weighting	Targets
Financial performance condition HEPS	35%	Threshold: 30% will vest if HEPS growth (over the performance period of 3 years) of CPI +4% per annum is achieved Target: 65% will vest if HEPS growth (over the performance of 3 years) of CPI +6% per annum is achieved Stretch: 100% will vest if HEPS growth (over the performance period of 3 years) of CPI +8% per annum is achieved.

In line with other conditions of performance, three ROE targets will be set:

- The threshold target, where 30% (of the remaining 20%) of the SARs allocation will vest
- The target, at which 65% (of the remaining 20%) of the SARs allocation will vest
- The stretch target, at which 100% (of the remaining 20%) of the SARs allocation will vest.

The ROE targets will be as follows:

Performance	Weighting	Targets
Financial performance condition ROE	35%	Threshold: 30% will vest if actual ROE achieved in the base year* Target: 65% will vest if actual ROE achieved in the base year* + 0,4% Stretch: 100% will vest if actual ROE achieved in the base year* + 0,9%.

\* Base year = year in which allocation is made.

\*\* Base year – will be calculated by taking the actual ROE, excluding exceptional items, as at 30 June 2015 (13,5%) and applying a 0,3% annual incremental increase.

## APPROACH TO EXECUTIVE REMUNERATION

In order to attract, retain, motivate and incentivise the industry's best and most suitable candidates, Clover is obliged to offer competitive remuneration packages. The Remuneration Committee utilises external market surveys and benchmarks to determine executive remuneration and benefits, as well as base and attendance fees for Non-Executive Directors.

Clover's remuneration philosophy seeks to align and link both short- and long-term incentives to the achievement of business objectives and delivering an acceptable return on shareholders' equity, while ensuring Clover's sustainability. Remuneration packages are therefore linked to achieving these objectives.

Executive remuneration structures (including those of Executive Directors) comprise both guaranteed and variable components as set out below:

Component	Type	Comprises	Objective
Guaranteed	Guaranteed Fixed Income	Base salary, benefits (car allowance, retirement and medical aid contributions).	Commensurate with scope of position, experience and level of responsibility.
Variable	Short-term incentive	Cash-based payments to an individual based on Group financial performance and individual performances over the preceding financial year.	Rewards individual and corporate performance. Eligible staff are those on Paterson band C1 to F. Refer to STI table (on page 92)
Variable	Long-term incentive	All cash and equity based awards that accrue to an individual over time, based on the Group's financial and individual performance over a financial period.	Attract, retain and incentivise key incumbents to deliver exceptional individual and corporate performance over time, in line with shareholder interests.

### Guaranteed Fixed Income

Executive guaranteed fixed income packages are benchmarked regularly against similar positions in the market. This information, together with individual performance assessments, form the basis for annual salary reviews.

The Remuneration Committee has the discretion to determine executive guaranteed fixed income packages, being mindful of factors such as retention, contribution and skill levels. Executives may participate in a defined contribution retirement fund and other

benefits. These include vehicle allowances, medical insurance, death and disability insurance, leave and recognition for service.

### Variable package

#### SHORT-TERM INCENTIVES (STIS)

Executives' participation in STIs are linked to the achievement of profit growth targets and personal performance measures. The complete workings of the STIs are set out in Clover's Remuneration Policy on page 88 and more specifically in the table set out on page 92.

#### LONG-TERM INCENTIVES (LTIS)

Clover's LTIs aligned to executives comprises equity based awards that serve as a retention mechanism. Refer to the Remuneration Policy on page 94 of this report for more information on the salient features of the cash and equity measures and targets, in particular the Share Appreciation Rights Scheme (SARs), which complies with the JSE Listings Requirements.

SARs stipulates that the aggregate number of ordinary shares which may be acquired by the executives may not exceed 16 million ordinary shares. At 30 June 2016, a total of 11 202 483 (30 June 2015: 8 619 271 ordinary shares) had been issued to executives, with the balance of 4 797 517 ordinary shares remaining available for issue. The salient features of the SAR Scheme, which complies with the JSE Listings Requirements, are set out in Clover's Remuneration Policy.

#### ALLOCATIONS MADE IN TERMS OF THE SAR SCHEME

The First and Second Allocations were Management Participated Capital Restructuring Exercise (MPCRE) legacy scheme issues. All SARs relating to the MPCRE have vested and exercised. For more detail on SARs allocated and exercised during the year under review, refer to note 32.2 in the financial statements section.

#### HEDGING OF SARs

Clover has entered into a forward contract to purchase 2 132 695 Clover Industries shares to hedge a portion of the share appreciation rights issued to management. Refer to note 14.2 of the Annual Financial Statements on page 200 for further details.

#### EMPLOYMENT CONTRACTS FOR EXECUTIVES

A six months' notice period is required for terminating the contract of employment for Executive Directors.

## REPORT ON REMUNERATION (continued)

### APPROACH TO NON-EXECUTIVE DIRECTORS' REMUNERATION

Clover identifies, attracts and retains Non-Executive Directors who can add specific skills and leadership to Clover. For this reason, non-executive fees are competitive and ranked in the upper quartile.

Attendance fees are only paid for actual Committee meetings attended.

The chairman of the Board, Werner Büchner, and the lead independent director, Tom Wixley will not receive additional remuneration should they serve on any subcommittee of the Board, since they receive a fixed annual fee. The fees payable to Non-Executive Directors for the 2016 financial year will be increased by 6% from the fees paid during the year under review, subject to shareholder approval.

### TOTAL REMUNERATION AND BENEFITS PAYABLE TO DIRECTORS AND PRESCRIBED OFFICERS

The Board considered the requirements of the Companies Act with regard to the disclosure of the remuneration of directors and prescribed officers. After careful consideration, the Board concluded that all members of the Executive Committee are deemed to be prescribed officers.

A complete table setting out the total remuneration of directors and prescribed officers can be found in note 32 to the Annual Financial Statements on page 234 of this Annual Integrated Report.

### INTEREST OF DIRECTORS AND OTHER EXECUTIVES IN ORDINARY SHARE CAPITAL

A complete table setting out the interest of directors and prescribed officers in Clover's ordinary share capital can be found in note 32.3 to the Annual Financial Statements on page 238 of this Annual Integrated Report.

## LEGACY SCHEME SARs ISSUES

### Salient features of the Initial Allocation

Clover's MPCRE, as approved by shareholders on 31 May 2010, changed the nature of Clover's preference shares from profit-sharing instruments to pure debt instruments carrying rights to a guaranteed dividend only. This impacted on the value of the preference shares by eliminating any value upside. Consequently, an award of preference shares to Clover's employees in terms of its preference share incentive scheme no longer incentivised employees or aligned their interests with those of ordinary shareholders. As a result, shareholders approved the adoption of the Clover Share Appreciation Rights Plan (2010) (SAR Scheme) on 31 May 2010. The SAR Scheme was subsequently amended on 4 November 2010 and 10 November 2011.

All SARs allocated as part of the MPCRE have now vested and the major portion thereof have been exercised. For more detail refer to note 32.2 in the financial statements section.

### Loans to executives

As part of the MPCRE Clover's shareholders approved the allotment and issue of 9 350 000 (on 31 May 2010) and 250 000 (on 4 November 2010 with regard to Dr JHF Botes) ordinary shares at a subscription price of R9,34 per share, for subscription by Clover's executives. A portion of the subscription price was lent to the executives. However, the aforementioned allotment and issue sets out the position prior to the subdivision of shares approved on 4 November 2010. Full details relating to the MPCRE are available on [www.clover.co.za](http://www.clover.co.za).

The salient features of the loan and cession agreements entered into between Clover and its executives are set out below:

- as security for the indebtedness, the executives ceded to Clover the rights (defined as being all rights, title and interest in and to the proceeds) in respect of the ordinary shares (issued to them as referred to above) and the preference shares acquired through the Clover preference shares scheme in respect of the proceeds thereof (defined as being dividends, special distributions, redemption proceeds and any proceeds as a result of a disposal or sale of either the ordinary and/or preference shares referred to above, or any part thereof)
- interest shall accrue on the outstanding balance of the loan amount at an interest rate equal to 90% of the prevailing prime interest rate charged by Absa Bank Limited
- if an executive leaves the employ of Clover for any reason whatsoever, he/she shall be obliged to repay the loan amount and interest or the balance thereof, within two months after the employment terminated
- if an executive dies, the loan amount and interest or the balance thereof, shall be repaid to Clover within six months after the death.

It should be noted that the aforementioned loan agreements have been amended to provide for final loan repayment dates based on the normal retirement date for each executive.



	30 June 2011	30 June 2012	30 June 2013	30 June 2014	30 June 2015	30 June 2016
<b>Other Executives</b>						
JHF Botes	2 411 574	2 452 661	2 536 148	2 572 487	2 625 130	<b>2 612 441</b>
<b>Total</b>	<b>2 411 574</b>	<b>2 452 661</b>	<b>2 536 148</b>	<b>2 572 487</b>	<b>2 625 130</b>	<b>2 612 441</b>

The value of the ordinary shares forming the basis of the loan and cession agreements of Dr JHF Botes referred to previously, are approximately R20 million.

### Vesting of 5<sup>th</sup> allocation

#### INDIVIDUAL PERFORMANCE

After due consideration of the recommendations from the Chief Executive, the Remuneration Committee confirmed the achievement of 95% of the individual performance targets for each participant. Subsequently, full vesting of the individual performance portion of the 5<sup>th</sup> allocation of SARs has been achieved.

#### FINANCIAL PERFORMANCE

Following confirmation by Ernst & Young Incorporated on the achievement of the financial performance conditions in respect of the 5<sup>th</sup> allocation of SARs, the Remuneration Committee is satisfied that the financial performance conditions were achieved and subsequently vests in full.



**Dr Steve Booysen**

*Chairman: Remuneration Committee*

12 September 2016



## DISTRIBUTION

- 25 distribution centres across South Africa.
- 20 545 delivery points in South Africa.
- 548 delivery vehicles.
- 824 SKUs stored, picked, delivered and merchandised in Clover's distribution network.



Clayville  
Spanner Road  
Central  
Distribution  
Centre



## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS

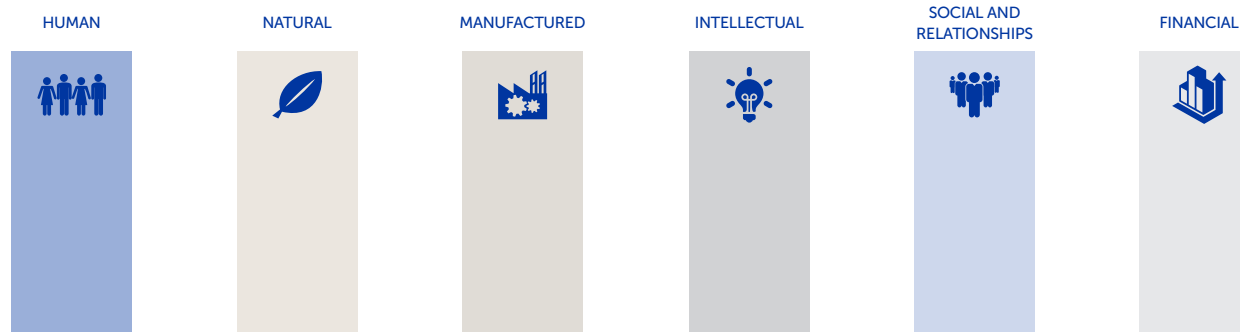
## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS

### COMPANIES ACT: REGULATION 43

### KING III



### SIX CAPITALS



## OVERVIEW

Clover's vision and mission has been aligned to the value chain as we consider strategy, risk, governance, performance and sustainability to be inseparable. This report is structured to incorporate the requirements of the Companies Act 71 of 2008 (Regulation 43) and King III. Clover also utilises the Integrated Reporting Framework (<IR> framework) as issued by the International Integrated Reporting Council (IIRC) in December 2013.

The IR framework provides a principle based approach through which Clover describes how the key components of the value chain (or business model) are applied to create and sustain value for our stakeholders. This Social and Ethics Committee report utilises the <IR> framework concept of "the six capitals". These are the material inputs, outputs and outcomes that flow through Clover's business model to create and sustain value in the long term.

### Scope and boundary

The scope of this report covers Clover's South African operations and will in time be extended to our subsidiaries in other countries. This report focuses on the most relevant and material issues that could impact significantly on Clover's ability to create and sustain value for its stakeholders in the long term.

Clover is one of few South African businesses that has thrived for well over 100 years. We recognise that to survive and prosper, we need to ensure that Clover's operations and planning is geared towards long term sustainability.

Clover's Social and Ethics Committee (the Committee) is Chaired by an Independent Director and includes a further two Independent Directors and one Executive Director. Details of the Committee membership, meetings held and attendance in this financial year are set out on page 73 as part of the Report on Governance, Risk and Compliance.

The Social and Ethics Committee has considered the matters of the Integrated Annual Report that are pertinent to Clover. The responsibilities and functioning of the Social and Ethics Committee are governed by formal terms of reference approved by the Board and is subject to regular review. The main objective of the Committee is to assist the Board in ensuring that Clover remains a responsible corporate citizen that utilises sustainable business practices. The Committee monitors, develops, reviews and enhances Clover's social, ethical, environmental and governance impact. To fulfil its responsibilities, the Social and Ethics Committee adopted a formal work plan that accords with its functions as set out in Regulation 43 of the Companies Act and King III. This work plan is designed to enable Clover

to fully discharge its statutory functions. The Board supports the Committee by setting the appropriate tone at the top and Clover's "Way Better" philosophy across the organisation contributes to Clover's ethical culture. This report describes the work and conclusions of the Committee in its fifth year of establishment. Over and above the requirements of the Act, this report's scope includes guidelines from the <IR> framework and the sustainability reporting guidelines (G4 version) of the Global Reporting Initiative (GRI). In short, the aspects of Clover's business most critical to its long-term value creation are summarised in terms of the six capitals principle.

Every year, Clover redefines its risk bearing capacity and risk appetite, and utilises these as the basis for setting materiality levels. Following that exercise, these materiality levels are used to adjust the thresholds of Clover's delegation of authority, so that appropriate levels of managerial approval are set. These same materiality levels are used in Clover's Enterprise Wide Risk Management Framework, which ultimately ensures that all material risks are reported to the Board Committees and considered for inclusion in Clover's Integrated Annual Report. In line with the <IR> framework, Clover only reported on issues it believes to be sufficiently material for inclusion in this Integrated Annual Report. Less significant matters are reported on the website and elsewhere.

## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS (continued)

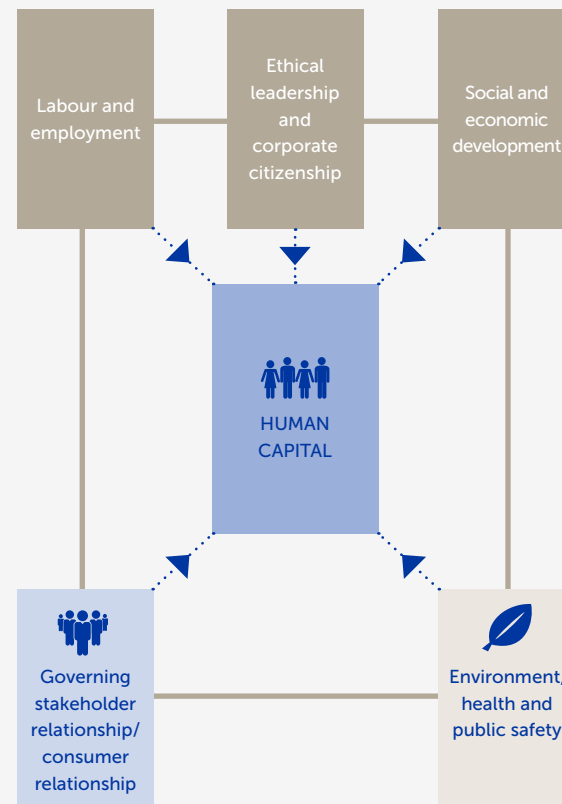
### Ethical leadership

Clover has established a philosophy that respects the rights and dignity of others. We are aware that our decisions influence others, therefore our philosophy guides our thinking and decision making processes. The principle of ethical leadership is integrated into our vision and mission, as demonstrated by our people when executing their functions and projects. Ethical and effective leadership drives Clover's strategy to grow a sustainable business that considers its long and short-term impacts on the economy, society and the environment. We evaluate the impacts of our operations on both internal and external stakeholders, as well as on the environment. Clover is committed to promoting equality, and preventing unfair discrimination in all forms.

Clover endorses the following principles:

- The United Nations Global Compact
- The Organisation for Economic Co-operation and Development (OECD) principles on corruption
- Those of the International Labour Organisation (ILO).

### Regulation 43 of Companies Act of 2008



### The OECD recommendations on corruption

Clover is committed to conducting its business activities in a manner that enhances our values, which are ethics, integrity and compliance with the law. Corruption can occur in many forms, including extortion, nepotism, embezzlement, bribery, cronyism and patronage among others. Corruption impacts directly or indirectly on Clover's sustainable development and that of our stakeholders. Clover's business processes, employee behaviour and daily activities at all levels of the organisation are conducted in accordance with the OECD recommendations on corruption. Further disclosure on the combating of corruption can be found in the Report on Governance, Risk and Compliance. To ensure compliance with these principles, our HR function and Risk Department conduct annual evaluations of suspected or reported incidents of corruption. During this reporting year's review, no material deviations were reported.

Our ethical leadership principles regarding corruption are outlined in the Report on Governance, Risk and Compliance. Clover conducts ethics awareness campaigns at all our operations and has formalised an Ethics Policy, which is published on the company website.





### Human Rights (Principles 1 – 2)

Business should respect the protection of internationally proclaimed human rights and ensure that they are not complicit in human rights abuses.



### Labour (Principles 3 – 6)

Business should uphold the freedom of association, eliminate compulsory labour, promote the abolition of child labour and dismiss discrimination in respect of employment and occupation.



### Environment (Principles 7 – 9)

Businesses should undertake initiatives to promote greater environmental responsibility and encourage the development of environmentally friendly technologies.



### Anti-Corruption (Principles 10)

Businesses should not tolerate any form of corruption, including extortion and bribery.



## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS (continued)

### HUMAN CAPITAL

Clover is committed to:

- establishing a culture of exceptional performance
- maintaining a culture of legal compliance
- developing and growing all employees
- creating a competent and diverse workforce
- establishing a pleasant, healthy and motivating working climate.

The ever-changing business environment has necessitated ongoing re-assessment of our human capital strategy. During this past financial year, we made significant changes to certain pillars supporting the strategy. These included:

- a revised approach to the use of temporary employment services
- modifications to certain employee retention strategies
- a fresh approach to managing individual and team performance
- a revision of the impact of our Africa expansion strategy on our human capital.

#### Legislation

Clover is committed to lawful and ethical business. As regulators continue issuing new regulations and amending existing ones, Clover ensures that these updates are communicated and implemented throughout the business. Ongoing training is bolstered by periodic internal assessments of awareness of current legislation. Our Social and Ethics Committee monitors

and takes cognisance of relevant legislation, other legal requirements and prevailing codes of best practice.

Clover has moved beyond compliance, as we realised that having a diverse workforce is not compliance or a box that needs to be ticked. To support value creation in the long term, we need to promote INCLUSION in all its variations. Clover must not only embrace physical diversity such as race, gender, age, physical ability, but also DIVERSITY OF THINKING. This requires all Clover people to embrace diversity in all its forms.

#### Attracting and retaining employees

Achieving our vision and mission is largely dependent on Clover's ability to attract and retain high-calibre individuals. The 21st century workforce is global, highly connected, technology-savvy, and demanding. As Clover expands its reach across Africa, critical new skills are scarce and their uneven distribution around the world has forced Clover to develop innovative new ways to find people, develop capabilities, and share expertise.

At Clover, we have a multi-generational workforce that is highly diverse, and requires constant engagement. Clover's engagement and retention mechanisms are directly related to our "Way Better" fabric of doing business.

Clover's brand reputation helps us to attract, source, recruit, and access talent. To drive passion and engagement, we are persuading the aging Baby Boomer generation to extend their working lives to train and mentor our newer Millennial generation employees.

### HUMAN CAPITAL CHALLENGES OF TOMORROW

Legislative compliance

Attraction and retention

Strategic resourcing

Alignment of employees

Africa expansion

Learning and development

Innovation and technology

Employment equity

Change of labour landscape

Productivity improvement



#### TOTAL NUMBER OF EMPLOYEES JUNE 2015

Company	Permanent	Fixed Term/Temp	Grand Total
Clover SA (Pty) Ltd	6 982	453	7 435
Clover Fonterra Ingredients (Pty) Ltd	13	0	13
The Real Beverage Company (Pty) Ltd	164	3	167
Clover Waters (Pty) Ltd	33	3	36
Clover Dairy Namibia (Pty) Ltd	47	40	87
Clover Swaziland (Pty) Ltd	33	13	46
Clover Botswana (Pty) Ltd	322	30	352
Clover MilkyWay (Pty) Ltd	91	2	93
Lactolab (Pty) Ltd	8	1	9
<b>Grand Total</b>	<b>7 693</b>	<b>545</b>	<b>8 238</b>

Percentage of employees who are permanent: 93,38.

#### TOTAL NUMBER OF EMPLOYEES JUNE 2016

Company	Permanent	Fixed Term/Temp	Grand Total
Clover SA (Pty) Ltd	7 694	472	8 166
Clover Fonterra Ingredients (Pty) Ltd	13		13
The Real Beverage Company (Pty) Ltd	125	1	126
Clover Waters (Pty) Ltd	45	3	48
Clover Dairy Namibia (Pty) Ltd	100	1	101
Clover Swaziland (Pty) Ltd	34	7	41
Clover Botswana (Pty) Ltd	336	2	338
Clover MilkyWay (Pty) Ltd	102	6	108
Lactolab (Pty) Ltd	7	1	8
<b>Grand Total</b>	<b>8 456</b>	<b>493</b>	<b>8 949</b>

Percentage of employees who are permanent: 94,49.

## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS (continued)

### EMPLOYEE TURNOVER FOR PERMANENT EMPLOYEES

Company	2015		2016	
	Total who left	%	Total who left	%
Clover SA (Pty) Ltd	696	9,97	555	7,21
Clover Fonterra Ingredients (Pty) Ltd	0	0	2	15,38
The Real Beverage Company (Pty) Ltd	16	9,76	23	18,40
Clover Waters (Pty) Ltd	2	6,06	2	4,44
Clover Dairy Namibia (Pty) Ltd	21	40	34	34,00
Clover Swaziland (Pty) Ltd	6	18,18	10	29,41
Clover Botswana (Pty) Ltd	48	14,91	35	10,42
Clover MilkyWay (Pty) Ltd	0	0	13	12,75
<b>Grand Total</b>	<b>789</b>	<b>10,39</b>	<b>674</b>	<b>7,98</b>

Note: Data for Lactolab (Pty) Ltd is not available for the 2015 and 2016 financial years.

### PERCENTAGE OF EMPLOYEES WHO ARE WOMEN

Company	Permanent				Fixed Term/Temporary				Total			
	Male	Female	Total	% Women	Male	Female	Total	% Women	Male	Female	Total	% Women
Clover Botswana (Pty) Ltd	233	103	336	30,65	0	2	2	100,00	233	105	338	31,07
Clover Dairy Namibia (Pty) Ltd	87	13	100	13,00	1	0	1	0,00	88	13	101	12,87
Clover Fonterra Ingredients (Pty) Ltd	6	7	13	53,85	0	0	0	0,00	6	7	13	53,85
Clover MilkyWay (Pty) Ltd	59	43	102	42,16	6	0	6	0,00	65	43	108	39,81
Clover SA (Pty) Ltd	5973	1721	7694	22,37	298	174	472	36,86	6271	1895	8166	23,21
Clover Swaziland (Pty) Ltd	26	8	34	23,53	6	1	7	14,29	32	9	41	21,95
Clover Waters (Pty) Ltd	36	9	45	20,00	1	2	3	66,67	37	11	48	22,92
The Real Beverage Company (Pty) Ltd	90	35	125	28,00	1	0	1	0,00	91	35	126	27,78
Lactolab (Pty) Ltd	2	5	7	71,4	1	0	1	0,00	3	5	8	62,5
<b>Grand Total – 2016</b>	<b>6 512</b>	<b>1 944</b>	<b>8 456</b>	<b>22,98</b>	<b>314</b>	<b>179</b>	<b>493</b>	<b>36,38</b>	<b>6 826</b>	<b>2 123</b>	<b>8 949</b>	<b>23,70</b>
<b>Grand Total – 2015</b>	<b>5 854</b>	<b>1 839</b>	<b>7 693</b>	<b>23,90</b>	<b>376</b>	<b>169</b>	<b>545</b>	<b>31,00</b>	<b>6 230</b>	<b>2 008</b>	<b>8 238</b>	<b>24,37</b>

## Strategic resourcing

Clover's dynamic environment requires that we anticipate the future competencies needed to execute our strategy. To ensure that Clover's productivity remains optimised, we must regularly review the composition of our labour force and our utilisation of resources. Long term value creation requires a labour force that has:

- business acumen and understands the CORE (Clover's business model)
- the collaborative ability to build cross functional teams
- global cultural agility
- creativity
- customer centricity
- influence and Inspiration
- the ability to build creative and effective teams.

## Alignment of employees

Business and individual objectives have been aligned to Clover's vision and mission by using the Balanced Scorecard and Key Performance Indicators (KPIs). We believe that employee alignment is critical for building the culture of exceptional performance that drives business success. We have transformed Clover's HR team into skilled business consultants and business partners. Clover is refining the performance management platform that was introduced last year. The HR team is tasked with managing service levels, designing service focused systems and measuring employee quality of service. This is done using advanced analytics. We arrange special events to share and clarify the company's objectives, vision and strategy.

## Productivity and continuous improvement

A continuous improvement mind-set is needed to maintain Clover's competitive advantages. Our "Way Better" initiatives at individual and team levels focus on cost, speed, quality, safety and morale.

Acquisitions and mergers present the opportunity to take lessons from these entities across to existing Clover operations, while also using our industry knowledge and resources to tackle their inefficiencies.

## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS (continued)

Equipping our employees with the right skills remains a high priority. Clover's investment in human capital training and development during this year was as follows:

Intervention	Clover SA Annual Training Report				
	2016	2015	2014	2013	2012
Number of employees trained	2 786	2 601	2 127	1 953	2 224
Total training spend per year (R'000)	R16 070	R13 486	R8 337	R7 965	R4 879
Training spend per employee	R1 902	R1 657	R1 298	R1 215	R744
Number of days spent on training	12 845	15 306	6 705	4 627	2 965

Intervention	2016		2015		2014	
	Total employees	Black employees	Total employees	Black employees	Total employees	Black employees
Number of employees trained	2 786	2 102	2 601	2 167	2 127	1 715
Number of employees enrolled on Learnerships, Skills Programmes and Apprenticeships	608	454	455	380	344	308
Number of employees on Formal Workplace Experience and In-Service Training Programmes	30	28	24	21	38	29
Number of bursaries (employee/unemployed) granted for degree and diploma studies	21	9	26	12	36	17
Value of bursaries granted for Degree and Diploma Studies	R120 000	R120 000	R325 113	R191 864	R678 023	R461 135

\* Only one new bursary was awarded in the 2016 financial year. Skills development focus shifted to occupationally directed learning programmes such as learnerships, apprenticeships, workplace experience and internship programmes.

### SIGNIFICANT ACHIEVEMENTS INCLUDE:

- Clover was awarded the Diamond Award (2nd Place) in the Large Company Category by the Food and Beverage Seta for providing increased opportunities to employed and unemployed people to complete occupationally directed programmes (learnerships, skills programmes, internships, and apprenticeships). South African Breweries took the top spot, with the other three finalists being Oranjevis Joint Venture, Distell Ltd and Tiger Management Services.
- Consistent improvement over the last three years of Clover's score in the skills development element of the B-BBEE Scorecard.
- Clover received a special commendation from the University of Stellenbosch Business School for the excellent performance and achievements in the 2015 academic year of Clover employees that completed the Management and Senior Management Development Programmes with the business school.

New skill sets will be required as Clover and our industry sectors evolve. This will necessitate a renewed focus on fast tracking, coaching and mentoring of young talent, supported by competence building and people development throughout the business.





## Learning and development

To retain Clover's position as one of Southern Africa's leading fast moving consumer goods companies, Clover proactively works to develop employees in all disciplines.

We have focused specifically on Wholesale and Retail Operations Learnerships, Job Technical Training Programmes at our production facilities and the upskilling of sales personnel and management. A large number of employees were exposed to a range of management and leadership programmes and a number of internships were introduced.

The formal programmes depicted in the diagram to the right are in place or being finalised for implementation in the 2016/17 financial year.

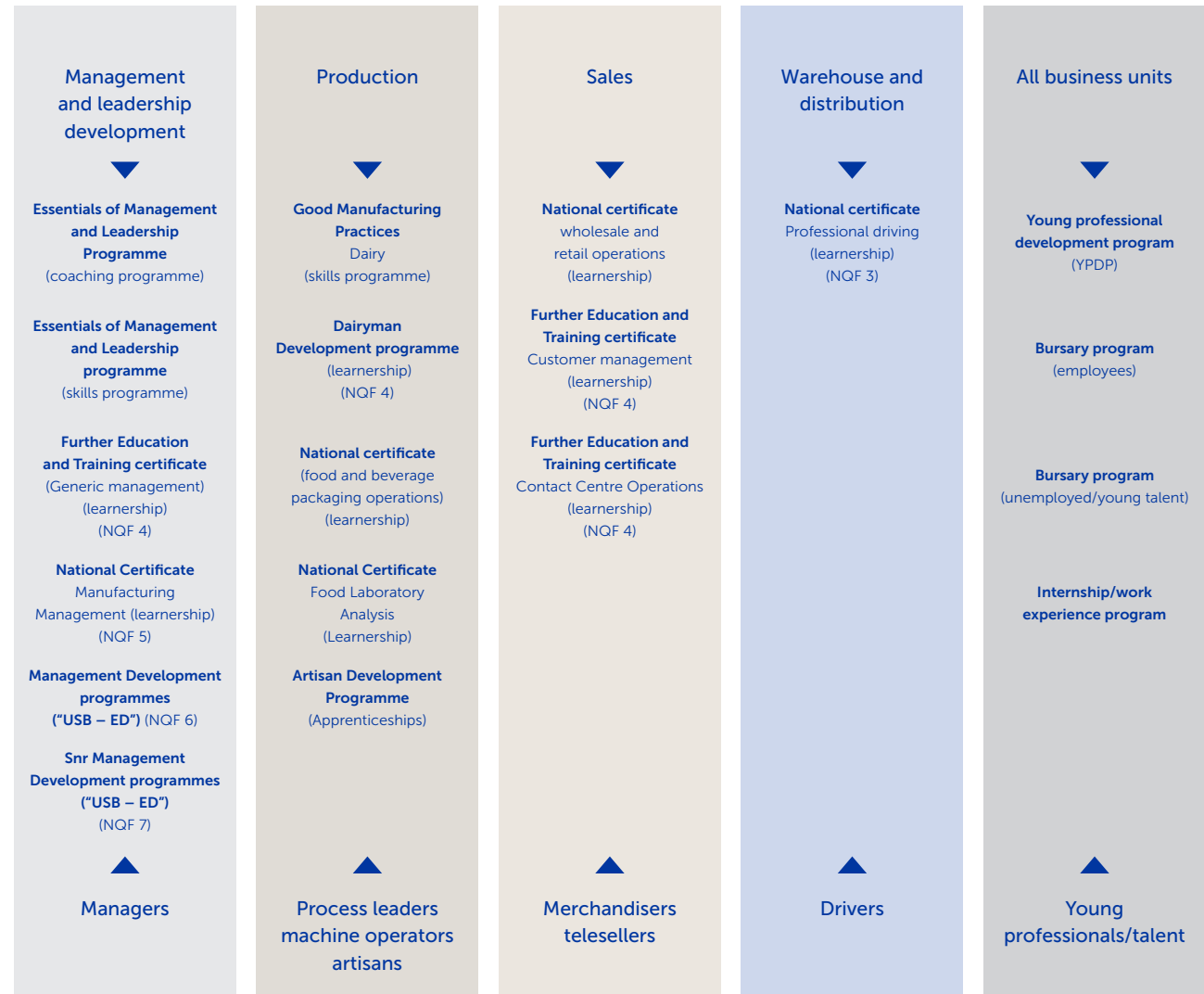
### EMPLOYEE WELLNESS

Clover is committed to proving a safe and healthy work environment for our employees. Organisational and individual wellness initiatives enable employees to maintain healthy mindsets and work environments.

To support a healthy work environment, Clover provides:

- access to two medical aid schemes, namely Discovery and Umvuzo
- clinic facilities at certain major sites. These are manned by full time professionals
- annual medicals for management
- trauma counselling through International Counselling and Advisory Services (ICAS)
- a generous leave policy that grants adequate rest periods to employees
- trauma cover for life threatening diseases.

## LEARNING AND DEVELOPMENT INITIATIVES



## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS (continued)

### TOTAL NUMBER OF PERSON HOURS WORKED (PHW)

Company	Permanent	Temporary	Gross man-hours July 15 to June 16	Absent days*	Nett total man-hours for 2016	Nett total man-hours for 2015
Clover SA (Pty) Ltd	18 003 960	1 104 480	19 108 440	1 711 496	<b>17 396 944</b>	17 208 506
Clover Fonterra Ingredients (Pty) Ltd	30 420	–	30 420	3 016	<b>27 404</b>	26 329
The Real Beverage Company (Pty) Ltd	292 500	2 340	294 840	36 840	<b>258 000</b>	253 012
Clover Waters (Pty) Ltd	105 300	7 020	112 320	7 584	<b>104 736</b>	83 141
Clover Dairy Namibia (Pty) Ltd	234 000	2 340	236 340	9 312	<b>227 028</b>	177 250
Clover Swaziland (Pty) Ltd	79 560	16 380	95 940	4 280	<b>91 660</b>	84 588
Clover Botswana (Pty) Ltd	786 240	4 680	790 920	108 184	<b>682 736</b>	895 127
Clover MilkyWay (Pty) Ltd	238 680	14 040	252 720	**	n/a	–
<b>Grand Total</b>	<b>19 770 660</b>	<b>1 151 280</b>	<b>20 921 940</b>	<b>1 880 712</b>	<b>18 788 508</b>	<b>18 727 954</b>

\* Absent days includes annual leave days.

\*\* No data available

Note: Data for Lactolab (Pty) Ltd is not available for the 2015 and 2016 financial years.

In addition to the above, the total man-hours lost due to strike activity amounted to 10 699 hours or 1 337 man-days from the period 1 July 2015 to 30 June 2016.

### TOTAL NUMBER OF PERSON DAYS LOST DUE TO ABSENTEEISM

Company	Family responsibility	Sick	Special	Study	Grand total for 2016	Grand total for 2015
Clover SA (Pty) Ltd	5 109	29 361	13 902	838	<b>49 210</b>	41 684
Clover Fonterra Ingredients (Pty) Ltd	4	53	19	–	<b>76</b>	41
The Real Beverage Company (Pty) Ltd	103	7	1 434	9	<b>1 553</b>	1 172
Clover Waters (Pty) Ltd	25	99	35	7	<b>166</b>	138
Clover Dairy Namibia (Pty) Ltd	40	88	25	5	<b>158</b>	99
Clover Swaziland (Pty) Ltd	–	37	–	–	<b>37</b>	125
Clover Botswana (Pty) Ltd	94	1 436	326	66	<b>1 922</b>	1 490
<b>Grand Total</b>	<b>5 375</b>	<b>31 081</b>	<b>15 741</b>	<b>925</b>	<b>53 122</b>	<b>44 748</b>

\* No data is available for Clover MilkyWay (Pty) Ltd and Lactolab (Pty) Ltd for the 2015 and 2016 financial years.

## Change of the labour landscape

We are pleased to report that Clover's work and labour environment remained cordial and stable throughout the past year. We train our managers to conduct ongoing and open communication with their employees. Management and labour representatives communicate regularly and constructively at a national and branch levels. The following table shows the percentage of employees belonging to trade unions:

### PERCENTAGE OF PERMANENT EMPLOYEES WHO BELONG TO A TRADE UNION

Company Name	Percentage 2015	Percentage 2016
Clover SA (Pty) Ltd	49,61	<b>48,00</b>
Clover Fonterra Ingredients (Pty) Ltd	0,00	<b>0,00</b>
The Real Beverage Company (Pty) Ltd	41,10	<b>36,80</b>
Clover Waters (Pty) Ltd	60,61	<b>66,67</b>
Clover Dairy Namibia (Pty) Ltd	29,79	<b>33,00</b>
Clover Swaziland (Pty) Ltd	0,00	<b>0,00</b>
Clover Botswana (Pty) Ltd	41,93	<b>57,01</b>
Clover MilkyWay (Pty) Ltd	0,00	<b>37,20</b>
<b>Grand Total</b>	<b>45,00</b>	<b>48,73</b>

*Note: Data for Lactolab (Pty) Ltd is not available for the 2015 and 2016 financial years.*

## Employment Equity

Clover fully supports employment equity in the workplace and various measures are in place to contribute towards our employment equity objectives. These include bursaries, internships and other employee development initiatives. Employment Equity (EE) remains a primary focus area, supported by measures that will enable Clover to achieve its employment equity objectives. These include:

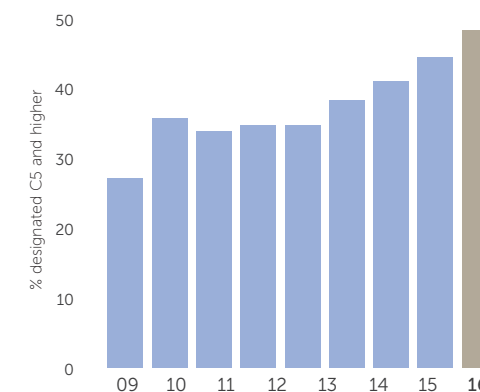
- taking steps to appoint suitably qualified candidates from the designated groups as vacancies arise
- training and development initiatives to prepare talented candidates to fulfil Clover's longer term employment equity objectives
- an employment equity report, submitted to the Department of Labour, that details our transformation progress.

Clover supports the relevant Codes of Good Practice. We do not accept unfair discrimination in respect of race, colour, language, religion, gender or political views or on the grounds of disability. Therefore, all employees receive the same opportunities to develop according to their merit and ability.

Clover's Executive Committee is responsible for implementing and monitoring our EE plan. In executing its duties, the Executive Committee assigns specific responsibilities to individuals and managers. Site managers are responsible for implementing EE plans at Clover's sites. Our HR department monitors appointments in terms of the EE plan and reports annually to the Social and Ethics Committee on progress towards achieving EE targets.

Clover has increased the number of employees from designated groups as tabled below:

### Percentage of staff from designated groups at June 2016



## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS (continued)

### Employment Equity Plan – numerical targets

To improve diversity in the workplace, and especially to address the levels of representation of people from designated groups, Clover is committed to achieving the targets set out below:

Affirmative action measures and objectives**	2015/2016 Objectives %	Achieved 30 June 2016 %	2016/2017 Objectives %
Black people on F Band	14,29	14,29	16,66
Black people on E Band	21,05	12,50	16,66
Black women on E Band	15,79	6,25	5,55
Black people on C5 – D5 Band	26,32	25,78	27,00
Black women on C5 – D5 Band	9,09	7,88	8,27
Black people on C1 – C4 Band	59,66	60,98	62,30
Black women on C1 – C4 Band	14,83	16,07	16,27
Disabled people	0,58	0,57	0,57

\* 2016 data includes MilkyWay employees for the first time.

\*\* 2016 objectives have been adjusted from the prior year following a Section 43 review by the department of labour in December 2015.

### Broad-Based Black Economic Empowerment (B-BBEE)

Clover supports the transformation of South Africa's economy and we regularly review our overall business strategy in the context of these principles.

Clover's most recent B-BBEE verification was performed by Net Value Services (Pty) Ltd, an IRBA approved verification agency. Based on our June 2015 year-end, Clover was assessed against the current Agri B-BBEE Sector Codes for the third time. Clover's overall score was 68.52, which retained our status as a Level 4 B-BBEE contributor.

The extent to which the Agri Sector Codes will be modified in accordance with the newly amended generic B-BBEE Codes, which became effective as from 1 May 2015, is uncertain. All sector codes were intended to be aligned to the amended generic B-BBEE Codes by 31 October 2015, but no feedback has yet been received from the Department of Agriculture, Forestry and Fisheries.

Once the Agri Sector Codes have been finalised, Clover will re-assess its B-BBEE strategy and make the necessary adjustments.

### Innovation and technology

Clover is presently improving its capability to generate information that proactively adds value to the business. We not only need a system for records, but also require a system that engages and interrogates data.

Following the successful implementation of the new payroll system, Clover is presently implementing phase two of our integrated human capital platform, which will enhance performance management, talent management, recruitment and learning for Clover's people.

### Africa expansion

Potential opportunities in Africa are constantly assessed. Our HR function assists with resourcing these operations, while at the same time ensuring compliance with local legislation.

### Value creation

#### Current

- Ongoing upskilling of employees through training programmes, financial assistance for study purposes and offering of bursaries
- Upskilling employees through learnerships and management development programmes
- Employee assessments and feedback
- Coaching and mentoring for talented individuals
- Access to modern equipment and technology
- Productivity gains encouraged through incentive schemes
- Retaining employees through job satisfaction and competitive reward schemes.

#### Future

- To be a sought after employer by providing employees with flexible work conditions and purpose-driven challenges
- Enable employees to pursue excellence and establish themselves as major assets of Clover
- Offer employees the opportunity to explore multi-chapter career paths that progress through our various businesses.



## NATURAL CAPITAL

Natural resources are under climate change pressure, which compels food and beverage companies to reduce the carbon emissions and water volumes used in manufacturing their products. This can be achieved by adopting operational best practises and new technologies, although these can be costly. Clover is evaluating how to consolidate our factories and install technologies that will enhance our cost competitiveness, while reducing our carbon generation and water usage. Clover requires high quality water and installs water purification systems to ensure consistent quality water for our operations in areas where water quality can vary.

Clover recognises our responsibility to reduce or even eliminate the impacts of our business on the environment. This responsibility relates not only to Clover's direct operations, but also to our supply chain partners and their environmental impacts.

Clover is therefore implementing an Environmental Management System (EMS) as a structured framework for continually improving our environmental performance.

### CLOVER'S ENVIRONMENTAL POLICY

Objective	Action
Continuously improve environmental performance.	Implement and maintain an effective environmental management system (EMS). Provide a structured framework for continual improvement. Identify and manage progress against set targets per identified aspects.
Educate staff on the EMS and equip them with the necessary skills to implement Clover's environmental policy.	Staff engagement, formal development and training.
Ensure consistent quality of products in line with legal, regulatory and best practise requirements.	Implement quality assurance models in Clover's milk collection and production environments, with product quality being tested by accredited laboratories. Product quality is also monitored through feedback from Clover's Consumer Centre, which handles general enquiries, complaints and compliments.
Reduce carbon footprint.	Quantify carbon footprint from operations and key elements of the supply chain. Set annual targets for reducing it.
Reduce water usage across operations.	Monitor water usage and set targets for reducing water consumption.
Limit the generation of solid and liquid waste and the impact of their disposal on the environment.	Set targets for reducing waste to landfill and monitor results.
Minimise product returns and the impact thereof on the environment.	Implement programmes to continuously reduce returns.
Reduce energy consumption and associated emissions.	Monitor energy usage and set targets for reducing consumption.
Manage impacts for on-site storage of fuels and chemicals, both during normal operation and in the event of spills and emergencies.	Implementation and monitoring of procedures.
Optimise the use of primary and secondary packaging.	Monitor wastage and implement improvement processes and targets.
Adhere to all applicable environmental legislation.	Continuously review and revise the ambit and effectiveness of the EMS.
Ensure continuous monitoring of and reduction in the impacts associated with milk supply.	Support and help develop the Best Farming Practices Programme.
Inform supply chain partners on activities to reduce environmental impact and partner with them to reduce their own impact.	Formally engage with partners in the supply chain.
Ensure Health and Safety throughout all operations.	Continuous monitoring to ensure safe working environments.

## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS (continued)

### Environmental

Clover's environmental strategy commenced formally in the 2011 financial year, when we accepted our responsibility to reduce, and as far as possible, to eliminate the environmental impact of our business. Environmental excellence offers business efficiencies, as energy and services costs usually comprise approximately 19% of a food manufacturer's fixed costs.

We have extended this duty of environmental care to our supply chain partners, so that they begin controlling their environmental impacts if they don't already do so. Clover actively monitors environmental, health, safety and quality through the use of our dedicated Entropy SHEQ management system and other forms of assurance, such as internal and external audits.

Our Social and Ethics Committee requires each business unit to regularly report its impact on the environment, based on agreed measures. The Chief Engineer of Maintenance and Safety, Health and Environment reports on Clover's environmental strategies and compliance with SHE measures.

Clover has evaluated section 12L incentives for business cases where savings in the supply chain can be achieved. This incentive applies to not only electricity savings but includes diesel savings. This may result in compact milk transporters being replaced with larger tankers.

Section 12L of the Income Tax Act – Deduction in respect of energy efficiency savings – came into effect on the 1 November 2013. This tax incentive allows taxpayers to claim deductions of 95 cents per kilowatt hour (equals R10 per litre diesel saved), or kilowatt hour equivalent, of energy efficiency savings made against a baseline measured at the start of each year of assessment. This opportunity to claim tax deductions applies to all measured and verified savings achieved before 2020.

Clover has on average reduced its carbon emissions by 8,5% for the year to June 2016, which should enable Clover to qualify for section 12L claims for the June 2016 financial year end.

### OPERATIONAL EFFICIENCY

	2013/2014	2014/2015	2015/2016
Total Direct Energy Consumption (Gigajoules, GJ) – i.e. from fuels burned	1 445 980	1 514 773	<b>1 353 188</b>
Total Indirect Energy Consumption (Gigajoules, GJ) – i.e. from electricity consumed	474 801	482 168	<b>447 262</b>
Total Electricity Consumption (MWh)	131 889	133 936	<b>124 236</b>
Total Energy Consumption in Gigajoules	<sup>3</sup>	1 966 941	<b>1 800 449</b>
Electricity consumed per kg product produced (kWh/ton)	142,4	137,3	<b>120,01</b>
Fuel consumed for steam generation (coal, diesel, HFO, per product produced (kWh eq/ton)	423	402	<b>379</b>
Waste to landfill in kg per ton produced	9,3	7,3	<b>8,3</b>
Total weight of non-hazardous waste disposed (ton)	<sup>4</sup>	5 940	<b>36 175</b>
Total weight of hazardous waste disposed (ton)	<sup>4</sup>	758	<b>2 538</b>
Total weight of waste sent for recycling (ton)	<sup>4</sup>	8 552	<b>9 065</b>
Percentage of waste disposed of that is sent for recycling <sup>5</sup>	58	71	<b>68</b>
Water consumed (Litres) per kg of product produced <sup>1</sup>	4,09	3,79	<b>3,84</b>
Total Water Consumption (Kilolitres, or Kl) <sup>5,6</sup>	2 503 146	2 604 358	<b>2 713 623</b>
Average Volume of Water (Litres) Consumed per Person Hour Worked (l/HW) <sup>6</sup>	<sup>3</sup>	139,06	<b>144,43</b>
<b>Carbon Footprint<sup>2</sup></b>			
Total Carbon Emissions (Tons of carbon dioxide equivalents, CO <sub>2</sub> e)	245 357	255 482	<b>229 887</b>
Total Scope 1 Emissions (Tons CO <sub>2</sub> eq)	116 659	125 887	<b>108 868</b>
Total Scope 2 Emissions (Tons CO <sub>2</sub> eq)	128 698	129 595	<b>121 018</b>
Average Volume of Carbon Emissions per Person Hour Worked (Tons CO <sub>2</sub> e/HW) <sup>6</sup>	<sup>3</sup>	0,0136	<b>0,0109</b>
<b>Trends per Source</b>			
Stationery combustion (Tons CO <sub>2</sub> eq)	67 304	76 495	<b>67 511</b>
Mobile combustion (Tons CO <sub>2</sub> eq)	45 595	43 027	<b>36 678</b>
Fugitive (refrigerants) (Tons CO <sub>2</sub> eq)	3 759	6 365	<b>5 139</b>
Electricity (Tons CO <sub>2</sub> eq)	123 955	125 878	<b>116 182</b>
Purchased steam (Tons CO <sub>2</sub> eq)	4 744	3 717	<b>4 257</b>

<sup>1</sup> Please note that water consumption is only reported for production, however production constitutes 95% of all Clover's water usage.

<sup>2</sup> Data in respect of carbon footprint include all entities acquired during the year.

<sup>3</sup> Data for this period is unavailable. Data for the 2014/2015 period will be used as a base for future reporting periods.

<sup>4</sup> Please note: the figures for 2014/15 and 2015/16 years, includes the entire supply chain. Figures for 2013/14 were not available at the time.

<sup>5</sup> Please note this relates to production only.

<sup>6</sup> Please note figures for previous years have been restated.



## Carbon footprint

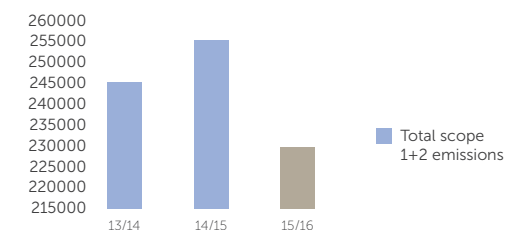
Clover's carbon footprint extends over the operations of the following five business units:

Business unit	Description/key activity
<b>Head Office</b>	Corporate administration, marketing, management.
<b>Procurement</b>	Transportation of raw milk and materials from suppliers to Clover facilities.
<b>Production</b>	Facilities for the processing, packaging and dispatching of products.
<b>Primary Distribution</b>	Transport of products from production facilities to primary and secondary distribution centres.
<b>Secondary Distribution</b>	Clover controls a large number of secondary distribution facilities across South Africa that handles own and principal clients' products. Distribution is to retail customers through leased vehicles, under the control of Clover.



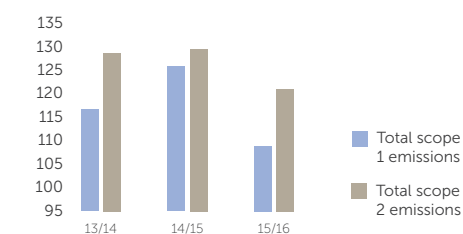
## Carbon footprint

Total scope 1 + 2 emissions – Tons CO<sub>2</sub>e



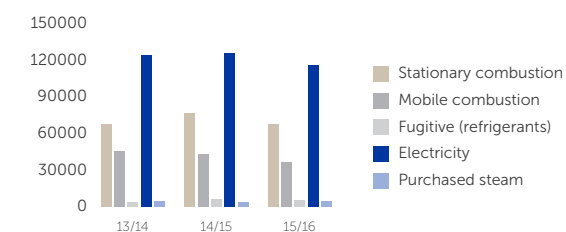
## Carbon footprint – By scope

Tons CO<sub>2</sub>e



## Carbon footprint

Tons CO<sub>2</sub>e



## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS (continued)

### Value creation

#### IN THE PAST

In earlier years Clover was a cooperative driven by producer supply imperatives. We were firm on legislative compliance, emphasised accurate invoicing from service providers and closely monitored any potential under or over billing for critical inputs such as utilities. We focused primarily on water quality, fuel, electricity and other costs, but our primary focus was meeting our producers' value creation objectives. These aspects remain important to Clover's value creation, but given the change to a demand driven company, our new objectives need to be evaluated alongside shareholder value, a myriad of changes in legislation, and best practice compliance.

#### PRESENT

The significant ramp up of relative pricing for energy and other utilities has a major impact on Clover. Relative pricing has risen to such an extent that we need to sharply reduce our consumption of resources to remain competitive. This is especially true in the case of water, sanitation and electricity. Price increases are a powerful incentive to utilise natural resources more efficiently. We have set Clover's performance targets for usage of these resources, supported by regular appraisals. Clover's constant focus on electricity, fuel and water consumption and carbon emissions further delivered efficiency improvements and utility cost reductions in this year of review.

#### FUTURE

South Africa faces significant water, sanitation and electricity constraints at present, which require heavy investment in natural infrastructure from government and the private sector to rectify. Tariffs will inevitably increase and we anticipate that increases will exceed the average rate of inflation for an extended period of time. Clover has therefore embarked on a journey of continuous efficiency improvements to reduce resource consumption. These efficiency improvements will be self-financing through reduced usage and will contribute to Clover's financial sustainability in the medium to long term.

Clover intends partnering with specialist service providers to ensure economies of scale through new technologies that will make Clover the efficiency leader in our market segments. Projected efficiencies include eliminating waste to landfill and effluent initiatives, among other environmental impacts.

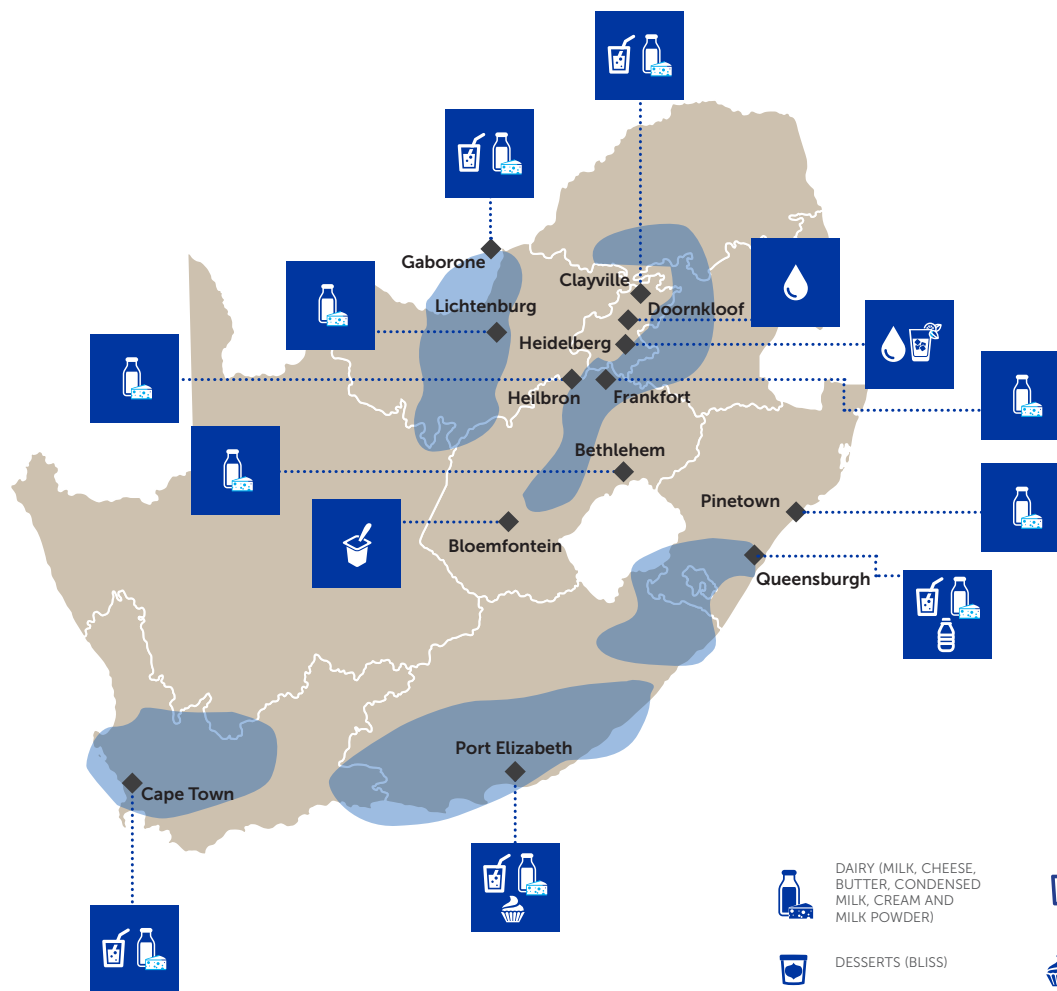
Clover makes use of available grants and tax allowances to implement "Green technologies".

Clover's end goal is to create long term and sustainable value through good corporate citizenship.

South Africa faces significant water, sanitation and electricity constraints at present, which require heavy investment in natural infrastructure from government and the private sector to rectify.



## MANUFACTURED CAPITAL



\* The Cape Town area includes Milnerton, Parow and Epping

DAIRY (MILK, CHEESE, BUTTER, CONDENSED MILK, CREAM AND MILK POWDER)

DESSERTS (BLISS)

BEVERAGES (KRUSH, TROPIKA AND NECTOR, DANAQ)

CLASSIC (YOGHURT AND CUSTARD)

DAIRYBELLE YOGHURT (IN SHAPE, FRUITS OF THE FOREST, VITABELLE, RAINBOW)

FLAVOURED MILK (SUPER M, Mmmilk)

WATER (NESTLE PURE LIFE, AQUARTZ)

ICE TEA (MANHATTAN)

● CLOVER'S MAIN MILK PRODUCING AREAS

◆ CURRENT PRODUCTION FACILITIES

This table depicts salient features of Clover's manufactured capital:

### Producer selection

As at 30 June 2016, Clover sources its milk from 155 carefully selected collection points.

### Ongoing quality assurance

55 quality checks are performed on fresh milk from when it is collected at the farm to when it reaches the shelf.

### Clover Way Better approach to work

Clover's production systems are flushed every 8 hours to ensure freshness.

### Clover Way Better supply chain and warehousing capabilities

Delivering to approximately 20 545 points through 548 trucks to an average of 8 customers per day per truck.

## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS (continued)

### Supply chain planning and procurement

Clover's Supply Chain Planning department centrally plans all manufacturing, purchasing, storing and deployment of finished goods throughout Clover's integrated supply chain. Production requirements, stock levels and deployment plans are based on predicted future market demand for Clover's products. Consumer demand is predicted through a sales and operations planning process that utilises statistical forecasting models. These results are further checked in collaboration with Clover Commercial and Clover Marketing. The seasonal nature of raw milk supply requires careful production planning that takes into account raw milk intake, desired stock levels and capacity constraints in Clover's production and distribution network. Milk flow from procurement depots to factories is optimised daily to ensure the lowest possible landed cost of milk at factory gate. Clover's Executive Committee directs the Supply Chain Planning department to act well in time to prevent potential demand versus supply imbalances.

The Supply Chain Planning department is also responsible for managing all primary transportation between factories and distribution depots, as well as bulk deliveries to selected customers. Primary transportation is executed through a combination of Clover managed vehicles and external hauliers. Our primary objective is to optimise the mix between own managed fleet and external hauliers, while ensuring the sustainability of these activities at a competitive cost.

Clover is continuously improving processes to ensure customer demand is met at the most competitive cost. The following initiatives to create long term value are currently in progress:

### Integrated Business Planning project

- State-of-the-art planning software is at present being introduced to replace the current legacy planning tools
- All systems are being aligned and integrated with Clover's Enterprise Resource Planning (ERP) system
- This system will enable faster and more efficient what-if modelling and optimisation strategies, supported by enhanced sales and operations (S&OP) planning
- Improved alignment between Operations, Commercial and Marketing will be achieved through enhanced communication and visibility planning.

### Network optimisation

- Clover implemented a network optimisation model (Profit Point) that provides a simulation capability and optimisation engine to evaluate potential changes in the supply chain
- This tool is used regularly to initiate and/or evaluate potential future placements of production and distribution facilities in the network to ensure optimal use of supply chain infrastructure.

Clover's centralised procurement department is responsible for procuring ingredients and packaging materials from qualifying suppliers to provide consistently high quality materials for production. Clover's procurement philosophy is to build partnerships that shift the understanding beyond monetary considerations to also include socio-economic objectives and long-term value creation.

### Milk procurement

As a market driven company, Clover sources its raw milk in volumes to match projected demand. Clover's unique milk procurement system (CUMPS) is instrumental to helping ensure that Clover sources and retains raw milk according to its needs. Raw milk quality is the key to the safety and wholesomeness of Clover's products. Clover regularly audits each and every farm where raw milk is produced and orders all its milk from farms with above 80% audit scores against Clover's Best Farming Practices.

### SUSTAINABLE MILK SUPPLY

Clover has been purchasing raw milk from farmers and producers for the last 118 years. We understand the importance of milk producers in the supply chain and hold them in high esteem for providing excellent quality raw milk, often under challenging circumstances. Globally and in South Africa the number of milk producers is diminishing. Although this decline is not necessarily a threat to sustainable milk supply, it does harm job creation, rural development and the financial wellbeing of rural communities. We therefore believe it is imperative that the industry and government find a way of ensuring a viable agricultural sector and dairy industry. Agriculture is the cornerstone of healthy rural development and food security.

Clover is currently working with government and Deloitte on an agricultural revival programme that utilises high potential unused land to empower emergent dairy farmers and connect them to shared milking schemes. In our view, emergent developing dairy farmers should be linked to commercial dairy farmers with the expertise to help develop fallow land into sustainable dairy farms. These linkages will enable the transfer of knowledge to emergent dairy farmers, bolstered by ongoing support and mentorship.

## KEY STATISTICS FOR CLOVER MILK PROCUREMENT

Description	2016	2015	2014	2013	2012
Milk intake from producers (Million litre)	611	606	632	668	648
Litres of milk transported per kilometre	117	111	99	70	69
Average number of collection points	169	189	218	240	258
Number of employees employed by milk producers*	2 765	3 103	3 277	3 637	3 738
Number of dependants reliant on above employees**	9 700	12 099	13 867	13 656	18 690

\* The number of employees is based on previous production cost survey statistics and feedback from producers.

\*\* The number of dependants is based on feedback from producers.

## RAW MILK QUALITY AND CERTIFICATION

Clover's commitment to quality commences on the farms selected to supply our raw milk. Clover utilises a Best Farming Practices (BFP) programme, based on International Dairy Federation guidelines, which emphasises:

- animal health and herd management
- animal feed and water
- animal medication and agricultural chemicals
- milk hygiene and safety
- environmental management
- personnel and people.

As a market driven company, Clover pays careful attention to the needs of our consumers. It is clear that consumers want natural milk products that are untainted by artificial hormones and inhibitors. Our producers have been instructed not to supply Clover with milk originating from cows treated with recombinant bovine somatotropin (rBST). Each and every milk producer for Clover has signed such a declaration. Every tanker load of milk is tested for inhibitors such as antibiotics. Milk that tests as positive for inhibitors is marked with a food colourant and discarded under controlled circumstances. Clover will leave no stone unturned to ensure that our products remain safe and nutritious.

Clover has evaluated various sustainable dairy farming models in recent years and concluded that developing our own integrated dairy farming system is not core to our operations or financially viable. We therefore selected the Global Gap programme and will soon appoint an accredited and independent certifying body to conduct audits on our behalf. Certification will be completely independent, as Clover personnel will no longer perform the audits. Our Producer Services personnel will, however, continue assisting our milk producers to become compliant and to retain their certification. The implementation of the Global Gap programme at farm level commenced on 1 July 2016.

## Production

Once the raw milk has passed all quality tests, it is processed at Clover's 15 production facilities across South Africa and in certain African countries. Our products include fresh milk, UHT milk, flavoured milk, yoghurt, cheese, butter and milk powder, desserts, fruit juices, dairy fruit mix, water and iced tea. The base ingredient for our beverages is generally produced as a concentrate and is procured from carefully selected suppliers who guarantee consistently high quality products. The concentrate is mixed with good quality water to manufacture final products such as Krush Juice and Tropika. Natural groundwater sources are regularly tested for safety and quality. During the period under review, Clover acquired the UHT plant of Good Hope Beverages, which is situated in Milnerton, Cape Town.

## Infrastructure

Clover owns the bulk of the properties from where we operate. Clover's buildings and equipment are comprehensively insured, including for potential loss of profit due to business interruptions. New and innovative technologies are enabling Clover to consolidate some of our facilities for cost efficiencies. Clover continuously seeks ways and means to reduce costs along the supply chain to ensure that we remain cost competitive, while also lessening our environmental impact. We have embedded the continuous improvement concept into the Clover culture, so that big and small improvements are properly identified, controlled and managed.

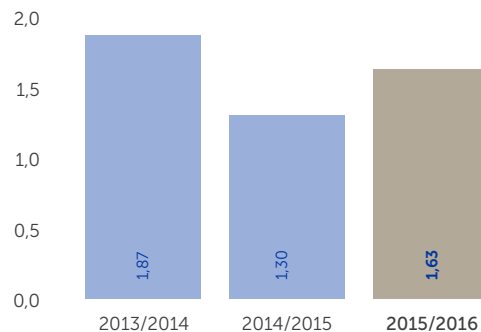
Given the speed of technological progress, businesses need to continually invest in improved efficiencies and cost reduction. Failure to do so could lead to an ineffective cost structure and an outdated and uncompetitive product offering. Clover therefore monitors the following key risk indicators:

## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS (continued)

- **Depreciation vs capital expenditure**

The quality of Clover's manufactured capital will deteriorate if we do not continually invest in it. Clover invests to improve efficiency and effectiveness rather than merely maintaining assets. Over the past three years we allocated substantial capital resource into enhancing the quality of our manufacturing assets. The graph below represents the capital investment for Clover's production facilities.

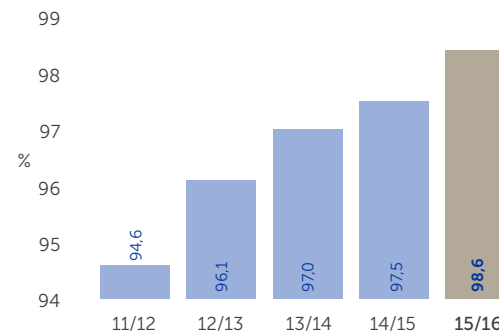
Capital Expenditure and Depreciation



- **Factory machine availability**

Maintaining a high level of machine availability is vital for achieving higher throughput per hour, reducing product losses and reducing energy consumption. A further benefit is that assets are properly utilised, and the need for additional equipment to accommodate a higher level of production is reduced when availability improves. Clover's machine availability averages have increased substantially over the past five years.

Machines available for usage



### Best practice utilisation of production capacity

- **Capacity utilisation**

Sales growth is only possible if the manufacturing capacity exists to meet the higher volumes of production required. Clover's ability to manage manufacturing capacities is vital for ramping up to meet unexpected demand, or to reduce production when needed to keep unit production costs down. Clover's capacity utilisation per product group must remain within best practise parameters. Milk intake is seasonal, with an increased milk intake between August and January in any given year, so that certain factories work at full capacity in the seasonal peak cycle. Production reduces substantially in the off season. Clover's capacity during the seasonal peak determines limits for increased milk intake. As some products are highly seasonal, the average value and the peak (November) value have been utilised as being the most illustrative.

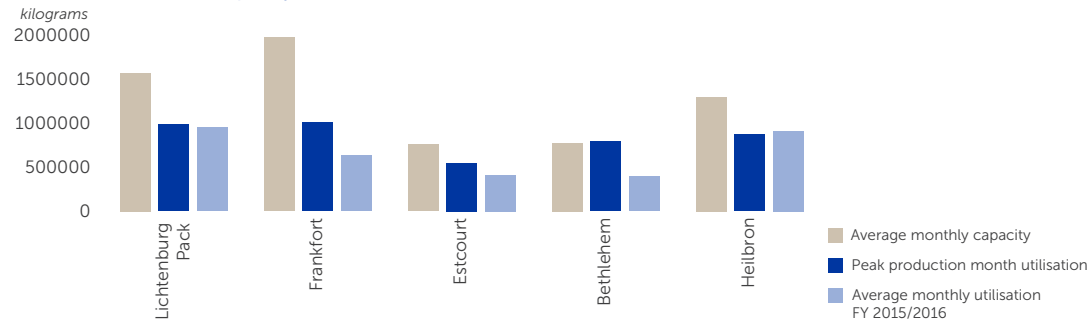
### SA DIARY CHAMPIONSHIPS 2016

Clover won numerous 1st, 2nd and 3rd place awards in the butter, gouda, cheddar and feta cheese, flavoured milk and yoghurt categories

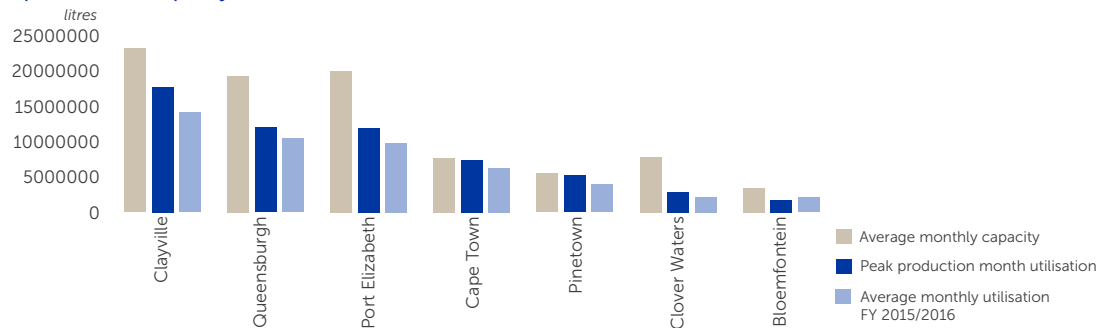




### Concentrated factories capacity vs utilisation



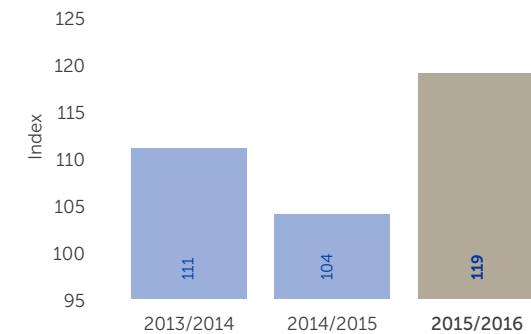
### Liquid factories capacity vs utilisation



### Material trade-offs and interdependencies between capitals

Continuous improvement and advancing technology directly impacts Clover's natural and human capitals. This requires continuous improvement in skill levels over time. The introduction of new working methods impacts on the amount of labour required per unit of production. As a result, Clover needs to measure production per man hour to help evaluate how Clover succeeds in improving output per labour hour worked, thereby reducing the total operational cost of the business. Productivity increased substantially in the 2015/16 financial year. Clover is investing in automation for repetitive tasks, improved software and working methods to keep on raising productivity.

### Output per Man-hour



## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS (continued)

### Occupational Health and Safety

Clover has a responsibility to provide safe and healthy working environments. Formal health and safety policies are in place, and are monitored. Standard health and safety procedures exist for every potentially dangerous substance or operation in the workplace. All of Clover's production facilities and distribution facilities were audited during the review period, for compliance with all applicable environmental legislation and the Occupational Health and Safety Act (OHS). Annual audits evaluate continuous health and safety improvement, supported by independent verification audits conducted every three years. Clover's Lost Time Injury Frequency (LTIF) rate, based on reportable injuries per million man-hours worked, improved on the previous year. The following table aggregates current Clover health and safety statistics. The number of people trained in health and safety reduced in the current year as this is not an annual requirement.

Description	Supply chain	
	2015	2016
Number of people receiving Health and Safety training (1 Person, 1 Course = 1)	1 090	<b>421</b>
Fatalities – People working under our control	1	<b>1</b>
Total Number of Recordable Injuries, including Medically Treated Cases, Lost Time Injuries and Fatalities	434	<b>610</b>
First Aid Cases – Persons working under our control	626	<b>566</b>
Reportable (Compensation Commissioner) lost time injuries for this financial year	147	<b>43</b>
Fatal Injury Frequency Rate (i.e. number of Fatalities per 200 000 person hours worked) <sup>1</sup>	0,0011	<b>0,011</b>
Lost Time Injury Frequency Rate (i.e. the number of LTIs per 200 000 person hours worked)	0,638	<b>0,562</b>

<sup>1</sup> Please note figure for previous year has been restated.

The following table lists Clover's Occupational Health and Safety appointees responsible for ensuring that all Clover premises comply with the highest safety requirements:

Executive summary	2015	2016
16.2 and Assistant <sup>1</sup>	37	<b>27</b>
Section 8.2 <sup>2</sup>	39	<b>87</b>
GMR2 <sup>3</sup>	28	<b>11</b>
SHE Reps <sup>4</sup>	234	<b>238</b>
Firefighters	277	<b>211</b>
First aiders	296	<b>255</b>
Stacking supervisors	24	<b>47</b>
Accident investigators	99	<b>114</b>
Emergency coordinators	30	<b>40</b>
Occupational Health Nurses <sup>5</sup>	19	<b>12</b>
SHE Officer/Manager	–	<b>15</b>

<sup>1</sup> In terms of the Occupational Health and Safety Act, a 16.2 appointment is a person appointed by the CEO of a company, who is responsible for all Health and Safety matters of the company and will be subject to the control and direction of the CEO.

<sup>2</sup> In terms of the Occupational Health and Safety Act, an 8.2 appointment is a person appointed to facilitate the occupational safety of the company.

<sup>3</sup> This appointment is in terms of the General Machinery Regulations. The designated person is appointed in a full-time capacity in respect of each premise on which machinery is used to supervise all machinery.

<sup>4</sup> Safety, health and environmental representative who represent all employees of the business.

<sup>5</sup> In 2015, Occupational Health Nurses and SHE Officers were reported in a combined figure of 19.

### Distribution

Clover's Primary Distribution Department moves all our products from factories to distribution facilities across South Africa. Every day, our Customer Call Centre receives electronic or telephonic customer orders and arranges deliveries from one of Clover's 25 distribution centres to approximately 20 545 delivery points in South Africa. Clover also has agreements with several major customers, for whom we provide distribution and in-store merchandising services.

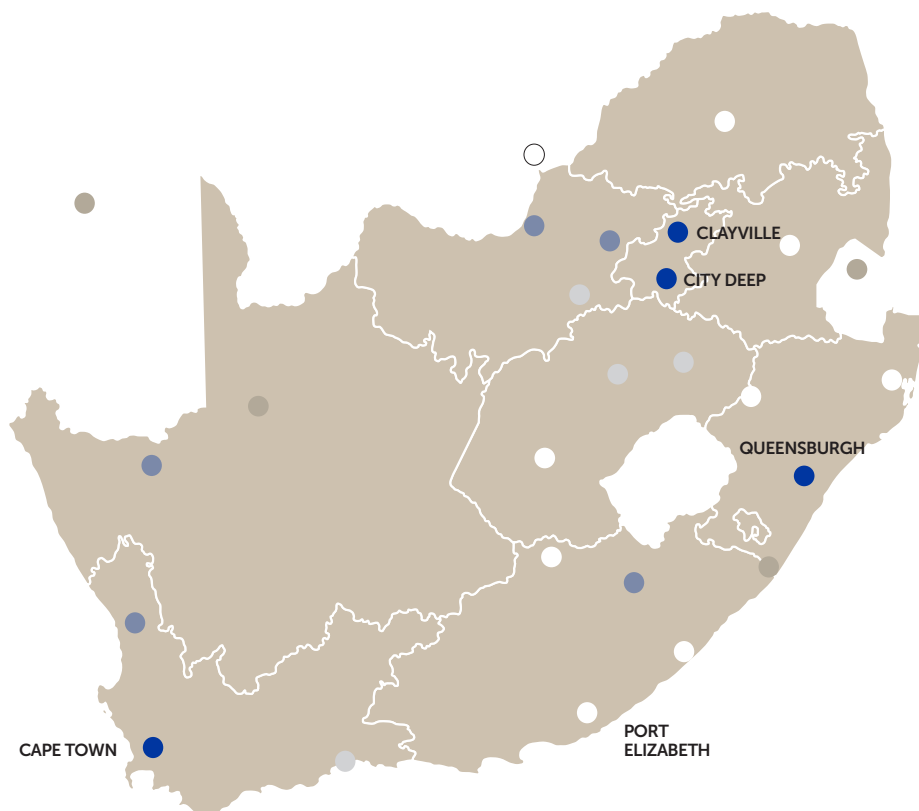
Stores receive direct deliveries of Clover products between two and five times per week, depending on sales volumes. Clover has over 548 delivery vehicles that deliver stock to approximately 20 545 delivery points. Over 800 SKU (stock keeping units) are stored, picked, delivered and merchandised in Clover's distribution network. More than 50% of all refrigerated dairy and processed meat products of all brands delivered to stores in South Africa are transported through the Clover Distribution Network.

Besides specialising in the distribution and sales of chilled products, Clover also handles significant quantities of non-perishable food products. Customers serviced by Clover include:

- Unilever
- Eskort
- RCL
- Orley Foods
- Epic Foods
- Enterprise
- Red Bull

The wide ranging distribution of products on behalf of third parties provides one of Clover's most valuable revenue streams.

Below is a depiction of Clover's distribution centres in South Africa:



● CENTRAL DISTRIBUTION CENTRE ○ DISTRIBUTION CENTRE ● SATELLITE ● AGENT ● SEMI SATELLITE DC

### Clover's distribution model for the informal settlements:

- has 9 801 informal stores serviced in this specialised distribution network
- recorded a sales growth increase of 64% from the previous year
- forecasts a sales growth of 55% for the next 12 months

### Masakhane – “let’s build together”

Masakhane (literally meaning “Let’s build together”) got off the ground in 2012 as Clover’s first targeted approach to informal trading environments. The Masakhane objective is to grow sales in stores that do not form part of a Clover Key Account or Buying Group. Masakhane has enabled Clover to rapidly increase our reach into informal trading scenarios such as shacks, spaza shops, tuck shops, corner cafés, general traders and bottle stores.

## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS (continued)

Masakhane's initial 2012 customer base of 600 stores, has since expanded rapidly to 9801 informal stores. Sales growth for the Masakhane project over the last year was 64%, albeit off a small base. The Masakhane channel is poised for a forecasted 55% growth in sales over the next financial year.

### CLOVER'S EMERGING MARKET SALES CHANNEL

Recent Nielsen research shows that spending at South Africa's informal stores account for 20% of all cash spent annually. These stores sold goods to the value of R64 billion last year and are growing their sales at 7% per annum, while formal stores are only registering 4% sales growth. This emerging market is not a single entity, but is a multitude of small informal stores, spazas, superettes and traders.

Clover's Masakhane emerging market sales channel is aimed directly at the informal store owners and customers, based on the backbone of Clover's national distribution network. By offering Clover and other branded products directly to these stores, Masakhane is a game changer in the industry. Informal stores now have access to quality products at affordable prices, which attracts new customers to the informal stores and creates a demand for nutritional products.

Clover Masakhane provides training directly to the informal store owners to provide the required commercial and supply chain expertise to further develop and sustain their stores. Masakhane is a definite catalyst for growth and job creation in the emerging market.

Clover Masakhane aims to create 1004 new and permanent jobs within the distribution and retail sector by 2020. Clover Masakhane recruits undergo sales and distribution training that equip Clover Masakhane entrepreneurs with the ability to carry out their daily responsibilities while preparing and developing them for formal trade.

### Quality

#### QUALITY CONTROL OVER FINAL PRODUCT

All Clover products are produced in terms of international best practices for quality, hygiene and food safety. These are only formally released by the Quality department once assessed against these specifications. All South African Clover factories are HACCP certified and accredited by third party auditors. We comply with all international standards required for food safety and quality risk management systems. Clover Quality Assurance and Control deploys highly trained technicians in well-equipped laboratories to test our products at all production stages.

In this year of review, Clover implemented a programme to upgrade all our quality systems to comply with the latest and world-wide accepted FSSC 22000 Quality Management system. FSSC 22000 principles are being implemented throughout the value chain. Clover also introduced a Supplier Quality Control programme to ensure that all raw materials and packaging materials comply with internationally recognised food safety requirements.

### Value creation

Clover's recent investments in upgrading our manufactured capital is building long term value for our stakeholders. We foresee future value creation in manufactured capital as follows:

#### SUPPLY CHAIN PLANNING AND PROCUREMENT

- Improve pricing strategy with suppliers and other role-players
- Integrate supply chain modelling
- Integrate business planning
- Procurement – supplier collaboration
- Development of suppliers to limit the risk of milk shortages
- Improve Clover's B-BBEE status and promote job creation

- Milk procurement – supplier collaboration to commence export initiatives and promote growth in national dairy industry.

#### PRODUCTION

- Improve asset utilisation through consolidation
- Promote industry development, export opportunities and job creation
- Carbon footprint reduction
- Dairy industrial park for all concentrated products
- Increase capacity utilisation.

#### DISTRIBUTION

- Optimise the distribution network through real time monitoring of execution
- Distribution mobility by delivering a paperless system to promote streamlined product returns and driver reconciliations
- Distribution retailer centralisation
- Expand basket of principal products through strategic partnership focus
- Collaboration with customers.

#### COMMERCIAL

- Acquire new customers
- Retain and grow current customers
- Identify and enter untouched markets
- Acquire and invest in higher margin products
- Focus on all segments of the market, both formal and informal.



## INTELLECTUAL CAPITAL

### Trademarks and Patents

Clover is the proprietor of more than 934 registered trademarks within the following jurisdictions:

Jurisdiction	Number of trademarks	Number of designs
South Africa	442	9
Rest of Africa *	523	
Other countries*	1	

\* Botswana, Swaziland, Namibia, Angola, DRC, Egypt, Ghana, Kenya, Lesotho, Malawi, Mauritius, Morocco, Mozambique, Nigeria, OAPI and Seychelles.

Clover further holds 11 patents registered in South Africa and Namibia.

Clover's intellectual property is protected through employment contracts, confidentiality agreements and licence agreements. A second line of defence is the highly reputed patent and trademark attorneys we retain.

### BRANDS AND REPUTATION

Over the years, Clover's Marketing Department has developed several deeply entrenched household brands. These include Clover, Tropika, Butro and Krush, just to name a few. These brands are kept fresh and relevant to their markets through continual marketing.

Clover has been a household name for more than a century and has played an integral role in the development of South Africa's dairy and fast moving consumer goods industry. Today, Clover is a high profile branded consumer goods and products group with core competencies in producing dairy and non-dairy beverage consumer products, distribution of chilled and ambient consumer products, and the sales and merchandising of consumer goods.

Clover regularly wins awards that confirms its status as a trusted household name. Some awards bestowed on Clover include:

- winner of South Africa RepTrak® 2016 most reputable company in South Africa award
- numerous 2016 SA Dairy Championships awards
- Product of the year 2016 winner: Tropika 200ml
- winner of Reader's Digest's Most Trusted Brands for 2015
- South Africa's leading Iconic Brand in the fresh milk, cream and cheese category for 2015 and milk, feta and condensed milk in 2016

Clover's market share in major dairy product categories was as follows:

	Clover's Percentage Market Share as at 30 June 2016
Fresh Milk	24,1
UHT Milk	14,4
Cream	28,8
Feta Cheese	28,0
Pre-packed cheese	23,8
Liquid custard	7,7
Processed Cheese slices	15,4
Pure Fruit Juice	42,9
Dairy Fruit Mix	79,3
Iced Tea	17,5
Bottled Water (Including Aquartz and Nestle)	10,9
Flavoured Milk	25,6
Maas	9,3
Yoghurt	8,3

Source: Nielsen Report 30 June 2016 (12 monthly moving).



### Cream

Clover cream is ultra-pasteurised to ensure a superior quality product with an extended shelf life. Clover aims to increase its market share in this segment by creating awareness and educating consumers on the multiple uses of cream. The packaging used for our cream products are dedicated to recipes and communication on all areas of cooking and baking where cream can be used.



### Fresh milk

Clover is the market leader in fresh milk. In order to maintain our number one position and reinforce our leadership, Clover focuses on differentiation and innovation, underpinned by superior quality, providing consumers with solutions that make their lives Way Better.



### UHT milk

The quality and goodness of UHT milk is kept fresh for longer due to the UHT (Ultra High Temperature) process and special packaging that allows the product to be stored for a period of nine months without refrigeration.



### Feta Cheese

Clover feta cheese is the second largest brand in the market and is competing for the number one position. In this extremely price sensitive market, Clover recognises that it is important to ensure pricing and quality are right. Further to this, Clover promotes feta in store to drive growth and profitability.



### Butter

Clover is the largest manufacturer of butter in the country. Clover is the market leader in this segment, including such well-known brands as Clover Mooi River salted butter, Clover Springbok unsalted butter and Butro butter spread. Clover butter is a natural product without any additives, artificial colouring or flavouring.





### Clover's range of cheeses

For over 100 years, Clover cheeses have been making mealtimes more delicious. This is because they are made according to the highest quality standards, with care and dedication. Clover is the market leader in the pre-packed cheese segment with Clover and Elite cheese sharing in this category. Clover's award-winning individually wrapped processed cheese is indicative of Clover's clear ambition to provide consumers with the highest quality, best tasting products. New Clover individually wrapped processed cheese slices are preservative free and made with great tasting, excellent quality ingredients. Sacca cheese enjoys great heritage as it has been available since 1914. Elite Gouda is the only gouda in South Africa that is made in the traditional way.





### Aquartz Natural Mineral Water

Aquartz is a natural mineral water bottled directly at source, to ensure the highest quality, purity and safety. The Aquartz water source is a naturally sweet mineral water that is low in salts. Aquartz is available in natural mineral water or in sparkling flavoured water options and is also complemented by a flavoured water range.



### Nestlé PureLife Mineral Water

Nestlé PureLife is a pure, still or sparkling mineral water that is bottled directly at its unique source. Its balance of minerals and crisp mouth sensation revives your palate and is pure hydration for the whole family.



### Danao

Danao is a dairy fruit mix drink containing real fruit juice and dairy with added vitamins A, B2, B12, C and Calcium. The brand focuses on the inherent goodness of fruit juice and dairy – “Double the Happiness”. A campaign is underway to broaden the appeal from being a breakfast drink to an all-day, any time refreshment with an extended consumer target market.



### Clover Life Nectar

Clover Life Nectar range offers consumers a delicious, refreshing juice nectar that is affordable enough to purchase regularly. Clover Life has always been a favourite in South African homes and occupies the number one position in the Fruit Drink/Nectar category.



### Tropika

Tropika is made from a combination of fruit juice and dairy, which results in a unique smooth tasting beverage. After 31 years in the South African market, Tropika is still the market leader and the bestselling dairy fruit mix beverage in South Africa.



### Manhattan Iced Tea

Manhattan Iced Tea is a non-carbonated beverage with a tea extract base and fruit flavour blends. Manhattan Iced Tea has three tea extract variants, black, green and white tea, which are then blended with a variety of fruit flavours or fruit blend combinations for a refreshing and tasty ready to go Iced Tea.



### Clover Krush

Clover Krush is a premium, 100% fruit juice blend, available in 10 exciting flavours and catering for the entire family. Clover Krush will ensure not only a great healthy alternative, but the delicious tastes of nature with uncompromising everyday goodness. No sugar or sweeteners are added to the juice and it is enriched with Vitamins A, C and E. Clover Krush is the market leader in the pure juice, short life fruit juice market.



### Super M

Super M is the coolest teenage flavoured milk. It is available in four great flavours: chocolate, strawberry, banana and cream soda. Where the competing market leading brand's strategy is based on flavour, offering a variety of flavours for each consumer, Super M decided to follow global trends and offer variety in pack sizes in the top four selling flavours.



### Condensed Milk

Full-cream sweetened condensed milk manufactured by Clover is prepared from standardised bovine milk and pure refined sugar. The product does not contain any preservatives except sugar.



### Clover Classic Custard

Clover Classic is a range of deliciously creamy, smooth yoghurt and ready-to-eat custard made with a unique Clover recipe. Clover Classic Custard comprises above 80% Clover Milk, with added Clover Cream, vitamins, protein and calcium.



### Amasi

Amasi (so called in Zulu and Xhosa, and "maas" in Afrikaans) is the common word for fermented milk that tastes like cottage cheese or plain yogurt. Clover brings the love for tradition into dairy with Clover Amasi. Clover's Maas recipe is rich and creamy to reignite the love in their customer's hearts with this cultural and delicious treat.



### Fruits of the Forest

Fruits of the Forest is a high quality, low fat, fruit yoghurt made with real fruit pieces. Its improved recipe now offers a creamier taste, bigger and crunchier fruit pieces than before, and 10 vitamins. Available in a variety of popular flavours and convenient packs, consumers can indulge in this 'fruitful' bounty any time of the day.



### Clover Classic Yoghurt

Clover Classic Yoghurt is made with more than 80% Clover Milk and is the only yoghurt in the market enriched with 10 vitamins. After its successful launch in January 2015, Clover Classic Yoghurt already achieved a market share of 9,2% in the Smooth Yoghurt category.

## FUTURE VALUE CREATION BY EXPANDING CLOVER'S BRAND BASKET



### Clover Nolac

Clover Nolac is an innovative, great tasting, quality milk product for lactose intolerant people and those avoiding lactose an easy to digest and nutritionally boosted product in an easy, convenient format. This product is also enriched with calcium and vitamin D, which are nutrients known to be lacking in the diet of a lactose intolerant person. Clover Nolac will be launched in September 2016 and will be available in Fresh and Long Life options.



### Clover Care

Clover Care Enriched Full Cream Milk is a quality tasting milk that is now enriched with vitamins, amino acids and minerals to give the whole family the nutritional boost they need to stay healthy. This innovative product delivers all the nutrients consumers are looking for in an easy, convenient format, without the expense of multivitamins. Clover Care is the first of its kind in South Africa and will be launched in September 2016. It is available in Fresh and Long Life options.





### Frankie's Olde Soft Drink

Clover Frankie's offers the current Frankie's range of carbonated soft drinks, ice lollies and hot chocolate to the market. The Frankie's product brings original, unique and innovative flavours to the already established Clover brand.



### Clover Numel

Clover Numel is the first product of its kind in South Africa which is a long life dairy blend of full cream or low fat milk, cream, whey powder and buttermilk powder with added vitamins and minerals. Numel is a product that will help consumers get more value for their money without losing out on quality. This product is ideal to use in cooking, baking, on cereals and in tea and coffee. This product was launched in June 2016.



### Clover "Sip Up" Drinking Yoghurt

Sip Up is a nutritious and trendy yoghurt that will help curb daytime hunger while providing all the nutrients for healthy bodies. The trendy bottle is convenient and practical, making it a great on-the-go snack. Sip Up is a great source of 10 vitamins, calcium and sustained energy all day long.

## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS (continued)

### Licence and memberships







Clover is constantly looking for ways to improve its business, methods and record keeping. Introducing state of the art systems to automate and gain further insight into business functions, enables Clover to be "Way Better".

The following table lists some of Clover's significant IT and systems licences:

Software	Description
BES Time	Time & Attendance Software
ERP LX, eRMS, ELKE	ERP System
SSL Certificates for external exposed systems	IT Security
KAS, Milk System	Application Development Software
Cognos	Analytics and Reporting
Heat & ITSM	Customer/Consumer call logging software
Exrillo	Export System
Dispatcher	Warehouse Management System
Startrak	Warehouse Management System (Small Branches)
D-BIT	Fixed Assets System
ION BI	Fixed Budget System
FTP Server	Integration
Brightstor	Backup Software
Sophos	IT Security
Email protection	IT Security
DB2Connect	Development software for Data Warehouse
Websphere Message Broker	Integration Software
Wonderware	Process Control Software
AutoCad	Design Software
Entropy	SHE Software
On-Key	Production Performance Software
Advanced Planner, Demand Planner, S&OP	Planning Software
Optima/Plato	Primary Distribution Software
Roadshow	Secondary Distribution Software (Route Optimisation)
BarnOwl	Risk Management



Clover's people are encouraged to join institutions that offer knowledge and networking. Clover, as an organisation, and our people belong and contribute to the following associations:

Capitals	Memberships or Professional Institutions
 Human Capital	Institute of Directors
 Natural Capital	Cape of Good Hope Agricultural Society Central Agricultural Society South African Juice Association Milk SA International Dairy Federation Global Dairy Platform (GDP) Dairy Sustainability Framework (DSF) International Farm Comparison Network (IFCN) South African Society of Dairy Technology
 Manufactured Capital	Engineering Council of South Africa National Laboratory Association South African Association of Food Science & Technology South African Institute of Professional Engineers The Institute of Packaging Chartered Institute of Purchasing and Supply
 Intellectual Capital	Consumer Goods Council of South Africa Law Society of South Africa
 Social and Relationship Capital	Health Professions Council of South Africa South African Reward Association
 Financial Capital	South African Institute of Chartered Accountants Chartered Institute of Management Accountants South African Institute of Professional Accountants



## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS (continued)

Clover's association with the following institutions supports and informs our internal corporate governance:

- The Institute of Risk Management
- Institute of Compliance
- The Institute of Internal Auditors
- Institute of Directors.

### Commercial sales

Clover stays ahead of changes in existing markets, while entering new markets and product categories. In summary, this is the ethos and strategy of Clover's Commercial Sales department.

In the Clover context, vertical growth is essential. We have made major improvements in assimilating customer insights, analytics and research. Our sales teams have introduced new concepts in selling, in which consumers are attracted to bigger basket buying and reward programmes that ensure sales right through until till point.

Clover's horizontal growth will be driven by improving structures and implementing new route-to-market methods, while building up support systems and processes. Our Masakhane project is a major driver of this process.

### FUTURE VALUE CREATION: IBM, LEADERS OF CHANGE AND INNOVATION

Collaboration with our customers is critical to maintaining close working relationships with our retailer partners. Clover has therefore embarked on a project with IBM, called Kolabo, to enable "well-informed" business decisions at all levels of management. The Kolabo project will enable Clover to make use of "big data" analytics to provide insights into market dynamics, consumption trends and the needs of our retailers.

### CLOVER MERCHANDISING IS "WAY BETTER!"

Clover presently utilises approximately 2 385 permanent merchandisers to service over 3 000 retail and wholesale outlets.

These merchandisers generally work a maximum of 45 hours per week, which may include some weekend servicing of clients.

Clover's merchandisers liaise closely with store management and Clover sales staff to ensure that our products are correctly placed in retail stores and are available at all times in the correct quantities.

In 2016, Clover continued to roll out the CAMPRO Project to improve and standardise the "way we worked". The CAMPRO project continues to yield results, prompting one of our major retailer clients to request using it for their own company processes.

### DISTRIBUTION FOR THIRD PARTIES

Clover leverages our standard setting distribution system to provide sales and/or distribution services to many leading companies, as listed on page 122.

### INFORMATION SYSTEMS

Clover's in-house Information Technology (IT) Department provides the digital backbone for all our management systems. Clover's IT governance and its independent assurance is outlined in the Governance, Risk and Compliance Report, on page 70.

Clover's Commercial Sales division and our IT department are working with IBM to implement an analytical platform for customer collaboration and data analytics. Once operational, this platform will be expanded to other business areas to provide improved analytics and business insights. In manufacturing, for example, improved analytics around machine maintenance can result in a major reduction in scrap, downtime and related costs. We could also align the system to Clover's HR and access control systems to generate savings from overtime management.

Clover is examining mobile solutions to automate and/or improve many routine operations. Smartphone and tablet applications

could speed up administrative processes such as credit notes, overtime, driver reconciliations and delivery turn-around times.

Clover is presently implementing an integrated Supply Chain Planning System to ensure that sales, production and logistics planning activities are synchronised and optimised for:

- improved order fulfilment
- reduced finished goods inventory levels and holding costs
- reduced raw material and packaging inventories
- less waste
- improved production throughput.

This system will enable improved tactical and forward scenario planning to make Clover more responsive to market dynamics, while also increasing our demand forecasting accuracy.

Clover continuously evaluates changing trends in technology to identify systems that can generate maximum value to our business, customers and shareholders. We are examining the adoption of cloud services, big data, collaboration, mobility and analytics for improving process efficiencies and enhancing customer experience. Our business is all about partnerships, therefore technologies should be introduced that will enhance and deepen these relationships.

### PRODUCT INNOVATION AND TECHNOLOGY

As the owner of numerous household brands, Clover needs to continuously refine its marketing strategy. We do this by acquiring or developing new value added products for integration into our brand portfolios. New products are developed by Clover's in-house Product Innovation and Technology Department (PIT), or through joint ventures. PIT constantly seeks to improve Clover's current product offerings by revising product formulations and packaging, with an emphasis on 'greener' alternatives. Ideally, these projects should also result in cost savings. PIT's project engineering section oversees the construction of new factories and production lines.



## SOCIAL AND RELATIONSHIP CAPITAL

### Clover Mama Afrika

#### GOOD CORPORATE CITIZENSHIP

Good business also means being accountable for our legal, ethical and economic responsibilities. Clover works to provide the profitability our shareholders expect, while aiming to improve the quality of life in the communities where we operate.

The Clover Mama Afrika Trust commenced 12 years ago, in 2004. Since then, Clover Mama Afrika has developed an enviable reputation as one of South Africa's most innovative, effective and sustainable corporate investment programmes, bringing tangible benefits to vulnerable people.

Clover Mama Afrika sets out to restore some of the finest African traditions into modern life, such as caring for one another, passing on skills and protecting the young, the weak and the aged, as well as HIV/Aids victims. Today, the Clover Mama Afrika project strongly emphasises assisting people in disadvantaged communities to help themselves so that they may regain their pride, establish self-sustaining livelihoods and become valuable members of their communities and to society at large.

At the heart of the programme are the carefully chosen mamas, who are already pillars of strength in their communities. Hand-picked by Clover, the mamas are outstanding community icons who empower others to also become community pillars. Clover Mama Afrika passes on essential skills such as cooking, baking, sewing, quilting, mosaic, egg laying projects, welding, hairdressing and food gardening, among others. Based on their skills, the chosen mamas receive tools, equipment and infrastructure needed to create incomes for their

communities. Over the last 12 years, Clover Mama Afrika has appointed 42 Mamas to collectively care for over 15 500 children and more than 2 500 elderly people.

#### VALUE DRIVERS OF THE CLOVER MAMA AFRIKA INITIATIVE

- **Skills selection centres:** Relevant, employable and marketable skills are aligned to the needs of each respective community to ensure that the centres become self-sustainable. After skill-training, Clover Mama Afrika provides start-up equipment to allow for immediate income generation and the passing on of skills.
- **Site improvement:** Clover Mama Afrika assists communities with repairs and renovations to needed infrastructure, such as ablution facilities. Mamas require the facilities to create safe havens for their charges.
- **Monitoring and Evaluation:** Clover regularly evaluates each self-help project to identify where interventions may be required to keep them on track.
- **Partners:** Clover Mama Afrika should ideally partner with other organisations and individuals to most effectively embed sustainability into the fabric of South African society.

Hugely important to the success of Clover Mama Afrika is the open-hearted attitude of the programme's corporate partners and sponsors. Professor Elain Vlok, Clover's manager of Corporate Services, drives Clover Mama Afrika with passion, dedication and insight. She believes that the programme's continuing success is built on a generosity of spirit that is the very essence of Africa's Ubuntu concept, which means "I am what I am because of who we all are".

Blue chip partners that contribute to the success of Clover Mama Afrika and co-fund 40% of its expenses include the:

- HCI Foundation
- Eqstra Flexi Fleet
- MiX Telematics.



*FLTR: Shirley Machaba, PWC's Southern Africa Board Chairman, The Honourable Susan Shabangu, Minister in the Presidency responsible for Women, Prof Elain Vlok and Colleen Larsen, CE Business Engage.*

On 1 September 2016, Clover Mama Afrika won the prestigious Gender Mainstreaming Award under the JSE listed category for Empowerment of Women in the Community Award.

"This accolade means a lot to us as it acknowledges our good work and we are truly proud. We were up against Vodacom and Barclays but took our award with pride and we will continue with this work Way Better all the way." says Prof Elain.

## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS (continued)

### SUSTAINABLE IMPACT OF CLOVER MAMA AFRIKA

Skills training	Clover Mamas/ members trained 2015	Clover Mamas/ members trained 2016	Operating Clover Mama Afrika centres 2015	Operating Clover Mama Afrika centres 2016	Skills transferred to fellow community members 2015	Skills transferred to fellow community members 2016	Employed members earning wages/ salaries as reported 2015	Employed members earning wages/ salaries as reported 2016
Sewing	115	121	26	22	1 707	1 757	60	61
Bread Baking Project	577	695	24	23	1 880	2 005	98	98
Cooking & Baking	84	97	22	21	970	1 072	53	53
Food Gardens	557	557	21	16	744	775	40	39
Quilting	48	50	13	13	333	345	18	18
Crochet/Knitting	28	28	16	14	570	569	15	15
Hairdressing	27	32	4	4	118	141	17	17
Pottery/New Earth pottery	1	1/6	1	1	20	24	3	3
Egg farming	12	14	3	4	45	42	9	6
Flower Arrangement	41	41	13	10	576	579	15	15
Beadwork	21	21	15	11	338	359	22	22

### ADDED VALUE SKILLS

Skills training	Clover Mamas/ members trained 2015	Clover Mamas/ members trained 2016	Operating Clover Mama Afrika centres 2015	Operating Clover Mama Afrika centres 2016	Skills transferred to fellow community members 2015	Skills transferred to fellow community members 2016	Employed members earning wages/ salaries as reported 2015	Employed members earning wages/ salaries as reported 2016
Art/Mosaic	40/0	40/7	23	21/11	574	618	17	17
Welding	8	9	7	5	0	24	0	0
Mobile phones/Save a Child	79/0	79/175	36/0	13/26	0	0	0	0
Basic Admin/Finance	45	49	27	27	0	0	0	0
<b>Totals</b>	<b>1 683</b>	<b>2 022</b>			<b>7 875</b>	<b>9 089</b>	<b>367</b>	<b>364</b>

\* Food gardens feed over 6000 members per day.



Clover Mama Afrika is an award winning example of sustainable and effective corporate social investment (CSI) that is making a real difference to the lives of many needy South Africans.

In this period of review, Clover received the maximum score under the Socio-Economic Development element of the B-BBEE balanced scorecard.

Clover remains committed to supporting Clover Mama Afrika.

### Record of sponsorship and charitable givings

Clover's sponsorship budget for the period under review was submitted and approved by executive management, which takes responsibility for tracking, accounting and reporting to our Social and Ethics Committee on all Clover's sponsorships, donations and charitable givings. Each business unit maintains

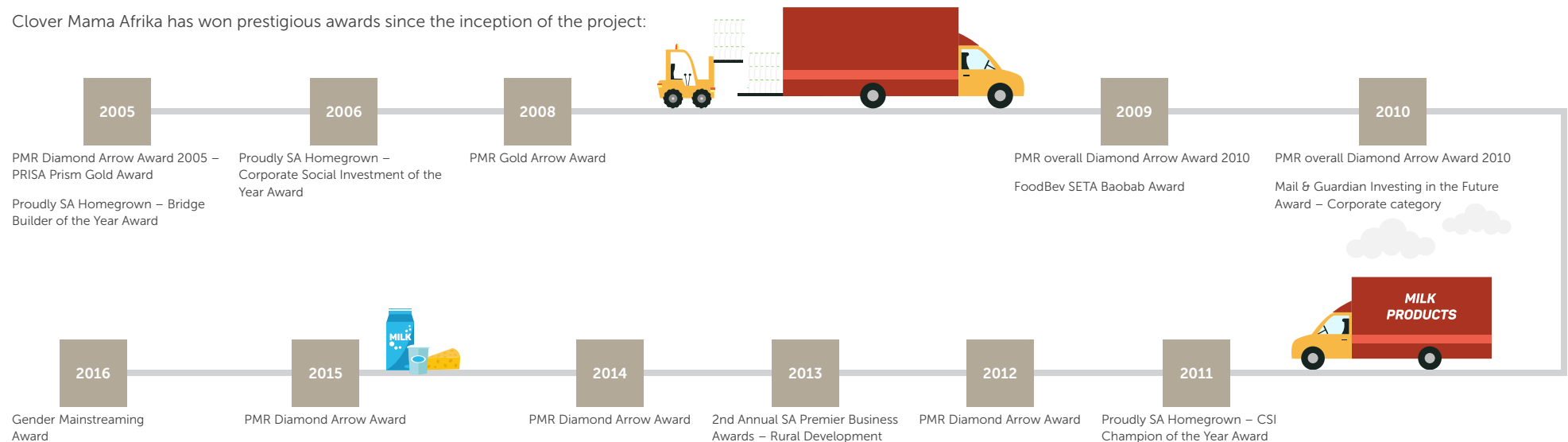
the documentation to enable transparent reporting. Clover provides sponsorships to earn brand awareness, corporate identity or consumer loyalty that is aligned with Clover's vision and mission. The accompanying table lists Clover's contributions to the Clover Mama Afrika project:

#### RECORD OF SPONSORSHIPS AND CHARITABLE GIVINGS (CMA)

	2015	2016
Education/Training/Skills Development	2 867 070	2 747 337
Infrastructure Development	1 458 855	849 101
Other charitable givings	869 461	995 467
Donation of Clover Products (gifts in kind)	95 588	606 889

### Awards

Clover Mama Afrika has won prestigious awards since the inception of the project:



## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS (continued)

### PAST, PRESENT AND FUTURE OF CLOVER MAMA AFRIKA

#### Started in 2004

with **4** Mamas caring for **1500** vulnerable children.

#### Trained 166

individuals in sewing, cooking and First Aid.

No jobs created until late **2005**.



YESTERDAY

#### 42 Clover Mamas

appointed in all 9 provinces caring for more than **15 500** vulnerable children and over **2 500** elderly.

#### Trained 2 022

individuals in no less than **15** skills.

#### 364 jobs created

and skills transferred to over **9 000** fellow members.

#### 16 Food gardens

are able to feed well over **5 612** people daily.

Clover Mama Afrika have received **20** prestigious awards



TODAY

#### To have more than 50

Clover Mama Afrikas **countrywide**.

#### More regular training

in selected skills that the Mama excels in.

#### A bigger budget

in order to spread the good work.

#### To continue supporting

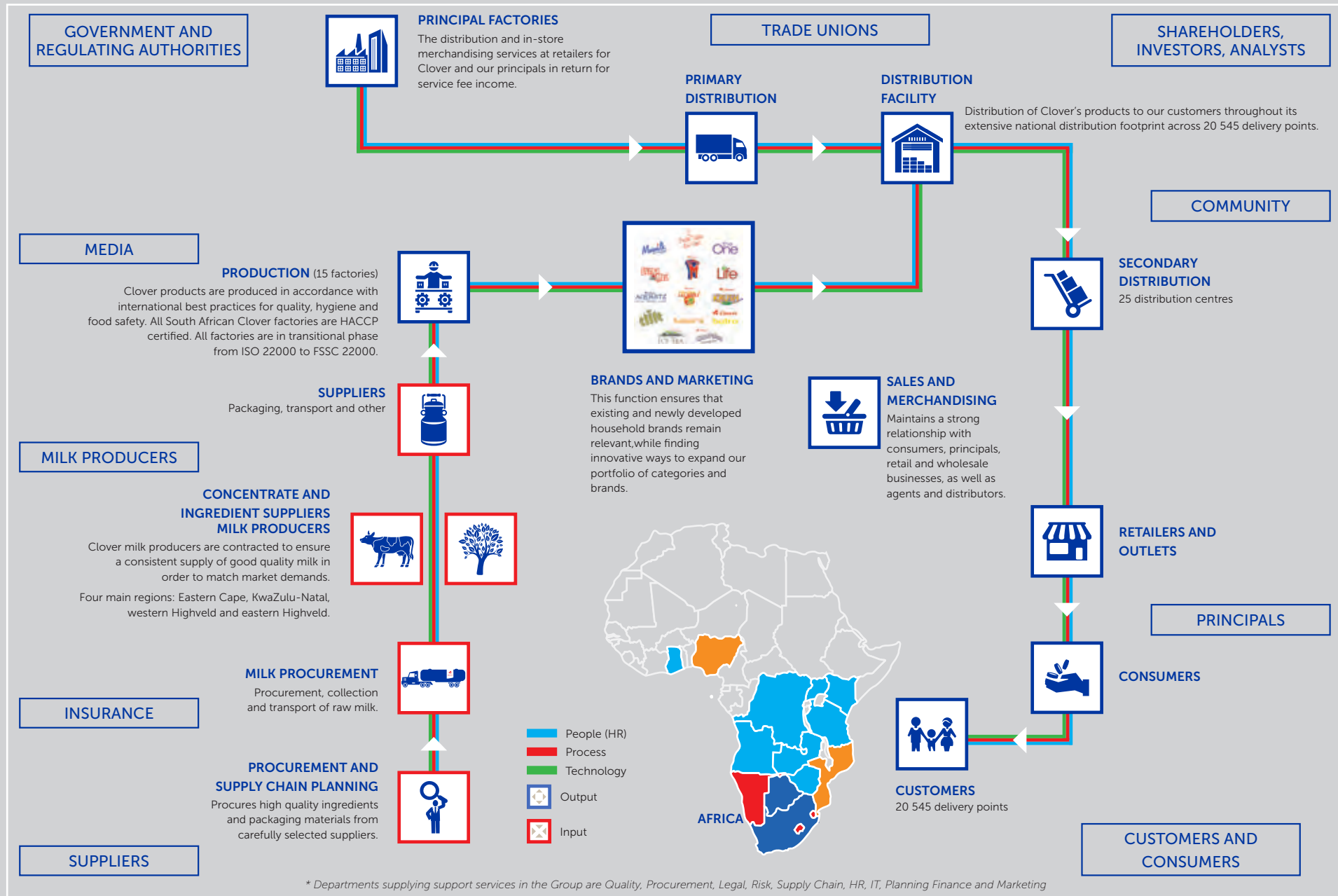
all deserving Clover Mama Afrikas to grow from strength to strength so that they can in turn **alleviate poverty** within their respective communities.



TOMORROW



## VISION AND MISSION






\* Departments supplying support services in the Group are Quality, Procurement, Legal, Risk, Supply Chain, HR, IT, Planning Finance and Marketing









## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS (continued)

### Governing stakeholder relationships/consumer relationships

Clover actively engaged with all our stakeholders throughout the year under review. We have identified and prioritised our material stakeholders and evaluated their interests.

As part of risk management, Clover considers how to engage with each recognised stakeholder group. Our most significant stakeholders are those that can materially influence the attainment of Clover's strategic objectives. These groups or individuals can be affected by Clover's actions and operations or their operations can materially impact on Clover's operations.

Stakeholder Group	How we engage with our stakeholders	Their contribution to value creation	What our stakeholders expect from us	What is key for our stakeholders	Method of governance
 <b>Communities, traditional and civic society</b>	Direct interaction through various corporate social investment initiatives and environmental campaigns in various communities	Participation with the community affords Clover the opportunity to understand their needs and to further align our business in a way that improves the lives of our communities at large	Ongoing commitment to our core strategic social investment initiatives adding to the wellbeing of the community	<ul style="list-style-type: none"> <li>consideration of community interests</li> <li>corporate social investment and donations</li> <li>preferential procurement policy</li> <li>Clover Mama Afrika</li> </ul>	Corporate Governance policies
 <b>Consumers</b>	Promotions and community-based initiatives, social media, Clover consumer centre, Consumer Goods Council	Loyal consumers continued support of their most admired brands and trusted products	Providing high quality and trusted products of their most admired brands in fulfilling consumers' needs	<ul style="list-style-type: none"> <li>research in gaining consumer insights in product categories</li> <li>regular communication on all core brands via social media</li> <li>effective consumer centre dealing with complaints and enquiries</li> <li>GDA table (Guideline daily amount) informs consumers of nutritional values in Clover products</li> <li>cost competitiveness of products</li> <li>food safety standards</li> <li>developing products seen as healthy alternatives</li> </ul>	Social media policy, Consumer crises policy, Competition Law policy, Product quality assurance programmes
 <b>Customers/ trade</b>	Meetings, conferences and workshops, CSC taking orders from trade	Extensive retailer footprint providing the basis for continued growth. Clover's brand expansion through retail expansion into Africa	Providing good quality products at competitive prices	<ul style="list-style-type: none"> <li>quality of products</li> <li>effective product stewardship</li> <li>effective merchandising services</li> <li>valued partnerships to drive efficiency and continued future growth</li> <li>promotional activities</li> <li>trading terms</li> <li>category expansion</li> <li>cost efficiencies</li> <li>ensuring optimum stock levels at retail outlets</li> </ul>	Service level agreements

Stakeholder Group	How we engage with our stakeholders	Their contribution to value creation	What our stakeholders expect from us	What is key for our stakeholders	Method of governance
  <b>Employees/ Management</b>	Intranet, CE briefs, management and general staff briefings, Corporate bi-monthly newsletter (In Clover), workshops and conferences, training programmes, notice boards, intranet communication and performance reviews	Employees acting in accordance with Clover's values of respect, integrity, fairness and responsibility form the foundation of our business. By providing timely business information and strategic information, Clover can put its strategy into action	A stimulating and gratifying work environment, while offering prospects to meet career growth aspirations	<ul style="list-style-type: none"> <li>• Health and safety</li> <li>• Ongoing training and development</li> <li>• Open communication between employees and managers</li> <li>• Transformation in line with EE Plan</li> <li>• Access to HIV counselling and employee wellness programmes.</li> </ul>	SHE Policy, EE Plan Employment policy
  <b>Government and regulating authorities</b>	Personal meetings, written and verbal communication, through business organisations, Parliamentary portfolio committees	Government gives us our licence to operate and provides the enabling regulatory framework	Continued contribution to the economic growth and social upliftment of the communities in which we operate. Exercise good corporate governance practices while ensuring compliance with all applicable legislation	<ul style="list-style-type: none"> <li>• Increased contribution to the South African economy, including job creation and youth development</li> <li>• Good corporate citizenship</li> <li>• Timely payment of taxes</li> <li>• Empowerment, transformation and adherence to the revised BEE Codes</li> <li>• Reduction of energy and water consumption</li> <li>• Disclosure and management of carbon emissions</li> <li>• Provide input on policy changes in the agricultural sector and food security.</li> </ul>	Public participation
 <b>Insurers</b>	Meetings and site surveys	Ensure Clover has insurance cover for potential loss events that would be material	Open and transparent communication enabling insurers to assess risk appropriately	<ul style="list-style-type: none"> <li>• Proactively ensure that sites conform to legislative requirements and best practice fire safety requirements.</li> </ul>	
  <b>Media</b>	Media statements and briefings, Social media pages and site visits	The media contributes in sustaining our brand reputation and increase awareness on new products, community development programmes and changes in our business strategy	Good Corporate Citizenship	<ul style="list-style-type: none"> <li>• Transparent and responsible reporting</li> <li>• Non-compliance to legislation.</li> </ul>	Protocol to respond to media set in social media policy
 <b>Milk producers</b>	Circulars, regional individual and group meetings with producers, media and the Clover producer forums	Clover's milk producers provide good quality raw milk used in manufacturing of our dairy products	A stable market for milk produced for delivery to Clover	<ul style="list-style-type: none"> <li>• Large fluctuations in milk prices</li> <li>• Increases in farm overhead costs</li> <li>• Land reform.</li> </ul>	Producer agreements

## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS (continued)

Stakeholder Group	How we engage with our stakeholders	Their contribution to value creation	What our stakeholders expect from us	What is key for our stakeholders	Method of governance
 <b>Principals</b>	Contract and service level agreements, meetings, transactional information integrated via respective ERP systems	Participation in growing the footprint of retailers while achieving economies of scale and reducing costs in the supply chain	Timely delivery of ordered product with professional in store merchandising	<ul style="list-style-type: none"> <li>• Clover not meeting the agreed upon service levels in distribution and merchandising activities</li> </ul>	Service level agreements
<i>Refer to Report on Governance, Risk and Compliance where this has been addressed.</i> <b>Shareholders, investors and analysts</b>	Investor presentations and road shows, circulars to shareholders, Integrated Annual Report, Annual General Meeting, Press releases, announcements and notifications through SENS, Clover website and site visits	Investors provide the financial capital necessary to sustain growth. Shareholders are encouraged to attend Clover's AGM to vote on resolutions and to discuss relevant issues with the directors and management	Providing sustained returns on investment by achieving business objectives through delivery on embedded strategy, sound risk management identifying strategic growth opportunities and good governance practice	<ul style="list-style-type: none"> <li>• Delivering consistently superior financial results for sustainable growth</li> <li>• Leadership and strategic direction</li> <li>• Seizing strategic opportunities</li> <li>• Policies and procedures ensuring governance i.e. ERM Policy</li> <li>• Corporate governance and ethics</li> <li>• Progress with project pipeline and future</li> <li>• Growth projects</li> <li>• Capital expenditure for current and future periods</li> <li>• Effective risk management process</li> <li>• Stable IT systems.</li> </ul>	Price sensitive information policy, Insider trading policy, ERM policy, Governance policy and Code of Ethics
 <b>Suppliers and service provider</b>	Supplier meetings, site visits, performance evaluation and audits, business association meetings	Our suppliers provide us with good quality raw materials and services that enable us to produce quality products for our consumers	Conducting business in a transparent manner that is mutually beneficial and sustainable	<ul style="list-style-type: none"> <li>• long-term security of supply</li> <li>• effectiveness of planned procure-to-pay process</li> <li>• preferential procurement</li> <li>• efficiency with imports.</li> </ul>	Procurement policies
 <b>Trade unions</b>	Regular meetings with trade unions and collective bargaining forums	To engage organised labour in a positive manner on matters affecting their members as well as other matters of mutual interest	Positive work relationships in dealing with matters sensibly during negotiation processes	<ul style="list-style-type: none"> <li>• Provision of competitive remuneration packages and safe working conditions</li> </ul>	Collective bargaining agreements

## Compliance with consumer relationship legislation

Regulation 43(5)(a)(iv) of the Companies Act (Act No 71 of 2008) requires companies to monitor their consumer relationship activities. These activities include Clover's advertising, public relations and compliance with consumer protection laws.

We manage our consumer relations through the Clover Consumer Centre (CCC), which deals with complaints and enquiries. Clover deploys expert consultants to manage queries and protect our brands, while ensuring compliance with the Consumer Protection Act.

During the year under review, Clover received 8 792 complaints of which 1 390 were accepted and 7 402 were rejected due consumers being at fault in handling products or products being mishandled at distribution or store level. This is a 11,7% decrease from the previous reporting period.

Type of call	Description
<b>Priority 1</b>	<b>Critical calls</b> Complaint which can: <ul style="list-style-type: none"> <li>• damage the image of Clover or the Clover brand name</li> <li>• threaten the health or safety of the consumer and/or Clover personnel</li> <li>• hold a contamination threat to the environment</li> <li>• result in a consumer suffering damages as a result of a Clover product</li> <li>• possibly result in negative publication in the media</li> <li>• possibly result in legal action against Clover</li> <li>• possibly result in the consumer referring the matter to the Consumer Council.</li> </ul>
<b>Priority 2</b>	<b>Client requests feedback in writing</b> The complaint receives urgent attention and the consumer is kept informed by the head of the Consumer Centre until such time as the investigation is completed and complies with the requirements of the consumer.
<b>Priority 3</b>	<b>Client wants to speak with manager</b> Complaints, which are not satisfactorily dealt with by the consultant and where the consumer insists on communicating with the head of the Consumer Centre, the complaint must be escalated for attention.
<b>Priority 4</b>	<b>Completed by consultants</b> Complaints are attended to by the consultant with the information at hand and no further escalation of the complaint/incident is necessary.

## Public and Investor relations

Clover's Corporate Services department is responsible for public relations. No Clover employee may comment or conduct any interviews with the media on behalf of Clover without the express permission of Marcelo Palmeiro, who is assisted by Company Secretary Jacques van Heerden and Prof Elain Vlok (Manager: Corporate Services) when required. With regards to Investor Relations, this function is delegated to Johann Vorster (Chief Executive), Elton Bosch (Chief Financial Officer) and Jacques van Heerden (Company Secretary), who are responsible for all investor communications. They are assisted by an independent and professional agency.

## ETHICAL OPERATIONS: REPORTING ON THE SIX CAPITALS (continued)

### Compliance with Consumer Protection Laws

Clover has taken proactive steps to be fully prepared for the application of the Consumer Protection Act (CPA). High-level induction programmes to key Clover individuals regarding the potential effect of the application of the CPA are ongoing. The process of establishing a CPA Centre of Excellence, which will enable Clover to maintain its commitment towards compliance with laws and regulations, is underway. The marketing department provides the Social and Ethics Committee with regular reports on its activities, enabling the Social and Ethics Committee to monitor compliance with the CPA. Furthermore, logs are maintained for any promotional and trade coupon promotions in line with the CPA. The Company Secretary together with the Group Manager of Product Innovation and Technology are responsible for the annual review of the company's compliance with regards to the following acts:

- the Consumer Protection Act
- Food stuff, Cosmetics and Disinfectants Act
- other labelling legislation
- various other acts that impact our stakeholders.

Please refer to the Report on Governance, Risk and Compliance where this has been discussed in detail on pages 70 to 80.

### Financial capital

For information on the financial capital, refer to the Chief Financial Officer's report on page 34 and the Annual Financial Statements that follow.

### Combined assurance

Although King III requires that sustainability reporting be independently assured, Clover has obtained partial assurance over the six capitals to the extent disclosed in the combined assurance framework in the table on the right. Clover intends enhancing our qualitative and quantitative information as systems are progressively bedded down. All material risks considering the sustainability of Clover's business model and in complying with Regulation 43 of the Companies Act, as well as King III, are incorporated into Clover's risk universe. These are monitored under Clover's risk management process as described more comprehensively in the Governance section.

Furthermore, legal compliance with Regulation 43 of the Act is described fully under the Six Capitals report, while compliance with Clover's regulatory universe is described under Compliance in the Governance section. All legal compliance falls under the supervision of the Company Secretary who ensures that the full regulatory universe is monitored. During the year under review, the Social and Ethics Committee monitored and addressed all lines of defence as depicted on the table on page 77. In the opinion of the Social and Ethics Committee, based on the information provided to it, the statements made in our report, fairly reflect Clover's standing.

## REPORT OF THE SOCIAL AND ETHICS COMMITTEE

The Social and Ethics Committee ("Committee") is a committee of the Board of Clover. Its membership and functions are set out in the report of Governance Risk and Compliance on page 70. As required by the Companies Act of 2008, the Committee has reviewed the information reported by management in the Report on the Six Capitals. In the opinion of the Committee the report fairly sets out Clover's standing in terms of the matters specified in regulation 43 to the Companies Act 2008 in respect of the year ended 30 June 2016 and will be presented to shareholders at the forthcoming Annual General Meeting.



**Ms Neo Mokhesi**







*Chairperson: Social and Ethics Committee*

12 September 2016



## COMBINED ASSURANCE ON SIX CAPITALS

In relation to the Six Capitals, Clover obtained external assurance against the respective capitals as described below:

Capitals	Internal Audit and Other Independent Assurance Providers: Clover's 3rd line of defence
 <b>Human Capital</b>	<ul style="list-style-type: none"> <li>• Clover was assessed as a Level 4 contributor in the last B-BBEE assessment performed by Net Value Holdings in respect of Clover's June 2015 year-end.</li> </ul>
 <b>Natural Capital</b>	<ul style="list-style-type: none"> <li>• External Safety, Health and Environmental legal compliance audits were performed at production and some distribution sites by SGS. These audits are performed every three years.</li> <li>• Internal audit conducted a readiness assessment on Clover's carbon emissions disclosure against sustainability framework guidelines, such as GRI.</li> </ul>
 <b>Manufactured Capital</b>	<ul style="list-style-type: none"> <li>• Clover adopted FSSC 22000 which the latest international standard for Food Safety and Quality Management systems. All factories are in transitional phase from ISO 22000 to FSSC 22000. Annual certification is performed by SGS.</li> <li>• All South African Clover factories are annually certified by SGS on HACCP standards.</li> <li>• SGS performed SIIR certification on behalf of the Botswana Government on all factories exporting to Botswana.</li> <li>• Clover engaged in independent third party audits performed by customers such as Woolworths, Kraft, Nestle, Unilever and others. These audits are performed against international food safety standards.</li> <li>• Clover was subject to SEDEX audits from our clients on an ad hoc basis on selected factories.</li> <li>• Internal safety audits were performed by Clover personnel and Makrosafe, covering all Clover distribution sites.</li> <li>• Marsh performed fire risk surveys over a three-year cycle of all Clover material sites.</li> <li>• External audits were performed on assets.</li> <li>• Internal Audit performed independent reviews on Production Inventory Management and the Production Process.</li> <li>• Property valuations are performed every three years by The Property Partnership. Replacement values from these valuations are used to adequately insure sites.</li> </ul>
 <b>Intellectual Capital</b>	<ul style="list-style-type: none"> <li>• Clover brands have won numerous accolades, confirming our status as a trusted household name.</li> <li>• Clover's portfolio of trademarks and patents are managed by Adams and Adams attorneys.</li> <li>• Internal audit provided independent assurance over the Risk Management Function.</li> </ul>
 <b>Social and relationship Capital</b>	<ul style="list-style-type: none"> <li>• Clover Mama Afrika positioned itself as a sustainable and effective CSI project, as evident from prestigious awards received, with the PMR Diamond Arrow award most recently received in 2015.</li> <li>• Clover received a full allocation of points on our Social Economic Development as assessed in respect of Clover's June 2015 year-end by Net Value Holdings.</li> </ul>
 <b>Financial Capital</b>	<ul style="list-style-type: none"> <li>• External auditors assessed management's representation over material internal financial controls.</li> <li>• Clover received an unqualified audit opinion by external auditors.</li> <li>• Internal Auditors performed various financial control audits and provided a statement on material financial controls and governance as required by King III.</li> </ul>

### 1ST LINE OF DEFENCE

- Management

### 2ND LINE OF DEFENCE

- Policies and procedures
- Internal controls
- Risk management
- Legal
- Regulatory compliance
- Management Executive Committee

### 3RD LINE OF DEFENCE

- Internal Audit
- External Audit
- Other external assurance providers

### 4TH LINE OF DEFENCE

- Board
- Board Committees  
(see diagram on page 72)

## MERCHANDISING –

- Clover has 2 385 permanent merchandisers placed in retail stores.
- The number of retail and wholesale outlets serviced by Clover amounts to 3 000.

