

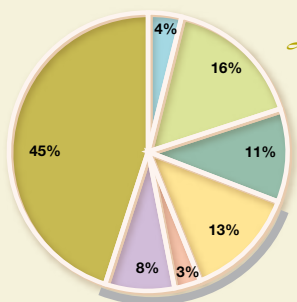
# Sustainability report

Illovo Sugar subscribes to the principles of sustainable development as incorporated in the King II Report and the process for reporting on non-financial matters within the group is the subject of ongoing development. The focus is on the care and development of both employees and the communities in the areas in which the group's operations are based.

Illovo qualified for inclusion in the JSE Limited's 2009 Socially Responsible Investment (SRI) Index and in addition to being rated as one of the 30 best performers in the high environmental impact category, was acknowledged for having been a consistent best performer for three years running. Best performers are described as those companies that have met the relevant required environmental threshold, as well as all applicable core indicators in the social and governance areas. Other than this assessment, the company's sustainability report has not been externally assured.

## ECONOMIC IMPACT

### VALUE ADDED STATEMENT



2010

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

During the current financial period, R3 114 million was created, which is 1% less than in 2009. Of this amount, R2 361 million was distributed to employees, providers of capital and to governments. Of the wealth created, 45% was paid to employees.

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

#### Wealth distributed

Employee costs
Finance costs
Dividends
Taxation

#### Wealth reinvested

Retained profit
Deferred taxation
Depreciation

Rm	March 2010	March 2009
<b>Wealth created</b>		
Revenue	8 468	8 602
Dividend income	4	2
Paid to growers for cane purchases	(2 510)	(2 735)
Manufacturing costs	(2 848)	(2 737)
	<b>3 114</b>	3 132
<b>Wealth distributed</b>		
To employees as salaries, wages and other benefits	1 380	1 481
To lenders of capital as interest	139	185
To shareholders as distributions	490	449
To governments as taxation	352	277
	<b>2 361</b>	2 392
<b>Wealth reinvested</b>		
Retained profits in holding and subsidiary companies	401	515
Depreciation	250	215
Deferred taxation	102	10
	<b>3 114</b>	3 132
Analysis of taxes paid to and collected on behalf of governments		
<b>Central and local governments</b>		
Current taxation (including secondary tax on companies)	309	229
Rates and taxes paid to local authorities	5	6
Customs duties, import surcharges and excise taxes	38	42
	<b>352</b>	277
<b>The above amount contributed excludes the following -</b>		
Employees' taxation deducted from remuneration paid	172	215
Net Vat amount collected on behalf of governments	160	126
Non-resident shareholders' tax	25	23
	<b>357</b>	364

The group continues to invest proactively in training and development and spent R31 million of direct costs in this area in the period under review.



## SOCIAL IMPACT

### Human resources

Human resource management and associated operational strategies are determined by the business needs of the group's operating entities with direction from the corporate office. Although operational responsibility rests with all levels of management, the setting of policies and the specialist determination of strategic direction is driven by the Human Resources Executive. The strategies appropriately embrace the macro-environment prevailing in each country of operation, and alignment is achieved through the group's strategic intent. Underpinning this, and to ensure that the operational strategies are met, is a work ethic of continuous improvement which encourages focused, skilled employees to realise their full potential and to 'make a difference' in their areas of operation.

As a multi-national organisation, employee communication is considered critical to the business and each year a Business Understanding Programme is presented to all employees, promoting an understanding of the prevailing business climate at both the group and operational levels. With diverse and widespread senior management teams in several operating countries, regular communication and executive-led site visits are also undertaken.

Key areas of human resource focus include workplace safety; best practice benchmarking; targeted manpower succession planning; talent and performance management; the maintenance of collaborative industrial relations; human resource development and business understanding; Black Economic Empowerment (BEE)-linked employment equity and localisation programmes; and the health and welfare of employees and their dependants. To this end specific attention is given to –

- the staffing of all operations within effective organisational structures, with competent personnel both from an operational and managerial perspective, in order to ensure that goals and objectives are achieved. Manpower benchmarking exercises are undertaken to ensure that structures are efficient;
- the continued focus on talent management and manpower succession planning, to develop and retain managerial and technical skills, especially within the group's identified key disciplines and positions;
- being the employer of choice. Remuneration packages which are merit-based and market-competitive in all countries of operation are reviewed regularly. Similarly, incentives such as performance-related bonuses, and share purchase and share schemes are utilised throughout the business and are up-dated to cater for specifically targeted outcomes;
- complying with internationally recognised labour practices as legislated in the various countries of operation and ensuring that sound employee relations prevail. Trade union involvement is an ongoing component of this process and some 80% of permanent employees are unionised. Collective bargaining forums, which determine the levels of wage rates and other substantive employment conditions via negotiated collective agreements, are established and supported by existing legislation in all countries of operation;
- training and employee development, which remains an important pillar for harnessing the group's human resource talent and potential. Activities are aimed at satisfying both the current and future business needs in terms of the available skills supply, whilst also supporting employment equity and localisation initiatives. The group invested approximately R31 million of direct costs in this area over the period under review,

# Sustainability report continued

The group operates 24 primary health care clinics and four hospitals across six countries of operation and during the past year recorded approximately 560 000 patient visits to these facilities.



representing 2.8% of payroll, of which some 6% was used for business alignment workshops, 48% for technical-type training, 33% for management, supervisory and leadership development, 6% for safety and health awareness and training, and the balance on education projects, including adult basic education type programmes. Employee development initiatives include –

- the implementation of internationally accepted safe working practices and health care programmes;
- the building of employees' understanding of the prevailing business context within Illovo. Approximately 23 000 employees attended the group-facilitated Business Understanding Programme during the year under review;
- the continued development and implementation of performance management systems, together with ongoing technical competency training which is linked to ISO 9001:2008 standards, along with individual career-pathing and operational excellence;
- the delivery of group-based management development programmes, aimed at both first-line and upper management. Some 510 managers completed these programmes during the reporting period;
- the support of 25 students, mainly from the engineering discipline, through their tertiary education by way of Illovo bursaries. Upon successful completion of their studies, these students are bridged into the Management Trainee Programme. At any given time during the year under review, there were some 60 graduates progressing through this programme;
- the provision of structured formal technical apprenticeships, with 110 employees presently enrolled in varied apprenticeship courses across the group;
- in South Africa, the opportunity for graduate accountants to continue their Chartered Accountant studies whilst in full-time employment by the company, whilst under the Training Outside Public Practice programme;
- the leveraging of operational best practice across the group.

## Employment equity

The company promotes equal opportunity and fair treatment in employment through the elimination of unfair discrimination. It encourages inclusiveness with regard to human resource practices, irrespective of race, gender, nationality or religious affiliation.

In South Africa, the annual Employment Equity and Income Differential reports, covering progress made with the company's Employment Equity Plan, a key pillar of its BEE programme, have been submitted to the Department of Labour and the Employment Equity Commissioner respectively. Progress continues to be monitored through a group Central Co-ordinating Forum which includes representation from local consultative forums which are in place at the various operations.

In respect of income differentials, in line with its policy of equal opportunity and fair treatment, the company does not have any cases of unfair income differentiation which are based on arbitrary grounds such as, but not limited to, race, gender and disability status. Where there are cases of differentiation, they are based on objective grounds such as job level or grade, occupational category, performance and collective bargaining outcomes.



Relevant statistics in respect of designated employees, as defined in South African legislation, are shown in the table below –

Representative areas	% designated	
	2010	2009
Management level	62	59
Skilled level	90	97
Promotions (management / skilled)	71	80
External recruitments (management / skilled)	66	78
Promotions (all levels)	90	92
External recruitments (all levels)	87	92
Combined recruitments & promotions (all levels)	88	92
Combined recruitments & promotions (management/skilled)	69	79
Skills development initiatives (permanent employees)	88	89
Management trainees	75	95

Particular focus continues to be given to designated appointments in the more senior levels of management. During the year under review, a shortage of technical skills in the market was experienced by the group in sourcing designated manpower in certain areas.

**Complement**

The group's overall permanent manpower complement as at 31 March 2010 was 12 031. The focus remains one of right-sizing operations to ensure that the correct organisational structures are in place, staffed by competent people with appropriate skills to meet the group's operational objectives. Employment was in the following categories –

Sugar manufacture	6 174
Agriculture	5 507
Downstream	350

In addition to the permanent complement, approximately 24 000 seasonal employees were engaged in agricultural operations at the peak periods during the year.

**Managed health care**

Access to health care is provided to all employees and their dependants, either through the network of group-run primary health care clinics and hospitals or through the provision of medical insurance schemes. Where no other public medical facilities exist, these services are extended to members of surrounding communities. The group operates 24 primary health care clinics and four hospitals. These facilities are staffed by 16 doctors, 150 nurses and other qualified medical staff, and 135 auxiliary personnel, and provide a service to approximately 32 000 employees and 70 000 dependants. In South Africa, the health facilities are clinic-based, and focus on occupational health, primary health care and HIV/AIDS, whilst in the operations in the rest of Africa, the facilities are hospital-based, and focus on primary and secondary health care, occupational health, HIV/AIDS and malaria and other tropical diseases. During the past year, there were approximately 560 000 patient visits to the group's health care facilities.

A holistic approach to the group's managed health care policy is adopted by providing public health services such as potable water, sanitation and refuse removal, where these are not provided by respective governments.

Occupational health is an important facet of the medical services delivered at every operating site. Qualified nursing practitioners perform duties that include regular job-related medical examinations, along with medical surveillance, such as hearing and lung-function testing and biological monitoring of employees, in line with the health and safety regulations of the respective countries of operation.

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

Strategies towards controlling the spread of HIV/AIDS include preventative awareness programmes along with an established in-house Wellness Programme for those afflicted. These programmes continue to be developed in accordance with appropriate 'best practice' aligned to international standards. They involve ongoing high-profile education and awareness campaigns, effective treatment and prevention of sexually transmitted infections, use of peer counsellors in the process of preventative activities and education, voluntary counselling and testing (VCT), use of prophylactic antibiotics, effective screening for tuberculosis, and the promotion of a healthy lifestyle.

# Sustainability report continued

A holistic approach towards the group's managed health care policy is adopted by providing public health services such as potable water, sanitation and refuse removal, where these are not provided by respective governments.



Determining the impact of any HIV/AIDS intervention is difficult, largely due to the confidentiality restrictions with respect to the testing and recording of the disease. However, the group recognises the importance of VCT as it enables individuals to become aware of their HIV status, empowering people to act safely and responsibly, and is therefore key to controlling the spread of the disease. To this end, the group continues to campaign for employees and their dependants to 'get to know their status' and in this regard, has set a target to test 50% of all employees annually. A further target has been set to ensure that at least 50% of HIV positive employees join the Wellness Programme. During the year under review, 5 508 employees underwent VCT. Excluding those who have been previously tested and identified as HIV positive, this represents 52% of the permanent complement. Of all employees who have tested positive, 61% have joined the group's Wellness Programme.

Government interventions relative to the provision of anti-retroviral treatment (ART) are closely monitored in all countries of operation. Where the group is requested to assist in the process, it is particularly important to ascertain the long-term sustainability of intended programmes and the role that the government medical facilities are expected to play –

- in South Africa, formal facilitation partnerships have been developed with those local government hospitals designated as HIV-ART centres, to allow employees and dependants on the Wellness Programme to be bridged into the government ART programme as and when their status for this treatment is medically necessitated;
- in Malawi, Zambia and Swaziland, the group assists in implementing the government-funded ART programmes at its mill-based medical facilities. Affected employees and dependants in Tanzania and Mozambique are presently being referred to government facilities.

In respect of malaria, the group subscribes to the African continent's recognised 'Roll Back' malaria programme, with mosquito control spray programmes and the distribution of insecticide-treated bed nets, being undertaken in the areas affected. This, together with established laboratory testing facilities, enables early detection and prompt commencement of effective treatment. Close liaison is maintained with national malaria control units and in some cases the group's health centres are recognised sentinel sites for the collation of malaria statistics and research. In the case of tuberculosis (TB), the group works closely with national programmes in this regard, and assists with the diagnosis, treatment and follow-up of TB cases where appropriate.

## **Employee benefits and welfare**

The group offers a diverse range of benefits to its employees, including –

- employee share purchase schemes in certain countries where the operating company is listed, enabling employees to acquire a stake in the business;
- retirement funding schemes, where elected employee trustees representing the interests of members assist with the prudent management of various funds;
- educational assistance which is extended to the children of employees in various forms, ranging from the provision of schools to the allocation of bursaries, grants and loan funding;
- upliftment of life skills of employees through the provision of Adult Basic Education and Training (ABET), retirement planning, HIV/AIDS education and counselling.

The group operates in diverse environments many of which are predominantly rural with significant development needs. During the year, the group contributed R144 million towards providing community needs, including community outreach programmes and education.



### Black Economic Empowerment

The group is conscious of its responsibility to progress Black Economic Empowerment (BEE) in South Africa and local economic empowerment in the host countries of Illovo's operations outside South Africa. The group has adopted an integrated approach which encompasses meaningful and sustainable participation of Black people at all operations and promotes participation of communities in the value chain of the sugar industry.

In South Africa, relative to the Codes of Good Practice on Black Economic Empowerment (the Codes), which were issued in February 2007 in terms of the Broad-Based Black Economic Empowerment (BBBEE) Act, 2003, for the year ended 31 March 2009, the company was audited by an external verification agency and was rated as a Level 5 Contributor, having attained an aggregate score of 59.14% (2009: 59.20%); comprising the component scores as reflected in the table below -

Element	Score (%)	
	2009	2008
Ownership Equity	<b>6.88</b>	6.88
Management Control	<b>1.72</b>	2.54
Employment Equity	<b>7.26</b>	5.12
Skills Development	<b>5.24</b>	8.63
Preferential Procurement	<b>18.04</b>	16.03
Enterprise Development	<b>15.00</b>	15.00
Socio-Economic Development	<b>5.00</b>	5.00

In the 2010 Financial Mail / Empowerdex Top Empowerment Companies report in South Africa, the company was ranked 67th overall and 6th in the food and beverages sector. In terms of the various BBBEE elements, Illovo was ranked 2nd on socio-economic development.

Particular attention is given to preferential procurement from and outsourcing to Black enterprises and service providers, including the development and support of outgrower schemes. During the 2009/10 season, revenue paid to small, medium and large-scale Black farmers for their cane supplies in South Africa delivered to four sugar mills, amounted to R198 million, which compares favourably with the R194 million paid to such growers during the 2008/09 season, when the company operated five mills.

Since the initiation of the programme for the sale of the company's farms to Black people in 1996/97, Illovo has sold 58% of its cane lands to BEE companies and commercial farmers.

To-date, in terms of the Restitution of Land Rights Act, 1994, land claims covering approximately 50% of the total areas under cane which supply cane to the company's mills in South Africa, have been gazetted. Most of these claims have been made on behalf of local communities which reside in the relevant areas. The process has been particularly protracted and many of the affected growers remain uncertain of their futures. Many of the claims are being contested by the growers. However, where such claims are successful or where growers willingly agree with the Department of Rural Development and Land Reform and / or the Commission on Restitution of Land Rights to make their farms available to the local communities, the company is actively

# Sustainability report continued

*Illovo engages with its relevant stakeholders on an ongoing basis and for example, provides regular opportunities for members of subsidiary company boards to visit the group's other countries of operation.*



involved in seeking to ensure that the properties concerned can continue to be farmed on a long-term sustainable basis.

## **Society**

The group operates in diverse environments many of which are predominantly rural, with limited infrastructure and significant development needs. These challenges are most evident in the countries of operation outside South Africa, four of which are classified by the United Nations as Least Developed Countries.

In line with the group's strategic intent as a long-term investor and a major player in these communities, an active social investment programme is in place at each of the operations and is structured to address the specific needs of the respective communities. During the year under review, the group contributed R144 million towards the provision of housing, including water, electricity, road maintenance and sanitation; hospitals and clinics; education; community outreach programmes; and environmental initiatives for the benefit of both employees and local communities.

This amount was directed as follows –

	<b>Rm</b>
Housing and related infrastructure	<b>72</b>
Hospitals and clinics	<b>40</b>
Education	<b>16</b>
Community	<b>12</b>
Environmental initiatives	<b>4</b>
<b>Total</b>	<b>144</b>

Community projects are considered on the basis that they are motivated by members of the local communities and designated company representatives. To gain company support, projects must be shown to be meaningful and sustainable, with significant community reach and participation.

## **Stakeholder engagement**

Illovo is cognisant that its long term sustainability objectives are supported by engaging with its relevant stakeholders to address matters of mutual interest, aware that its corporate reputation is based upon how well it performs compared with the legitimate interests and expectations of stakeholders. The type of stakeholders with which the group interacts and the nature of the interaction are products of the operating environment and consequently vary from country-to-country, but underscored by management's responsibility to maintain its visibility to and accessibility by its stakeholders. Generally, across the group, the key stakeholders have been identified as: employees; trade and labour unions; shareholders, investors, analysts and providers of capital; regulators; customers; raw material suppliers; suppliers and service providers; governments; local communities, traditional and civic society; sugar industry representative structures; trade and consumer bodies, amongst many others.



The forms of interaction are diverse, but specific to each stakeholder. For example -

Key Stakeholder	Type of interaction
Employees	Communication forums / management up-dates relating to company business, strategy, general announcements, etc; group-wide business understanding programme; internal bi-annual magazine; skills training and career development; induction programmes; marketing awareness and promotions; workplace forums; safety 'toolbox' sessions
Trade unions	Trade union business interaction; labour forums, such as bargaining councils
Shareholders, investors, analysts	Investor / analyst presentations; one-on-one meetings; site visits; regular operational and financial communications; annual general meeting
Regulators: The JSE Limited; Lusaka Stock Exchange and Malawi Stock Exchange	Ongoing communication and interaction – regulation, compliance, company information releases and announcements; annual SRI index (South Africa)
Customers	<i>Trade market:</i> Ongoing interaction with supermarket chains and wholesalers; promotion of sugar distribution and depot system amongst potential entrepreneurs; direct consumer stakeholder contact; involvement in community-based initiatives; support of annually sponsored sporting events <i>Industrial market:</i> Key customer interaction; focus on specific customer requirements; technical and operational support – annual "Cane to Sugar" course, ongoing liaison
Raw material suppliers – providers of sugar cane	Ongoing communication at both industry and local level with grower associations and member groups; operational discussions of mutual concern; contact through industry structures
Suppliers and service providers	Support of local industry suppliers; development programmes to identify and maintain strategic group suppliers; annual recognition of top performing suppliers via awards programmes; business and operational up-date meetings; negotiation of service level agreements
Governments	Ongoing discussion at industry and company level with government departments relating to sugar cane growing and milling, together with other departments dealing with land reform, rural development, etc; regular contact to up-date government representatives on state of ongoing business, strategy, capacity expansions
Communities, traditional and civic society	Strong identification and communication with communities surrounding operations relating to cane development, community / company projects of mutual concern; support of community-based social investment requirements; provision of community infrastructure and advocacy of community issues

The company participates in public policy development through sugar industry structures, tripartite business, labour and government public policy development structures, and other business associations. Its involvement in the facilitation of broader national strategic objectives continues through participation in organisations such as the National Business Initiative and the Business Trust (in South Africa), along with its membership across the group of other private and public forums to promote and facilitate the economic business landscape in the various countries of operation.

In its employment practices, the group remains committed to human rights and fair treatment of its employees in line with International Labour Organisation Conventions on employment, which in most countries of operation are also enshrined in the employment-related legislation. The group's employment policies are explicit in their commitment to equity ensuring that forced and child labour does not take place at any of its operations. Where potential exists for the contravention of these principles and policies by partner enterprises in the value chain, these enterprises are formally advised that the ongoing business relationship between them and the group is contingent upon them complying with these standards and norms.

As a consequence of this commitment to human rights and fair employment practices, for the year under review, the group did not have to pay any fines for non-compliance with relevant legislation in any of the countries in which it operates.

# *Sustainability report continued*

*The group has well-established and ongoing interaction with local small, medium and large-scale farming communities.*



## **Community and enterprise development**

In the countries of operation outside South Africa, the group participates in the upgrading of schools and assists in their administration and management in an effort to improve education delivery. There are 27 schools in five countries currently benefiting from this type of support. In South Africa, the company undertakes local community projects to improve facilities at schools in the communities in which Illovo has agricultural and manufacturing operations. It also supports education-related initiatives, such as Rally to Read, a literacy-based development programme co-ordinated by the National READ Educational Trust. Through the South African sugar industry, the company supports the Sugar Industry Trust Fund for Education which provides student bursaries, finances school building projects, works with community-based educational authorities to improve education standards and also provides ongoing financial support for tertiary educational institutions.

In addition to providing financial and other support for community-based welfare and fund-raising organisations, Illovo contributes to the South African sugar industry's social investment programme which operates in KwaZulu-Natal and Mpumalanga, and continues to contribute to the National Business Initiative and the Business Trust.

Job creation and poverty alleviation initiatives in the communities in which the group operates are actively pursued. This is achieved through the outsourcing of support services and other requirements which can be procured from local entrepreneurs. Cane development programmes are also encouraged by the group as revenue generated by deliveries from private growers, particularly those in rural, impoverished areas, promotes economic development and further enterprise development in the local communities concerned.

By way of cane delivered by private growers across the group to Illovo factories for processing, amounting to around 60% of total cane throughput, the group has well-established and ongoing interaction with local small, medium and large-scale farming communities.

The group continues to actively promote the development and support of indigenous growers. Dedicated offices have been established across all six countries of operation to provide agronomic expertise and advice on optimal agricultural management practices, together with ongoing training to build technical, financial and administrative competence in order that these growers are able to take charge of their own agricultural businesses. Illovo also assists in facilitating access to grant and other types of funding for both new and existing cane agriculture developments. In the year under review, total cane from indigenous growers, including community-based co-operative schemes, generated revenue of approximately R645 million for such growers.

## **General staff support and development**

In addition to the community and enterprise development initiatives, and to the employee development activities covered elsewhere in this report, there is a range of other types of support that the group makes available to its staff.

Illovo provides assistance to employees who wish to further their studies, where such further study is beneficial to both the employee and the group. Permanent employees of the group are assisted with the costs associated with secondary and tertiary education for their dependants. On the basis of academic ability as future employees, children of employees may also benefit from bursary schemes which the group offers to enable students to study at universities or equivalent institutions.

Enhancement of the employees' life skills is carried out through the provision of adult basic education and training, retirement planning, and HIV/AIDS education and counselling and wellness programmes.

*Risk management is an integral part of the Illovo business and the safety, security and preservation of its people and property are essential for the group's sustainable growth.*



The group continues to facilitate home ownership in South Africa and Swaziland in order that employees have a stake in the communities in which they live and work. Initiatives include the provision of home loan subsidies and the ongoing sale of company-owned houses.

#### TECHNOLOGY, RESEARCH AND DEVELOPMENT

In order to optimise the return from existing installed capacity, the group continues to benefit from well-established in-house resources which provide technical expertise in agricultural production and sugar and downstream product manufacture to all operations. A centralised core of expertise exists to ensure technical standards are optimized and maintained for both existing equipment and new agricultural and factory installations, and to keep abreast with technical innovations. This in-house function is also involved in investigating opportunities to expand the group's operations, and in the planning and implementation of approved projects.

Collaboration with regard to the application of new technology and energy and process performance optimization between the group's technical team and British Sugar plc, a fellow subsidiary of the holding company with responsibility for Illovo, is an ongoing function. This collaboration is expected to benefit the group in the longer-term.

Benchmarking to improve productivity and reduce unit costs is a major area of attention in all operations, with additional resources recently having been allocated to enhance operational performance and benchmarking across the group. Illovo is also participating in operational performance benchmarking and best operating practices within the British Sugar group.

The group benefits on an ongoing basis from research and development undertaken by the South African Sugar Milling Research Institute and the South African Sugarcane Research Institute. These organisations are funded by the member sugar industries which are represented on the respective boards of the institutes.

Illovo also has a dedicated team which pursues opportunities for the development and commercialisation of downstream products and new applications. In addition to its own resources, there is ongoing collaboration with both local and international research organisations, and contract work is outsourced when appropriate.

#### RISK MANAGEMENT

Risk management is an integral part of Illovo's business. The safety, security and preservation of its people and property are essential for the group's sustainable growth.

The focus of risk management in Illovo is on identifying, assessing, mitigating, managing and monitoring all known forms of risk across the group. Management is involved in a continuous process of developing and enhancing its comprehensive systems for risk identification and management. The risks to the business encompass such areas as the weather, world product prices, exchange rates, political and economic factors, legislation and national regulations, interest rates, people skills, and general operational and financial risks.

The major risks and their relevant mitigating and management strategies are the subject of the ongoing attention of the board and are given particular consideration in the annual strategic plan which is approved by the board.

Business continuity plans for all sites have been developed through a process of considering and assessing all possible major risks which may impact the business.

# Sustainability report continued

All the factory operations have been certificated under the ISO 9001:2008 quality management system, whilst the Merebank and Glendale distilleries have also achieved OHSAS 18001:2007 certification for health and safety.



The management of financial risk is covered under note 40 to the financial statements on pages 109 to 112.

The management of operational risk is a line function, conducted in compliance with a comprehensive set of group policies and standards to cover all aspects of operational risk control. Performance is measured on a regular basis by means of both self assessments and audits by independent consultants. In addition, the group promotes on-going commitment to the management and control of risk by participating in externally organised risk management and safety systems.

The NOSA Integrated Five Star System covering safety, health and environmental management is implemented at all the cane growing and factory operations. During the year under review, all operations were graded on the NOSA platinum star system, and were accredited with four star ratings.

The Disabling Injury Frequency Rate (DIFR) measurement of safety performance is used at all the group's operations, and is included as one of the 'line-of-sight' targets for the performance related bonus scheme. The target DIFR for the year under review was strengthened from 1.5 to 1.0, and this was achieved by all operations, apart from two, which however met the prior-year target.

Regrettably, three employees were fatally injured in work-related incidents during the past year. These unfortunate incidents, all involving vehicle accidents in the cane growing operations, were the subject of thorough executive investigation and appropriate remedial actions were taken so as to prevent a similar recurrence.

All the factory operations and the cane growing operations outside South Africa have been certificated under the ISO 9001:2008 quality management system. In addition, the Swaziland factory operation as well as the Merebank distillery have attained the environmental management ISO 14001:2004 accreditation, whilst Merebank and the Glendale distillery have achieved OHSAS 18001:2007 certification for health and safety.

In South Africa, the factory at Umzimkulu, the Noodsberg refinery and the Eston syrup plant have been certified under the Hazard Analysis and Critical Control Point (HACCP) food safety system. Certain of the other factory operations in South Africa, Malawi and Zambia are making progress towards this accreditation.

During the year under review, there were no significant health, safety or environmental penalties imposed on any of the group's operations.

Insurance cover on assets is based upon current replacement values. Consistent with the high standard of risk management, a substantial portion of risk is self-insured, at costs well below market premiums. All risks are adequately covered, except where the premium cost is excessive in relation to the probability and extent of loss.

## ENVIRONMENT

The underlying philosophy of Illovo's environmental policy is to continually look for ways to reduce the environmental impact of its operations by both the efficient use of natural resources and committing the group to continuous improvement.

The measurement of and reporting on environmental performance is guided by both the JSE's SRI Index and the Global Reporting Initiative (GRI) Content Index. Environmental performance data is collated from throughout the group and is externally verified and assured.

Key performance data reported includes energy usage, both sustainable and non-sustainable, water usage, waste-water, non-hazardous and hazardous waste, and packaging.



*It is significant that almost 90% of the group's power requirements are produced by its own installed electricity generating capacity from renewable energy sources such as bagasse and biomass.*



During the course of the year under review, Illovo commissioned consultants to undertake a group-wide study of sustainability issues so as to determine key performance areas and establish procedures to more accurately measure the group's environmental footprint. In addition, a carbon workshop was held in order to initiate a more informed and better co-ordinated strategic approach to the management of carbon emissions from the operations.

#### **Agriculture**

In respect of its agricultural operations, the group has adopted farming practices based on field conservation guidelines as advocated by the South African Sugarcane Research Institute, so as to ensure agricultural production on a sustainable basis with minimum impact on the environment. This includes the implementation of land use plans when developing new and re-establishing existing cane fields; the optimal placement of field and access roads; the most suitable method of field establishment so as to conserve soil and water; the protection of existing environmental features such as rivers, wetlands, catchment areas and indigenous forests; and the removal of alien vegetation.

In addition, sugar cane, upon harvesting, immediately recommences another growing cycle from its existing roots. This process called ratooning recurs until the sucrose content of the cane plant reduces below a predetermined level, whereafter replanting is undertaken. This generally takes place every eight to twelve years. The environmental benefit of this ratooning and replanting process is the significant reduction in the frequency of soil disturbance and the exposure to soil erosion.

Agricultural operations in South Africa are mostly rain-fed, thereby minimising the impact on subterranean water supplies, whilst in the group's other countries of operation, water for irrigation is supplied from secure water resources such as major rivers, lakes and dams.

The conventional practice of cane burning immediately prior to harvesting is conducted strictly in terms of industry guidelines. The adoption of "green cane harvesting" practices, without burning, takes place where feasible. This has the benefit of the leaves and the tops of the cane plant being left behind in the harvesting process, providing for moisture retention and nutrients for the soil, and offering potential as a renewable energy source as a feedstock for the sugar factory boilers. The use of the cane leaves and tops as biomass feedstock for the boilers, as a supplement for bagasse, has been successfully integrated into the sugar factory operations in Swaziland and Malawi.

#### **Sugar manufacture**

The process used for manufacturing sugar from sugar cane provides a unique sustainable advantage with minimal environmental impact. The fibrous residue remaining after the extraction of sucrose from sugar cane, bagasse, may be used as a bio-renewable energy source in sugar factory boilers to generate electricity. This electricity is capable of not only meeting the power requirements of the sugar factory, but may also be used for operating the irrigation systems used for cane growing, and for supplying administrative and domestic users and national grids.

Bagasse is used as a boiler fuel at all Illovo's sugar factories, and under normal operating conditions, the factories are self-sufficient in terms of electrical requirements, save that the downstream plant at Sezela relies on power from the national grid. Whilst the factories outside South Africa also supply power for cane irrigation, supplementary electricity supplies are required from external sources, particularly during the factory offcrop maintenance periods. Fortunately, these periods coincide with the rainy seasons, when there is a limited need for irrigation.

# Sustainability report continued

The unique process of utilising bagasse and biomass as an energy source also results in the group having minimal reliance on fossil fuels, such as coal, for its energy requirements. Coal usage within the Illovo group comprises only approximately 5% of total energy usage.

During the year under review, the group's sources of energy comprised -

Type	MWh	%
Bagasse	9 370 000	88
Coal	520 000	5
Electricity	360 000	3
Imported steam	160 000	2
Gas / oil / diesel	120 000	1
Biomass	108 000	1
Other sources	32 000	-
Total	10 670 000	

As reflected above, it is significant that 89% of the group's power requirements are produced by the group's own installed electricity generating capacity from renewable energy sources.

In South Africa, Illovo is presently monitoring its compliance with the recently promulgated Air Quality Act and, where necessary, the phased implementation of any new requirements will be undertaken.

Water comprises approximately 70% of the content of sugar cane. This water is released in the extraction process and recycled for use within the factory operations, thereby minimising the dependence of the factories on external water resources. The water which leaves the factory, representing less than 10% of the original volume, is tested in terms of its quality to ensure that it falls within the group's waste-water quality parameters, which are themselves adopted from national regulatory standards.

During the year under review, 72 500 tons of non-hazardous waste and 537 tons of hazardous waste were generated from the group's operations. Non-hazardous waste generally is released into registered landfill facilities whilst hazardous waste that cannot be recycled is designated for collection by registered waste removal companies for safe disposal.

## **Downstream**

As the major by-product of the sugar manufacturing process, molasses is used in several value-added downstream applications. In South Africa generally, the majority of molasses is used as a constituent of animal feeds and by the fermentation industry for the manufacture of ethyl alcohol. Illovo utilises a significant portion of its molasses output in the production of ethyl alcohol at its Merebank plant in Durban and its Glendale distillery near KwaDukuza.

At the Sezela complex on the KwaZulu-Natal south coast, various compounds in the bagasse are extracted to produce value-added downstream products, comprising furfural and its derivatives. The residual bagasse from this process is then routed back to the sugar factory boilers for steam and electricity generation.

The final waste water stream from the downstream plant takes the form of dilute acetic acid. A process for treating this waste water stream has been developed and currently treats around 25% of this final stream. The balance is currently discharged under permit from the Department of Water Affairs through an off-shore pipeline. It is intended to increase the treatment capacity of this plant.

## **General environmental protection and management**

The group has embarked on various initiatives across its operations to protect or where required to restore the environment and to limit any negative impact thereon, either as a result of its operations or from other factors. Practices vary from country to country, as do areas of focus.

In Malawi, the company has, in partnership with the Department of Forestry, embarked on a national indigenous tree planting programme and at Nchalo, continues to manage a dedicated natural area comprising a wide-variety of Malawi's endemic fauna and flora.



## PRODUCT RESPONSIBILITY

Illovo manufactures a range of sugar and downstream products. These products, which are derived from renewable resources, are sold into domestic and international markets. Illovo is committed to producing and supplying its products in a responsible manner that will –

- comply with relevant Safety, Health, Environmental and Quality (SHEQ) legislation as a minimum requirement, and strive for implementation of industry best practice;
- ensure that its products do not pose unintended hazards to health and safety;
- ensure that appropriate information is provided to the group's customers where appropriate;
- ensure that its marketing communication activities are conducted in a responsible manner;
- protect and respect the confidentiality of the group's customers;
- ensure that Illovo's integrated management systems address all aspects of its business and are regularly reviewed to continuously improve practice and performance in order to enhance stakeholder support and confidence in the manner in which the group conducts its operations.

### *Health and safety impacts of products*

Both sugar and syrup are considered non-hazardous and therefore do not pose a health or safety risk. Downstream products require careful handling and storage as some products could be considered hazardous. All products are generally supported by Material Safety Data Sheet (MSDS) documentation.

All Illovo production facilities have been certified under the ISO 9001:2008 quality management system. In South Africa, Illovo has adopted the Hazard Analysis and Critical Control Point (HACCP) food safety system for its packing facilities for pre-packed sugar and syrup. Certain of the other factory operations in South Africa, Malawi and Zambia are making progress towards this accreditation.

During the year under review, there were no incidents of non-compliance concerning the health and safety impacts of sugar and syrup. In respect of information requirements, the group's products are supported by MSDS documentation, together with certificates of analysis (COA's). These documents certify quality, in addition to recommended procedures relating to health, safety, storage and procedures required should a hazard occur. With regard to Illovo's downstream production, a number of products are accompanied by MSDS documentation and a product label describing pertinent information about the product. The MSDS identifies potential hazards associated with the product and provides information on what measures to take, if required, for first aid, fire-fighting and accidental release. Information is also provided on handling and storage along with other useful information.

During the year under review, there were no incidences of non-compliance with regulations and voluntary codes concerning product service information and labelling. In South Africa, Illovo is currently evaluating new labelling legislation to ensure that its consumer labels and packaging comply with the new regulations when the Consumer Protection Act, 2008, becomes effective in October 2010.

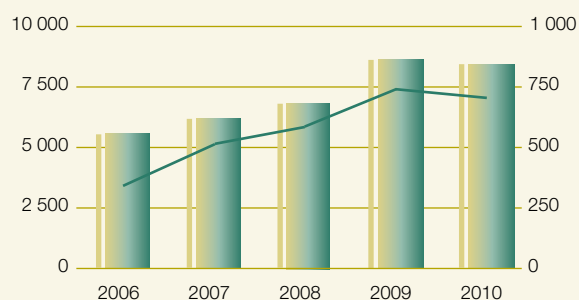
Illovo has a sugar customer care line facility in South Africa which is reflected on all sugar and syrup consumer packs. This allows consumers to contact Illovo and address any issues relating to product and/or service. The HACCP procedural document stipulates the manner in which customer complaints are required to be handled and resolved. Industrial customer support is provided by a specialised department, providing valuable assistance to the group's industrial customers across all countries of operation in respect of quality and technical support. Additional support is supplied through factory visits, presentations and educational workshops.

Illovo, together with its advertising agencies, subscribe to good marketing practices and the code of responsible advertising including the communication rules and guidelines as prescribed by the Advertising Association of South Africa. There were no incidence reports relating to marketing and communications during the year under review.

Illovo is not aware of any substantiated complaints regarding breaches of customer privacy nor of losses of customer data nor has it been subject to any significant fines for non-compliance of laws and regulations concerning the provision and use of products and services.

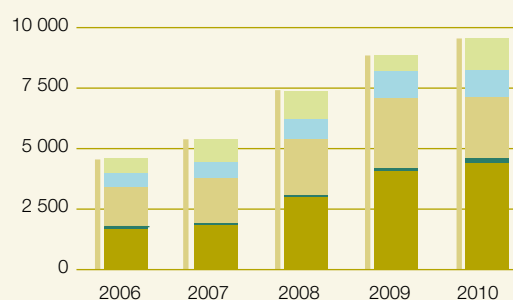
# Five year review

REVENUE AND HEADLINE EARNINGS (Rm)



Revenue  
Headline earnings

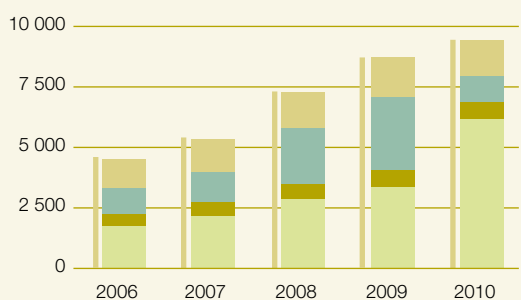
ASSETS EMPLOYED (Rm)



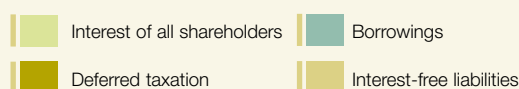
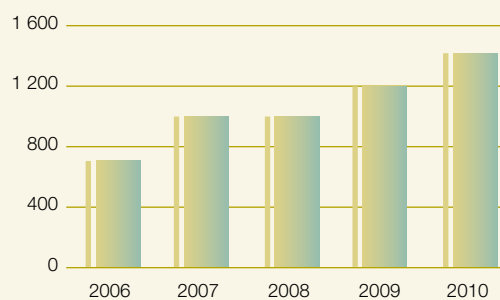
Property, plant and equipment  
Investments & loans  
Current assets  
Cane roots  
Cash and cash equivalents

Rm		Ten year compound annual growth % 2000-2010	2010	2009	2008	2007	2006
<b>Consolidated income statement</b>							
Revenue	8		<b>8 467.9</b>	8 601.7	6 794.1	6 263.6	5 468.8
Operating profit	9		<b>1 498.6</b>	1 386.2	1 064.5	1 034.3	751.5
Net financing costs			<b>139.0</b>	185.4	171.7	97.8	101.9
Profit before taxation and non-trading items			<b>1 363.5</b>	1 202.5	894.1	937.9	650.6
Profit attributable to ordinary shareholders			<b>662.0</b>	739.1	599.8	516.5	357.7
Headline earnings	10		<b>702.5</b>	741.8	599.6	515.3	352.4
<b>Reconciliation of headline earnings</b>							
Profit attributable to ordinary shareholders			<b>662.0</b>	739.1	599.8	516.5	357.7
Adjusted for:							
(Profit)/loss on disposal of property, plant and equipment			<b>(1.7)</b>	2.7	(0.2)	(1.2)	(5.3)
Loss on disposal of business			<b>27.9</b>	-	-	-	-
Impairment of investment in agricultural joint venture			<b>14.3</b>	-	-	-	-
Headline earnings			<b>702.5</b>	741.8	599.6	515.3	352.4
<b>Consolidated statement of financial position</b>							
Property, plant and equipment			<b>4 441.8</b>	4 087.7	3 014.5	1 841.0	1 704.9
Cane roots			<b>1 100.2</b>	1 132.3	821.7	661.6	589.1
Investments and loans			<b>180.8</b>	150.2	90.3	74.2	68.6
Current assets			<b>2 579.7</b>	2 894.2	2 336.3	1 891.4	1 633.5
Cash and cash equivalents			<b>1 345.4</b>	655.6	1 157.9	973.7	627.3
Total assets			<b>9 647.9</b>	8 920.0	7 420.7	5 441.9	4 623.4
Equity attributable to shareholders of Illovo Sugar			<b>5 502.6</b>	2 773.8	2 373.3	1 771.7	1 425.5
Non-controlling interest			<b>812.1</b>	671.2	555.6	456.6	388.0
Total equity			<b>6 314.7</b>	3 445.0	2 928.9	2 228.3	1 813.5
Deferred taxation			<b>685.8</b>	701.1	639.0	574.3	481.5
Borrowings			<b>1 132.2</b>	3 066.7	2 326.2	1 245.4	1 068.3
Interest-free liabilities			<b>1 515.2</b>	1 707.2	1 526.6	1 393.9	1 260.1
Total equity and liabilities			<b>9 647.9</b>	8 920.0	7 420.7	5 441.9	4 623.4

FUNDING OF TOTAL ASSETS (Rm)



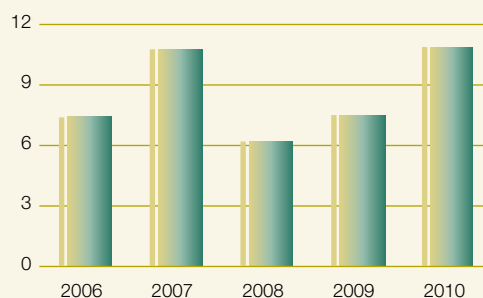
CASH OPERATING PROFIT (Rm)



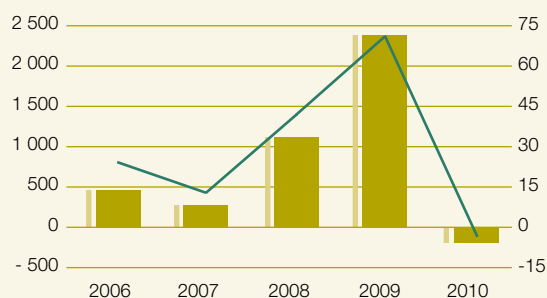
Rm	Notes	2010	2009	2008	2007	2006
<b>Consolidated statement of cash flows</b>						
Operating profit before working capital movements		<b>1 443.1</b>	1 206.9	1 055.0	1 058.7	710.5
Working capital movements		<b>(183.2)</b>	362.8	46.2	(61.0)	117.2
Cash generated from operations		<b>1 259.9</b>	1 569.7	1 101.2	997.7	827.7
Net financing costs		<b>(139.0)</b>	(185.4)	(171.7)	(85.2)	(101.9)
Taxation paid		<b>(304.2)</b>	(230.3)	(151.6)	(190.4)	(89.5)
Dividend income		<b>3.9</b>	1.7	1.3	1.4	1.0
Distributions/dividends paid		<b>(490.2)</b>	(449.2)	(386.9)	(334.2)	(150.9)
<b>Net cash inflows from operating activities</b>		<b>330.4</b>	706.5	392.3	389.3	486.4
Investment in future operations		<b>(897.6)</b>	(1 711.9)	(848.7)	(96.0)	(84.2)
Replacement of property, plant and equipment		<b>(181.1)</b>	(169.5)	(154.9)	(124.7)	(120.8)
Research expenditure		<b>(23.2)</b>	(33.9)	(20.8)	(17.2)	(14.5)
Acquisition of business		<b>(249.9)</b>	–	–	–	–
Proceeds on disposal of businesses		<b>118.7</b>	120.0	–	–	–
Other movements		<b>(82.6)</b>	(38.4)	(13.1)	30.4	43.9
<b>Net cash outflows from investing activities</b>		<b>(1 315.7)</b>	(1 833.7)	(1 037.5)	(207.5)	(175.6)
<b>Net cash (outflows)/inflows before financing activities</b>		<b>(985.3)</b>	(1 127.2)	(645.2)	181.8	310.8
Long-term borrowings (repaid)/raised		<b>(200.0)</b>	170.6	796.4	(16.4)	(15.2)
Short-term borrowings (repaid)/raised		<b>(1 226.6)</b>	482.0	(64.5)	130.2	(42.9)
Proceeds from issue of share capital net of associated costs		<b>2 956.7</b>	6.5	6.5	56.1	15.9
Other financing activities		<b>255.8</b>	–	(0.6)	(0.8)	(0.2)
<b>Net cash inflows/(outflows) from financing activities</b>		<b>1 785.9</b>	659.1	737.8	169.1	(42.4)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>800.6</b>	(468.1)	92.6	350.9	268.4
<b>Earnings and distribution/dividend per share</b>						
Earnings	1 cents	<b>161.4</b>	210.9	171.7	149.5	105.8
Headline earnings	2 cents	<b>171.2</b>	211.6	171.6	149.1	104.2
Distribution/dividend (interim - paid; final - declared)	3 cents	<b>86.0</b>	106.0	85.5	75.0	62.5
Dividend cover on headline earnings	4 times	<b>2.0</b>	2.0	2.0	2.0	1.7

# Five year review continued

INTEREST COVER (times)



NET BORROWINGS (Rm)



■ Net borrowings/(cash)  
— Net debt : equity ratio

	Notes	2010	2009	2008	2007	2006
<b>Profitability and asset management</b>						
Operating margin	%	<b>17.7</b>	16.1	15.7	16.5	13.7
Return on average shareholders' equity	5 %	<b>14.8</b>	28.6	29.9	32.0	27.2
Return on net assets	6 %	<b>21.9</b>	22.0	24.1	28.5	25.2
Return on total assets	7 %	<b>16.8</b>	17.1	18.6	21.3	17.1
Working capital per rand of revenue	8 cents	<b>12.6</b>	11.7	11.8	9.4	8.5
<b>Liquidity and borrowings</b>						
Net debt : equity ratio	9	<b>(3.4)</b>	70.0	39.9	12.2	24.3
Total liabilities to total equity	10 %	<b>53.2</b>	160.5	154.2	144.6	155.6
Current ratio	11 times	<b>1.8</b>	1.0	1.3	1.2	1.0
Interest cover	12 times	<b>10.8</b>	7.5	6.2	10.7	7.4
<b>Employee statistics</b>						
Total number of employees at year-end	13	<b>12 218</b>	12 457	12 266	12 617	12 886
Average number of employees		<b>12 338</b>	12 362	12 441	12 752	13 742
Revenue per average number of industrial employees	R000	<b>1 251.8</b>	1 249.6	991.9	894.9	756.4
Net assets per average number of employees	R000	<b>511.8</b>	278.7	235.4	174.7	132.0
Headline earnings per average number of employees	R000	<b>56.9</b>	60.0	48.2	40.4	25.6
Note: Agricultural employees are excluded from the calculation of revenue per average number of employees						
<b>JSE Limited statistics</b>						
Ordinary shares in issue	000	<b>460 160</b>	350 924	349 859	348 868	340 128
Weighted average number of shares	000	<b>410 279</b>	350 514	349 424	345 545	338 220
Net asset value per share	14 cents	<b>1 372.3</b>	981.7	837.2	638.7	533.2
Total volume of shares traded	000	<b>119 117</b>	79 492	80 160	379 040	190 879
Total value of shares traded	Rm	<b>3 650.4</b>	2 126.9	1 970.2	7 503.5	2 170.2
Ratio of shares traded to issued shares	times	<b>25.9</b>	22.7	22.9	108.6	56.1
Headline earnings yield at year-end	15 %	<b>5.8</b>	7.4	5.8	7.9	6.3
Dividend yield at year-end	16 %	<b>2.9</b>	3.7	2.9	4.0	3.8
Price : headline earnings ratio at year-end	17 times	<b>17.3</b>	13.5	17.3	12.7	15.9
Market price per share						
– year-end	cents	<b>2 970</b>	2 849	2 964	1 900	1 660
– highest	cents	<b>3 700</b>	3 500	3 115	2 100	1 700
– lowest	cents	<b>2 499</b>	1 710	1 850	1 531	725

**Notes –****1. Earnings per share**

Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.

**2. Headline earnings per share**

Headline earnings divided by the weighted average number of ordinary shares in issue.

**3. Distribution/dividend per share**

The 2010 distribution/dividend per share of 86 cents includes an interim dividend of 32 cents declared and paid out of distributable reserves and a final capital distribution of 54 cents declared out of share premium. For all other years presented, the distribution has been declared and paid out of distributable reserves.

**4. Dividend cover on headline earnings**

Headline earnings per share divided by distribution/dividend per share (interim - paid; final - declared).

**5. Return on average shareholders' equity**

Profit attributable to ordinary shareholders expressed as a percentage of average shareholders' equity.

**6. Return on net assets**

Profit before net financing costs and taxation expressed as a percentage of average net operating assets.

**7. Return on total assets**

Operating profit including income from investments, expressed as a percentage of total average assets excluding cash and cash equivalents.

**8. Working capital per rand of revenue**

Average of inventories and trade and other receivables less trade and other payables, divided by revenue.

**9. Net debt : equity ratio**

Interest-bearing liabilities (net of cash and cash equivalents) divided by total equity. A negative net debt : equity ratio indicates that the group is in a net cash position.

**10. Total liabilities to total equity**

Interest-bearing liabilities and other liabilities expressed as a percentage of total equity.

**11. Current ratio**

Current assets divided by current liabilities.

**12. Interest cover**

Operating profit divided by net financing costs.

**13. Total number of employees at year-end**

The total number of employees excludes those employed by associate companies.

**14. Net asset value per share**

Total assets less total liabilities divided by the number of shares in issue.

**15. Headline earnings yield at year-end**

Headline earnings per share as a percentage of year-end market price.

**16. Dividend yield at year-end**

Distribution/dividend per share (interim - paid, final - declared) as a percentage of year-end market price.

**17. Price : headline earnings ratio at year-end**

Year-end market price divided by headline earnings per share.

**18. Change in accounting policy**

Where a change of accounting policy is implemented with retrospective application, the previous two years are restated but all other years are not restated in the five year review.