

# Sustainability

## INTRODUCTION

Illovo subscribes to the principles of sustainable development and in this regard continues to build on the cane sugar sustainability model which is fully explained on pages 84 to 88 of this report. In particular, this model shows that presently, 89% of the group's energy requirements is produced from renewable energy sources.

Equally important, given the rural locations of its operations, the group provides much-needed employment and supply opportunities in regions of Africa which would otherwise be impoverished. By way of illustration, for the year under review, the group provided social benefits to its employees valued at R129 million, this being over and above the normal costs of production which would typically be found in the more developed sugar producing countries. In addition, from cane supplied to Illovo's factories, small-scale farmers across the group earned revenue aggregating R618 million, benefiting these growers directly and leading to significant multiplier effects within the associated communities.

This section of the Annual Report provides considerable information related to sustainability matters within Illovo. To enhance the group's commitment to and reporting on sustainability matters, during the year under review, the company commissioned external consultants to undertake a comprehensive investigation of all Illovo's sustainability practices and to report thereon to management. It is anticipated that this process will enable –

- management to better measure, monitor and manage key non-financial sustainability metrics;
- the company to further develop its sustainability reporting, it being the intention to report against the Global Reporting Initiative's (GRI) G3 Guidelines in the 2012 Annual Report;
- the use of the services of an independent verification agency to provide assurance in respect of the sustainability report.

Illovo qualified for inclusion in the JSE's Socially Responsible Investment (SRI) Index in 2010, for the fourth consecutive year.

# Corporate Governance

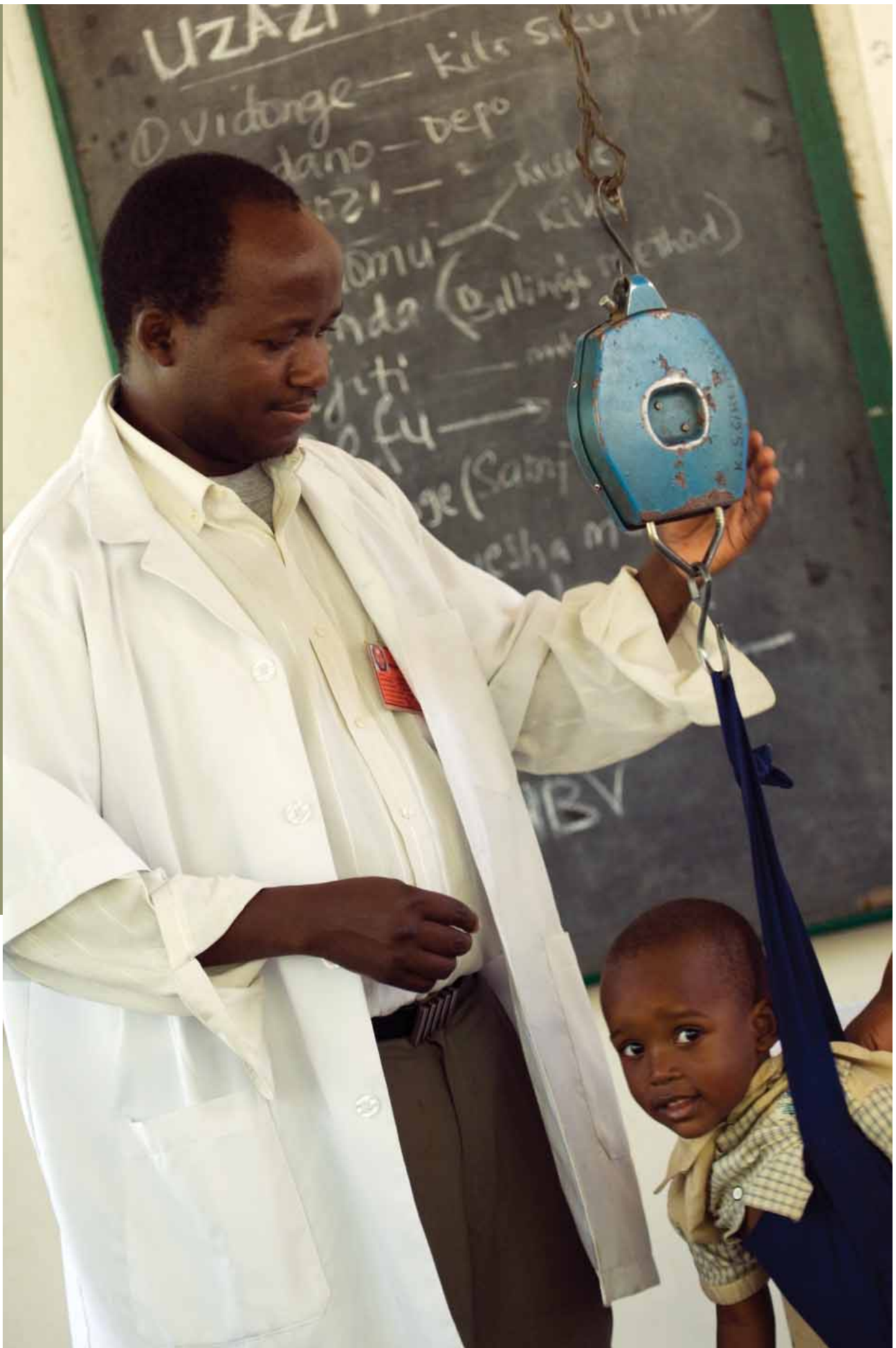
## Introduction

The directors and employees of Illovo strive to ensure that the company is managed in an efficient, accountable, responsible and moral manner. In this respect, the board of directors (the board) and executive management given ongoing consideration to developments in the field of corporate governance and ensure implementation within the group to the extent determined as appropriate.

The board subscribes to the principles comprising the King Code of Governance for South Africa 2009 (the King III Code) and the requisite apply or explain approach has been initiated in this report. A compliance assessment is included on pages 62 and 63 of this report, incorporating relevant explanations where applicable.

The company complies with all the requirements concerning corporate governance contained in the Listings Requirements of the JSE Limited.

Whereas, for the financial year under review, ended 31 March 2011, the Companies Act, 1973, as amended, was applicable, this Act was replaced with the Companies



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Act, 2008, as amended, with effect from 1 May 2011. Consequently, forward-looking matters, such as those to be submitted to the shareholders at the forthcoming annual general meeting, are considered in terms of the new Act.

### The Board

The company has a unitary board of directors which comprises a majority of non-executive directors. Similarly, the majority of the non-executive directors are independent. The present composition of the board is shown in the table below:

Directors	
Non-executive, independent	<b>7</b>
Non-executive	<b>4*</b>
Executive	<b>4</b>
<b>Total</b>	<b>15</b>

\* Three of the non-executive directors are appointed by the holding company

Non-executive directors are chosen for their business acumen and skills pertinent to the business of the group, and meet the criteria of the King Report on Governance for South Africa 2009 (the King III Report). Brief curricula vitae of all the directors are included on pages 12 and 13 of this report.

The independence of the non-executive, independent directors is assessed on an annual basis by the Remuneration/Nomination Committee, which provides an appropriate report-back to the board.

The board is ultimately responsible for ensuring that the business is a going concern, and to this end effectively controls the group and its management and is involved in all decisions that are material for this purpose. The board functions in terms of a formal Board Charter which, in particular prescribes that the board takes responsibility for:

- exercising leadership, enterprise, integrity and judgement in directing the company so as to achieve its Strategic Intent, and goals and objectives;
- acting as a focal point for and custodian of corporate governance;
- approving the strategic direction, and the goals and objectives of the company; always appreciating that strategy, risk, performance and sustainability are inseparable;
- ensuring that the business is a going concern, and being involved in all discussions which are material for this purpose;
- considering and approving annually the company's strategic plan and its operating and capital budgets;
- considering and approving all material investments, and acquisitions and disposals of business activities;
- defining and monitoring levels of materiality, reserving specific powers to itself and delegating other appropriate matters to the relevant board committees and/or management;
- determining the terms of reference of the board committees, and appointing or recommending the appointment of, as the case may be, the members of such committees;
- being satisfied that appropriate policies, procedures and practices are in place and are duly observed;
- identifying and monitoring the non-financial sustainability issues relevant to the business of the company;
- ensuring that the company maintains and develops good corporate governance standards;
- the governance of risk; identifying and monitoring the company's key risks and key performance indicators;
- being satisfied that:
  - there is due compliance with all risk-related policies, procedures and standards; and
  - internal controls are effectively maintained and, where necessary, reviewed;
- ensuring that the company has an effective internal audit function;
- information technology governance; being satisfied that the technology and systems used in the company are appropriate to its business needs;
- ensuring that the evaluation of the board, its committees and individual directors is undertaken on an annual basis;
- endeavouring to ensure that the company complies with all relevant laws, regulations and codes of business practice;
- overseeing the preparation of and approving the company's annual financial statements, and ensuring that disclosures in the Annual Report, particularly those pertaining to sustainability matters, are adequate and meet regulatory requirements;
- approving the company's interim and final results announcements, and determining distributions to shareholders;
- ensuring that:
  - succession planning is undertaken;
  - the remuneration strategy of the company is appropriate to the business; and
  - remuneration levels of directors and senior management are appropriate;

- recommending to shareholders at the annual general meeting, the level of fees payable to the non-executive directors; and
- ensuring that there is effective communication with the company's shareholders and other key stakeholders.

For the period under review, the board satisfied its responsibilities in compliance with its Charter.

The board has defined and monitors levels of materiality, and has formally documented matters which it has delegated to the board committees and management.

The roles of the chairman and the chief executive are separated and the chairman is a non-executive, independent director. The chairman is elected/re-elected by the board on an annual basis, on recommendation by the Remuneration/Nomination Committee.

New appointments to the board are subject to the recommendation of the Remuneration/Nomination Committee and formal approval by the board. The appointments of new directors are subject to confirmation by shareholders at the next annual general meeting following their appointment.

At each annual general meeting of shareholders, not less than one-third of the directors must retire, being those directors longest in office since their appointment or last re-election, and may, if available, be proposed for re-election. The Remuneration/Nomination Committee conducts an assessment of the performance of each of the retiring directors who make themselves available for re-election and submits its recommendations to the board. In turn, the board makes appropriate recommendations to the shareholders for the re-election of directors.

The members of the board undertake annual evaluations of the performance of the board and the chairman of the board.

The company provides insurance cover for directors' and officers' legal liabilities.

The board has six regular meetings a year. In addition, there is provision in the company's Articles of Association for decisions taken between meetings to be confirmed by way of directors' resolutions. In the past year, six meetings were held, attendance at which is reflected in the table below.

#### Attendance at board and committee meetings during the year ended 31 March 2011

	Board		Audit Committee		Remuneration/ Nomination Committee		Risk Management Committee		Annual general meeting	
	A	B	A	B	A	B	A	B	A	B
Carr M I	6	6			4	4			1	1
Clark G J	6	6					2	2	1	1
Connellan B P#	2	2							1	1
Hankinson M J	6	6	3	3	4	4	2	2	1	1
Haworth D L*	1	0								
Konar D	6	6	3	3					1	1
Lister P A	6	5							1	0
MacLeod D G	6	6	3	x3	4	4	2	2	1	1
Madi P M	6	5			4	3			1	1
Molope C W N	6	4	3	2					1	0
Mpungwe A R	6	5					2	1	1	1
Munday T S	6	6					2	2	1	1
Pike R N	6	6	3	x3			2	2	1	1
Riddle L W	6	6							1	1
Shaw M J#	2	2	2	2	2	2			1	1
Stuart B M	6	6					2	2	1	1
Williams R A	6	6	3	3	4	4	2	+2	1	1
Zarnack K	6	6					2	2	1	1

Column A indicates the number of meetings held during the period the director was a member of the board/committee.

Column B indicates the number of meetings attended during the period the director was a member of the board/committee.

# Retired on 21 July 2010

\* Retired on 31 May 2010

x Participation in his capacity as a non-independent, non-executive director as an attendee

+ Participation in his capacity as chairman of the board as an attendee

The relevant interests of directors are considered at each meeting of directors, and individual directors declare their specific interests in any discussions in respect of which the director concerned might have a conflict of interest.

In addition to having access to the advice of the company secretary, members of the board may, in appropriate circumstances, take independent professional advice at the company's expense.

#### **Board committees**

For logistical reasons, meetings of the various committees, as identified below, take place immediately prior to board meetings. Consequently, the chairmen of the committees provide verbal report-backs to the relevant following meetings of the board. The members of the committees undertake annual evaluations of the performance of the respective committees.

#### **Audit Committee**

The responsibilities and activities of the group Audit Committee are covered in the Audit Committee Report on pages 98 and 99 of this report.

Audit committees are also established and operational at each of the operating subsidiaries.

#### **Remuneration/Nomination Committee**

The responsibilities and activities of the Remuneration/Nomination Committee are covered in the Remuneration Report on pages 64 and 65 of this report.

#### **Risk Management Committee**

The company's Risk Management Committee presently comprises five non-executive directors, three of whom are independent and one of whom is the chairman of the committee, three of the executive directors and five members of senior management. The directors and Executive Committee members of the Committee are indicated on pages 12 to 15 of this report. The Committee is presently chaired by Mr D G MacLeod, and upon his appointment as chairman of the board in July 2011 will be chaired by Mr R N Pike.

The Committee has formal terms of reference approved by the board. The Committee is responsible for reviewing the company's risk philosophy, strategy and policies, and ensuring compliance with such policies; reviewing the adequacy and overall effectiveness of the company's risk management function; ensuring the implementation of an ongoing process for risk identification, mitigation and management; ensuring the establishment of a comprehensive system of controls; pursuing measures for increasing risk awareness throughout the company; reviewing any significant legal matters; and reviewing the adequacy of insurance coverage. The Committee gives particular focus to operational risks, including health and safety and compliance with the legislative and regulatory requirements in each country of operation.

The Committee meets at least twice a year. In respect of the past year, two meetings were held, attendance at which by the director members is reflected in a table on page 59 of this report. For the period under review, the Committee satisfied its responsibilities in compliance with its terms of reference.

#### **Executive Committee**

The executive directors along with the executives responsible for human resources, corporate affairs and continuous improvement constitute the Executive Committee which meets on a weekly basis to review operational performance, capital programmes and other relevant issues. In addition, consideration is given to major investment and capital expenditure proposals as well as issues of strategic importance to the group, for recommendation to the board. Furthermore, the daily involvement of the members of the Executive Committee with operational and functional executives ensures the interactive nature of the overall management reporting structure. The members of this Committee are indicated on pages 14 and 15 of this report.

#### **Company secretary**

The board considers the company secretary to be qualified to perform his duties in accordance with applicable legislation and to be fit and proper for the position. All directors have access to the advice and services of the company secretary.

#### **JSE Sponsor**

J P Morgan Equities Limited acts as the company's Sponsor in compliance with the JSE Listings Requirements.

#### **Management reporting**

The group has established comprehensive management reporting disciplines which include the preparation of annual strategic plans and budgets by all operating entities. Results and the financial status of operating entities are reported monthly against approved budgets and compared to the prior year. Profit and cash flow projections are reviewed regularly, whilst working capital and borrowing levels are monitored on an ongoing basis.

#### **Financial statements**

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

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the Companies Act, 1973, as amended. They are based on appropriate accounting policies which have been consistently applied, except when otherwise stated, in which case full disclosure is made.

**Going concern**

The directors believe that the business will be a going concern in the year ahead. The auditors concur with the opinion of the directors.

**Internal control**

The group maintains internal controls and systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability for its assets. Such controls and systems are based on established policies and procedures and are implemented by trained personnel with an appropriate segregation of duties. The effectiveness of these internal controls and systems is monitored in a number of ways, as set out below, dependent upon the particular circumstances:

- the aid of internal control checklists;
- the establishment of defalcation reporting procedures;
- the functions of the internal audit department; and
- adherence to performance standards.

The purpose, authority and responsibility of the internal audit department are defined in a formal charter approved by the Audit Committee and the board. The department functions as an independent appraisal activity established to conduct reviews of operations and procedures, and to report findings and recommendations to company management, the Audit Committee or the board as may be appropriate. The head of the department reports functionally to the chairman of the Audit Committee and administratively to the corporate affairs director, and also has unrestricted access to the chief executive, the Audit Committee, and the chairman of the board.

The independent auditors, through the audit work they perform, confirm that the abovementioned monitoring procedures have been implemented.

Nothing has come to the attention of the directors or the independent auditors to indicate that any material breakdown in the functioning of the abovementioned internal controls and systems has occurred during the year under review.

**Information Technology (IT)**

The board has assigned the responsibility of monitoring IT governance to the Audit Committee.

The introduction of King III has a number of implications for the management of IT. Management has conducted an analysis of the implications of the relevant chapter of King III relative to its IT management philosophy, and is currently engaged in appropriately enhancing its governance framework and processes.

**Ethics**

It is a fundamental policy of the company, embracing all group operations, to conduct its business with honesty and integrity and in accordance with the highest legal and ethical standards. The company has established a Code of Conduct and Business Practices, determining the minimum standards required of all staff, which is disseminated throughout the group and reviewed annually by the Executive Committee. The Code prescribes, inter alia, that the company shall not make political contributions. All managers are required to give written agreement to this Code. In any instance where ethical standards are called into question, the circumstances are investigated and resolved by the appropriate executive.

"Crimeline" facilities, inviting people from within and outside the company to anonymously report any wrong-doings are operated by independent forensic accountants, and all matters arising are then appropriately investigated and reported upon.

**Compliance**

The board endeavours to ensure that the company and its subsidiaries comply with all relevant laws, regulations and codes of business practice. To this end, the heads of each operational subsidiary, in the six countries in which the group operates, are required to provide written confirmation on an annual basis to the Risk Management Committee, that such subsidiaries and their employees have complied with all relevant laws, regulations and codes of business practice during the period under review.

To further bolster this aspect of the business, a new position of Group Compliance Manager has recently been established to give specific focus to the various requirements across the group.

**INSIDER TRADING**

The company has a code of conduct for dealing in securities issued by any of the group's listed companies. Directors and officers of the group who have access to unpublished, price-sensitive information in respect of any of these companies are prohibited from dealing in the shares of such companies during defined restricted periods, including those periods immediately prior to the announcement of interim and final financial results and periods during which cautionary announcements are operative. Directors and the company secretaries of both Illovo Sugar Limited and its major subsidiaries are required to obtain clearance from either the group chairman or chief executive before dealing in company shares.

**ACCESS TO INFORMATION**

The company has complied with the requirements of the Promotion of Access to Information Act, 2000. The relevant manual is available on the company's website: [www.illovosugar.com](http://www.illovosugar.com).

No requests for access to records were received during the year under review.

## KING III CODE COMPLIANCE ASSESSMENT

Key: ✓ Compliant # Partially compliant \* Under review ø Not applicable

## PRINCIPLES

**Chapter 1 – Ethical leadership and corporate citizenship**

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	✓

**Chapter 2 – Board and directors**

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 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 Companies Act, 2008, as amended (note 1)	ø
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 (note 2)	✓
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 (note 3)	#
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 (note 4)	#
Companies should remunerate directors and executives fairly and responsibly (note 5)	#
Companies should disclose the remuneration of each individual director and certain senior executives (Note 6)	#
Shareholders should approve the company's remuneration policy	✓

**Chapter 3 – Audit Committees**

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 (note 7)	#
The audit committee should be chaired by an independent non-executive director	✓
The audit committee should oversee integrated reporting (note 8)	#
The audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities (note 8)	#
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	✓

**Chapter 4 – 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	✓

**Chapter 5 – The governance of information technology**

The board should be responsible for information technology (IT) governance (note 9)	*
IT should be aligned with the performance and sustainability objectives of the company (note 9)	*
The board should delegate to management the responsibility for the implementation of an IT governance framework (note 9)	*
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 (note 9)	*
A risk committee and audit committee should assist the board in carrying out its IT responsibilities (note 10)	#

## PRINCIPLES

### Chapter 6 – Compliance with laws, rules, codes 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	✓

### Chapter 7 – 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 (note 11)	#
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 objectives	✓

### Chapter 8 – 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 shareholders	✓
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	✓

### Chapter 9 – 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 disclosures should be independently assured (note 12)	#

#### Notes

1. It has not been necessary to consider business rescue proceedings.
2. Whilst the current chairman is independent, the next chairman, by definition, will not be independent at the time of his appointment and consequently a lead independent director will be appointed.
3. Given the experience of the members of the board, mentorship and professional development programmes have not been considered necessary.
4. As five of the company's six operating subsidiaries are registered in countries outside South Africa, these subsidiaries are guided by local reporting requirements, and the integrated reporting of subsidiary companies as contemplated by King III is not applicable.
5. Given the generally high-level of attendance at meetings, the board does not consider it appropriate for non-executive directors' fees to comprise a meeting attendance fee as well as a base fee. Fees are determined with due regard to relevant market surveys.
6. Whilst the remuneration of each individual director is disclosed, the board does not consider it appropriate to disclose the individual salaries of the three most highly-paid employees who are not directors. The aggregate salaries of these three individuals is disclosed in the Remuneration Report.
7. The current chairman of the board, who is an independent director, is a member but not the chairman of the Audit Committee. This is deemed to be appropriate so as to provide him with a full understanding of the matters considered by this Committee.
8. Whilst the Audit Committee reviews all disclosures in the annual report, responsibility for non-financial sustainability matters falls to the Risk Management Committee.
9. As one of the responsibilities of the Audit Committee, the present IT governance framework and processes are currently being enhanced to ensure further alignment with King III.
10. The Audit Committee, not the Risk Management Committee, has responsibility relative to IT risks.
11. Whilst the internal audit function does follow a risk-based approach to its plan, relative to the sub-principles dealing with the realisation of strategic goals, assurance in this regard is not included in the internal audit mandate. This is the responsibility of executive management.
12. The reporting on and the provision of assurance over non-financial sustainability issues is the responsibility of the Risk Management Committee. The independent assurance in respect of sustainability reporting and disclosures will be procured for the 2012 Annual Report.

# Remuneration Report

## REMUNERATION PHILOSOPHY AND POLICY

The principles of the remuneration policy are designed:

- not only to attract, retain and motivate employees but also to reward them for their contribution to the group's operating and financial performance;
- to take to account market conditions at both industry and country levels; and
- to cater, apart from fixed remuneration, for an element of variable remuneration in the form of short and longer-term incentive schemes that are used to reward employees for the achievement and out-performance of specified targets and objectives, as well as assisting in attracting and retaining key personnel.

## REMUNERATION/NOMINATION COMMITTEE

For the year under review, the company's Remuneration/Nomination Committee comprised six non-executive directors, four of whom were independent, reducing to five and three respectively upon the retirement of Mr M J Shaw with effect from 21 July 2010. The members of the Committee are indicated on pages 12 and 13 of this report. When dealing with remuneration matters, the Committee was chaired by Mr M J Shaw until his retirement and thereafter by Mr M J Hankinson, whilst when considering nomination matters, the Committee was chaired by Mr R A Williams as chairman of the board.

At the meeting of the board held on 27 May 2011, Mr T S Munday was appointed as an additional member of the Committee.

The Committee has formal terms of reference approved by the board. It is responsible for the assessment and approval of a broad remuneration strategy for the group, and for the development and determination of the company's general policy on executive and senior management remuneration. It is also responsible for making recommendations to the board on the fees payable to the company's non-executive directors.

The Committee also gives consideration to the composition of the board and makes appropriate recommendations in this regard to the board. It also plays an integral part in succession planning relative to senior executives.

The Committee meets at least three times a year at which meetings appropriate members of executive management are in attendance. In the past year, four meetings were held, attendance at which is reflected on a table on page 59 of this report. For the year under review, the Committee satisfied its responsibilities in compliance with its terms of reference.

## EXECUTIVE AND SENIOR MANAGEMENT REMUNERATION

The group aims to adhere to the broad guidelines of executive remuneration as anticipated by King III, in respect of remuneration packages of the company's executive directors and senior management levels, ensuring that:

- the positioning of the remuneration packages are aligned between the market median and upper quartile of local and international industry benchmarks. To this end, external consultants are used to ensure that these levels are conducive to the attraction and retention of these key skills;
- there is an appropriate balance between fixed and variable remuneration which is modelled to achieve superior performance; and
- incentives in respect of short-term and long-term driven targets are implemented which contribute towards the achievement of company objectives and which are aligned to the delivery of sustained shareholder value.

For the short term, all employees participate in a performance related bonus scheme designed and implemented on a financial year basis, i.e. paid out against pre-set performance criteria at the end to the group's financial year. The targets set are both of a financial and 'line-of-sight' operational nature, directly relevant to the performance expectations for each operation in the ensuing year. In respect of the latter, the targets are readily measured and progress towards achievement thereof is communicated on an ongoing basis.

Longer-term incentives include share purchase schemes and a performance-related phantom share scheme, the latter being extended to key senior staff members, which are aligned to the company's share performance and incorporate a performance hurdle. These schemes are more fully described under the Directors' Report on pages 93 to 95 of this report.

### COMPENSATION OF DIRECTORS

The remuneration of executive directors for the year ended 31 March 2011 was as follows:

	Salary	Bonus	Retirement and medical contributions	Other benefits	Option gains	Total
	R000	R000	R000	R000	R000	R000
Clark G J	3 616	752	437	206	5 584	10 595
Haworth D L#	276	–	41	1 329	776	2 422
Riddle L W	1 657	364	232	251	261	2 765
Stuart B M	2 761	501	149	448	–	3 859
Zarnack K	2 086	334	245	185	2 176	5 026
<b>Total</b>	<b>10 396</b>	<b>1 951</b>	<b>1 104</b>	<b>2 419</b>	<b>8 797</b>	<b>24 667</b>

# Retired on 31 May 2010

The remuneration of executive directors for the year ended 31 March 2010 was as follows:

	Salary	Bonus	Retirement and medical contributions	Other benefits	Option gains	Total
	R000	R000	R000	R000	R000	R000
Clark G J	3 000	465	367	123	–	3 955
Haworth D L	1 431	150	173	182	–	1 936
Riddle L W	1 432	222	188	204	662	2 708
Stuart B M	2 289	286	277	192	19	3 063
Zarnack K	1 826	237	214	154	868	3 299
<b>Total</b>	<b>9 978</b>	<b>1 360</b>	<b>1 219</b>	<b>855</b>	<b>1 549</b>	<b>14 961</b>

For the year under review, the salaries of the three most highly-paid employees who are not directors aggregated R4.432 million.

## REMUNERATION REPORT continued

The fees paid to non-executive directors were as follows:

		2011 R000	2010 R000
Connellan B P	#	58	180
Hankinson M J		444	403
Konar D		335	315
MacLeod D G		1 275	1 200
Madi P M		270	258
Molope C W N		270	258
Mpungwe A R	*	260	106
Munday T S	x	260	13
Norton R A	∅	–	143
Shaw M J	#	146	441
Williams R A		1 930	1 820
Carr M I	+	–	–
Lister P A	+	–	–
Pike R N	+	–	–
<b>Total</b>		<b>5 248</b>	<b>5 137</b>

# Retired 21 July 2010

\* Appointed 1 September 2009

x Appointed 9 March 2010

∅ Retired 14 July 2009

+ These directors, nominated by the holding company, have each elected not to receive the payment of the fees due to them as non-executive members of the board and the board committees upon which they serve

Post-retirement medical aid contributions paid on behalf of past directors amounted to R54 166 for the year (2010: R46 940).

## SHARE OPTIONS

### Illovo Sugar 1992 Share Option Scheme

This option scheme is covered under the Directors' Report on pages 93 and 94 of this report.

The table below reflects options previously granted to directors, any options exercised during the year under review, and options unexpired and unexercised as at 31 March 2011.

	Options as at 31 March 2010	Option price (cents)	Options exercised during the year	Exercise price (cents)	Options as at 31 March 2011	Expiry date
Clark G J	48 824	805	48 824	2 710	–	20.05.2012
	68 500	680	68 500	2 710	–	20.05.2013
	46 000	770	46 000	2 710	–	01.06.2014
	163 324				–	
Riddle L W	3 600	770	3 600	2 805	–	01.06.2014
	3 600				–	
Stuart B M	45 700	680	–	–	45 700	20.05.2013
	46 000	770	–	–	46 000	01.06.2014
	91 700				91 700	
	258 624		166 924		91 700	

### Illovo Sugar Phantom Share Scheme

This share scheme is covered under the Directors' Report on pages 94 and 95 of this report. Given that options in terms of this scheme are "cash settled" rather than "equity settled", the scheme does not fall to be classified as a share incentive scheme in terms of the JSE's Listings Requirements.

The table below reflects options previously granted to directors, options granted during the year under review, any options exercised during the year under review, and options unexpired and unexercised as at 31 March 2011.

	Options as at 31 March 2010	Option price (cents)	Options granted during the year	Options exercised during the year	Exercise price (cents)	Options as at 31 March 2011	Expiry date
Clark G J	92 500	829		61 600	2 967		
				30 900	2 729	–	12.07.2015
	50 000	1 634		16 600	2 967		
				16 700	2 729	16 700	29.10.2016
	90 000	2 364		30 000	2 729	60 000	23.07.2017
	70 000	2 867		–		70 000	09.07.2018
	240 000	2 808		–		240 000	13.07.2019
		2 856	172 500	–		172 500	20.07.2020
	542 500		172 500	155 800		559 200	
MacLeod D G*	100 000	2 364		–		100 000	23.07.2017
	140 000	2 867		–		140 000	09.07.2018
	240 000					240 000	
Riddle L W	26 800	829		10 800	2 593		
				16 000	2 770	–	12.07.2015
	20 000	1 634		–		20 000	29.10.2016
	33 500	2 364		–		33 500	23.07.2017
	25 000	2 867		–		25 000	09.07.2018
	60 000	2 808		–		60 000	13.07.2019
		2 856	56 000	–		56 000	20.07.2020
	165 300		56 000	26 800		194 500	
Stuart B M	92 500	829		–		92 500	12.07.2015
	45 000	1 634		–		45 000	29.10.2016
	42 500	2 364		–		42 500	23.07.2017
	51 500	2 867		–		51 500	09.07.2018
	92 000	2 808		–		92 000	13.07.2019
		2 856	75 000	–		75 000	20.07.2020
	323 500		75 000	–		398 500	
Zarnack K	85 000	829		85 000	2 700	–	12.07.2015
	70 000	1 634		46 600	2 700	23 400	29.10.2016
	80 000	2 364		26 600	2 700	53 400	23.07.2017
	34 500	2 867		–		34 500	09.07.2018
	60 000	2 808		–		60 000	13.07.2019
		2 856	64 000	–		64 000	20.07.2020
	329 500		64 000	158 200		235 300	
	1 600 800		367 500	340 800		1 627 500	

\* Options granted to Mr MacLeod whilst an executive director

# Risk Management Report

Risk management is an integral part of Illovo's business management. 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 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.

## KEY RISK MATRIX

The key risks identified in the year under review are set out in the table below. The risks identified, both internal and external in nature, were those considered to have potentially the most material impact upon the group if realised. Each risk is identified in terms of its potential likelihood and impact without mitigating controls, and those after mitigating controls. For internal purposes, quantification of each risk is made in monetary terms, together with the allocation of its responsibility.

Description of risk	Without mitigating controls		With mitigating controls	
	Likelihood	Impact	Likelihood	Impact
Exchange rate movements	High	High	High	High
Abnormal weather conditions	Medium	High	Low	High
Profit exposure due to world sugar price movement	High	High	High	Medium
Local market revenue	Medium	High	Low	Medium
Access to preferential sugar markets (access and price)	Medium	High	Medium	Medium
Regional market revenue – exposure to world sugar price	Medium	High	Medium	Medium
Factory performance	High	Medium	Medium	Medium
Asset protection/maintenance	Medium	Medium	Low	Low
Projects/expansions (delays, costs, returns)	High	High	Medium	Medium
Agricultural development	Medium	Medium	Low	Low
Environmental issues (compliance, product safety)	Medium	Medium	Low	Low
Finance/liquidity	Medium	Medium	Low	Low
Political issues	Medium	High	Medium	Medium
Health care	High	Low	Medium	Low
Skills retention	Medium	High	Low	Medium
Illovo brand and culture	Medium	Medium	Low	Low
Legal compliance	Medium	Medium	Low	Low
Industrial relations	Medium	Medium	Low	Low
Fraud	High	Low	Medium	Low

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.

The management of financial risk is covered under note 41 to the financial statements on pages 140 to 143.

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. In order to strengthen risk management within the group, Illovo has recently re-structured resources and appointed senior risk control managers in each country of operation. Reporting systems and formats have been standardised; performance is measured on a regular basis by means of both self-assessments and audits by independent consultants. In addition, the group promotes ongoing commitment to the management and control of risk by participating in externally organised risk management and safety systems. Further information in this regard is provided under Social Impact on page 79 of this report.

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.

# Stakeholder Engagement

Illovo is cognisant that its long-term sustainability objectives are supported through engaging with its relevant stakeholders to address matters of mutual interest, and is aware that its corporate reputation is based on how well it performs compared with the legitimate interests and expectations of stakeholders, and that their support or lack thereof, may influence the group's performance. 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. However, the group's stakeholder engagement is underscored by management's responsibility to maintain its visibility to and accessibility by its stakeholders, with clear commitment not to profit at the expense of the environments and communities in which it operates.

The table below sets out the key stakeholders which have generally been identified across the group, and includes a brief explanation of the relevant interactions.

KEY STAKEHOLDER	TYPE OF INTERACTION
Employees	An array of internal communication channels are used to reach employees across the group regarding ongoing business-related information and strategy, through to training and personal development, including group-wide staff magazines, intranet, a customised Illovo business understanding programme, MD briefs, notice boards, etc.
Trade unions	Approximately 84% of all Illovo employees are unionised and the group interacts across a range of labour forums, e.g. regular union meetings, collective bargaining forums, etc., to ensure sound employee relations and compliance with internationally recognised labour practices.
Shareholders; investors; analysts	Investor/analyst presentations; one-on-one meetings; site visits; regular operational and financial communications; annual general meetings.
Media	Regular interaction with all forms of media to communicate developments, successes, strategy, financial results and to deal with issues which are reported in the public domain. Interaction includes one-on-one interviews, site visits, media statements and general contact to promote understanding.
<b>Regulators:</b> The JSE Limited; Lusaka Stock Exchange; Malawi Stock Exchange and other regulators	The company and its subsidiaries comply with the various regulatory requirements in the countries in which they operate, including regular contact and interaction with these regulators and relevant government departments.
Customers	<b>Trade market:</b> Ongoing interaction with supermarket chains and wholesalers; promotion of sugar distribution and depot system amongst existing/potential entrepreneurs; direct consumer stakeholder contact; involvement in community-based initiatives; support of annually sponsored sporting events. <b>Industrial market:</b> Customer interaction in respect of both sugar and downstream products; focus on specific technical and operational requirements of the customer with ongoing liaison through various channels.
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, e.g. SA Sugar Association, Tanzania Sugar Producers' Association, etc.
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 and industry bodies 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, etc.
Communities; traditional and civic society	Strong identification and communication with communities surrounding operations relating to cane development, community/company projects of mutual interest; support of community-based social investment requirements; provision of community infrastructure and advocacy of community issues.

The company participates in relevant 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 do not take place at any of its operations.

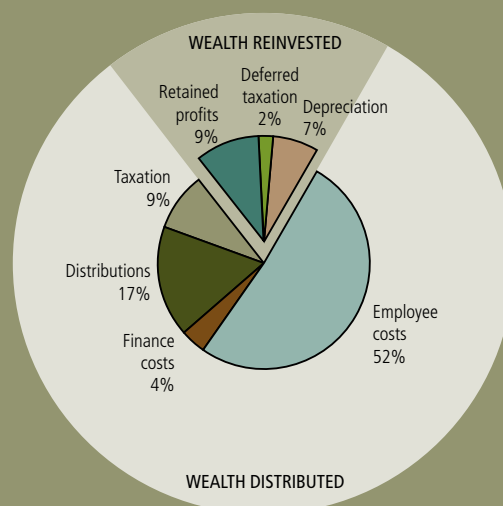
As a consequence of this commitment to human rights and fair employment practices, for the year under review, the group did not incur any fines for non-compliance with relevant legislation in any of the countries in which it operates.

# Economic Impact

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 period under review, R2 693 million was created. Of this amount, R2 205 million was distributed to employees, providers of capital and to governments. Of the wealth created, 52% 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.



# Value Added Statement

Rm	March 2011	March 2010
<b>Wealth created</b>		
Revenue	8 108	8 468
Dividend income	2	4
Paid to growers for cane purchases	(2 519)	(2 510)
Manufacturing costs	(2 898)	(2 848)
	<b>2 693</b>	3 114
<b>Wealth distributed</b>		
To employees as salaries, wages and other benefits	1 399	1 380
To lenders of capital as interest	96	139
To shareholders as distributions	456	490
To governments as taxation	254	352
	<b>2 205</b>	2 361
<b>Wealth reinvested</b>		
Retained profits in holding and subsidiary companies	258	401
Depreciation	188	250
Deferred taxation	42	102
	<b>2 693</b>	3 114
Analysis of taxes paid to and collected on behalf of governments		
<b>Central and local governments</b>		
Current taxation (including secondary tax on companies)	206	309
Rates and taxes paid to local authorities	6	5
Customs duties, import surcharges and excise taxes	42	38
Net contribution to central and local governments	<b>254</b>	352
<b>The above amount contributed excludes the following:</b>		
Employees' taxation deducted from remuneration paid	218	172
Net VAT amount collected on behalf of governments	102	160
Withholding taxation	58	25
	<b>378</b>	357

# Five Year Review

Rm	*	2011	2010	2009	2008	2007
<b>Consolidated income statement</b>						
Revenue	6	<b>8 107.9</b>	8 467.9	8 601.7	6 794.1	6 263.6
Operating profit	6	<b>1 029.3</b>	1 498.6	1 386.2	1 064.5	1 034.3
Net financing costs		<b>95.5</b>	139.0	185.4	171.7	97.8
Profit before taxation and non-trading items		<b>935.9</b>	1 363.5	1 202.5	894.1	937.9
Profit attributable to ordinary shareholders		<b>546.2</b>	662.0	739.1	599.8	516.5
Headline earnings	9	<b>516.1</b>	702.5	741.8	599.6	515.3
<b>Reconciliation of headline earnings</b>						
Profit attributable to ordinary shareholders		<b>546.2</b>	662.0	739.1	599.8	516.5
Adjusted for:						
(Profit)/loss on disposal of property, plant and equipment		<b>(10.3)</b>	(1.7)	2.7	(0.2)	(1.2)
(Profit)/loss on disposal of business		<b>(19.8)</b>	27.9	–	–	–
Impairment of investment in agricultural joint venture		–	14.3	–	–	–
Headline earnings		<b>516.1</b>	702.5	741.8	599.6	515.3
<b>Consolidated statement of financial position</b>						
Property, plant and equipment		<b>4 984.5</b>	4 262.7	4 025.9	2 968.1	1 806.3
Intangibles assets		<b>174.0</b>	179.1	61.8	46.4	34.7
Cane roots		<b>1 087.9</b>	1 100.2	1 132.3	821.7	661.6
Investments and loans		<b>163.0</b>	180.8	150.2	90.3	74.2
Current assets		<b>2 678.5</b>	2 579.7	2 894.2	2 336.3	1 891.4
Cash and cash equivalents		<b>717.8</b>	1 345.4	655.6	1 157.9	973.7
Total assets		<b>9 805.7</b>	9 647.9	8 920.0	7 420.7	5 441.9
Equity attributable to shareholders of Illovo Sugar		<b>5 191.2</b>	5 502.6	2 773.8	2 373.3	1 771.7
Non-controlling interest		<b>784.1</b>	812.1	671.2	555.6	456.6
Total equity		<b>5 975.3</b>	6 314.7	3 445.0	2 928.9	2 228.3
Deferred taxation		<b>687.6</b>	685.8	701.1	639.0	574.3
Borrowings		<b>1 230.0</b>	1 132.2	3 066.7	2 326.2	1 245.4
Interest-free liabilities		<b>1 912.8</b>	1 515.2	1 707.2	1 526.6	1 393.9
Total equity and liabilities		<b>9 805.7</b>	9 647.9	8 920.0	7 420.7	5 441.9

\* Ten-year compound annual growth % 2001 to 2010

## FIVE YEAR REVIEW continued

Rm	Notes	2011	2010	2009	2008	2007
<b>Consolidated statement of cash flows</b>						
Operating profit before working capital movements		<b>1 132.9</b>	1 419.9	1 173.0	1 034.2	1 041.5
Working capital movements		<b>146.3</b>	(183.2)	362.8	46.2	(61.0)
Cash generated from operations		<b>1 279.2</b>	1 236.7	1 535.8	1 080.4	980.5
Net financing costs		<b>(95.5)</b>	(139.0)	(185.4)	(171.7)	(85.2)
Taxation paid		<b>(186.4)</b>	(304.2)	(230.3)	(151.6)	(190.4)
Dividend and deferred income		<b>42.1</b>	3.9	1.7	1.3	1.4
Distributions/dividends paid		<b>(455.9)</b>	(490.2)	(449.2)	(386.9)	(334.2)
<b>Net cash inflows from operating activities</b>		<b>583.5</b>	307.2	672.6	371.5	372.1
Investment in future operations		<b>(1 274.5)</b>	(897.6)	(1 711.9)	(848.7)	(96.0)
Replacement of property, plant and equipment		<b>(199.8)</b>	(181.1)	(169.5)	(154.9)	(124.7)
Acquisition of business		<b>-</b>	(249.9)	-	-	-
Proceeds on disposal of businesses		<b>130.9</b>	118.7	120.0	-	-
Other movements		<b>(78.6)</b>	(82.6)	(38.4)	(13.1)	30.4
<b>Net cash outflows from investing activities</b>		<b>(1 422.0)</b>	(1 292.5)	(1 799.8)	(1 016.7)	(190.3)
<b>Net cash (outflows)/inflows before financing activities</b>		<b>(838.5)</b>	(985.3)	(1 127.2)	(645.2)	181.8
Long-term borrowings (repaid)/raised		<b>(366.9)</b>	(200.0)	170.6	796.4	(16.4)
Short-term borrowings raised/(repaid) (Repurchase)/issue of share capital net of associated costs		<b>(26.7)</b>	2 956.7	6.5	6.5	56.1
Other financing activities		<b>-</b>	255.8	-	(0.6)	(0.8)
<b>Net cash inflows from financing activities</b>		<b>236.3</b>	1 785.9	659.1	737.8	169.1
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(602.2)</b>	800.6	(468.1)	92.6	350.9
<b>Earnings and distribution/dividend per share</b>						
Earnings	1 cents	<b>118.8</b>	161.4	210.9	171.7	149.5
Headline earnings	2 cents	<b>112.2</b>	171.2	211.6	171.6	149.1
Distribution/dividend (interim: paid; final: declared)	3 cents	<b>56.0</b>	86.0	106.0	85.5	75.0
Distribution/dividend cover on headline earnings	4 times	<b>2.0</b>	2.0	2.0	2.0	2.0

## FIVE YEAR REVIEW continued

	Notes	2011	2010	2009	2008	2007
<b>Profitability and asset management</b>						
Operating margin	%	12.7	17.7	16.1	15.7	16.5
Return on average shareholders' equity	5 %	10.1	14.8	28.6	29.9	32.0
Return on net assets	6 %	13.8	21.9	22.0	24.1	28.5
Return on total assets	7 %	11.1	16.8	17.1	18.6	21.3
Working capital per rand of revenue	8 cents	9.8	12.6	11.7	11.8	9.4
<b>Liquidity and borrowings</b>						
Net debt : equity ratio	9	8.6	(3.4)	70.0	39.9	12.2
Gearing	10 %	7.9	(3.5)	41.2	28.5	10.9
Total liabilities to total equity	11 %	64.6	53.2	160.5	154.2	144.6
Current ratio	12 times	1.2	1.8	1.0	1.3	1.2
Interest cover	13 times	10.8	10.8	7.5	6.2	10.7
<b>Employee statistics</b>						
Total number of employees at year-end	14	12 159	12 031	12 457	12 266	12 617
Average number of employees		12 189	12 338	12 362	12 441	12 752
Revenue per average number of industrial employees	R000	1 275.0	1 251.8	1 249.6	991.9	894.9
Net assets per average number of employees	R000	490.2	511.8	278.7	235.4	174.7
Headline earnings per average number of employees	R000	42.3	56.9	60.0	48.2	40.4
<b>JSE Limited statistics</b>						
Ordinary shares in issue	'000	459 763	460 160	350 924	349 859	348 868
Weighted average number of shares	'000	459 787	410 279	350 514	349 424	345 545
Net asset value per share	15 cents	1 299.6	1 372.3	981.7	837.2	638.7
Total volume of shares traded	'000	86 462	119 117	79 492	80 160	379 040
Total value of shares traded	Rm	2 347.2	3 650.4	2 126.9	1 970.2	7 503.5
Ratio of shares traded to issued shares	times	18.8	25.9	22.7	22.9	108.6
Headline earnings yield at year-end	16 %	4.2	5.8	7.4	5.8	7.8
Distribution/dividend yield at year-end	17 %	2.1	2.9	3.7	2.9	3.9
Price: headline earnings ratio at year-end	18 times	23.9	17.3	13.5	17.3	12.7
Market price per share						
– year-end	cents	2 685	2 970	2 849	2 964	1 900
– highest	cents	3 270	3 700	3 500	3 115	2 100
– lowest	cents	2 420	2 499	1 710	1 850	1 531

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

# Notes to the Five Year Review

1.	<b>Earnings per share</b> Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.
2.	<b>Headline earnings per share</b> Headline earnings divided by the weighted average number of ordinary shares in issue.
3.	<b>Distribution/dividend per share</b> The 2010 and 2011 distribution/dividend per share includes capital distributions out of share premium. For all other years presented, the distributions have been declared and paid out of distributable reserves.
4.	<b>Distribution/dividend cover on headline earnings</b> Headline earnings per share divided by distribution/dividend per share (interim: paid; final: declared).
5.	<b>Return on average shareholders' equity</b> Profit attributable to ordinary shareholders expressed as a percentage of average shareholders' equity.
6.	<b>Return on net assets</b> Operating profit expressed as a percentage of average net operating assets.
7.	<b>Return on total assets</b> Operating profit expressed as a percentage of total average assets excluding cash and cash equivalents.
8.	<b>Working capital per rand of revenue</b> Average of inventories and trade and other receivables less trade and other payables, divided by revenue.
9.	<b>Net debt:equity ratio</b> 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.	<b>Gearing</b> Interest-bearing liabilities (net of cash and cash equivalents) expressed as a percentage of total equity and interest-bearing liabilities (net of cash and cash equivalents). A negative gearing ratio indicates that the group is in a net cash position.
11.	<b>Total liabilities to total equity</b> Interest-bearing liabilities and other liabilities expressed as a percentage of total equity.
12.	<b>Current ratio</b> Current assets divided by current liabilities.
13.	<b>Interest cover</b> Operating profit divided by net financing costs.
14.	<b>Total number of employees at year-end</b> The total number of employees excludes those employed by associate companies.
15.	<b>Net asset value per share</b> Total assets less total liabilities divided by the number of shares in issue.
16.	<b>Headline earnings yield at year-end</b> Headline earnings per share as a percentage of year-end market price.
17.	<b>Distribution/dividend yield at year-end</b> Distribution/dividend per share (interim: paid; final: declared) as a percentage of year-end market price.
18.	<b>Price:headline earnings ratio at year-end</b> Year-end market price divided by headline earnings per share.
19.	<b>Change in accounting policy</b> Where a change of accounting policy is implemented with retrospective application, the previous year is restated but all other years are not restated in the five year review.

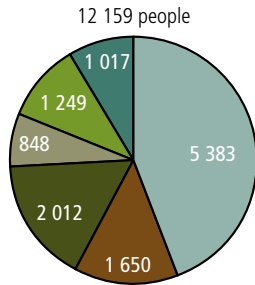
## LOCAL ECONOMIES

In line with Illovo's Strategic Intent to be cognisant of the rural locations of its operations and its corporate governance objective of being socially responsible, the group strives to support the advancement of all the communities where its operations are located. Sustainable community development is achieved *inter alia* through the group's substantial employment, procurement and supply chain development.

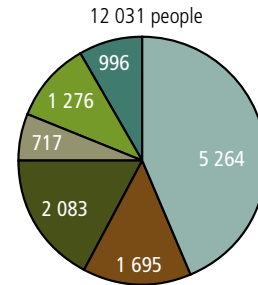
### Employment

Illovo provides considerable employment within the six countries in which it operates, with the group's aggregate permanent manpower complement as at 31 March 2011 standing at 12 159. This was marginally up on the previous year (2010: 12 031) reflecting good productivity improvement given the significant expansion projects undertaken in Zambia and Swaziland over the past two years. Vacancies are generally advertised in the country of operation first to ensure precedence to local candidates. External secondees are considered only if sourcing of local candidates proves unsuccessful.

**PERMANENT COMPLEMENT 2011**



**PERMANENT COMPLEMENT 2010**



Over and above the permanent complement and given that the group's operations function largely on a seasonal basis, some additional 17 000 employees are employed in various activities over these periods.

### South Africa

Drought conditions in KwaZulu-Natal during the 2010/11 season lead to significantly reduced sugar cane supplies resulting in a decision to temporarily close the Umzimkulu mill for the season. Through consultation with labour unions and management, the group facilitated the placement of all 252 staff employed at the mill within suitable positions, either at Umzimkulu itself, or at alternative Illovo operations. These counter-measures not only prevented retrenchment of employees, but also ensured the retention of quality skills within the group.

### Procurement

Illovo actively supports procurement from previously disadvantaged suppliers in South Africa. Spend against these preferential suppliers is registered and reported on an annual basis. Preference is given to those suppliers whose product quality and price meet the procurement and technical requirements of Illovo. In the countries of operation outside South Africa, preference is given to local suppliers, where price and quality meet Illovo's requirements. In addition, where possible, Illovo is assisting to develop local suppliers. Where local suppliers are not available, through its central purchasing office in South Africa, the group further supports preferential suppliers in South Africa by sourcing products for its operations outside South Africa.

### Private grower development and revenue

Development programmes for small-scale and medium-scale growers are encouraged by the group, as revenue generated by these growers promotes direct economic development and provides opportunities for further enterprise development within the communities concerned. This assists in poverty alleviation in rural areas and reduces the financial risk of such communities.

In South Africa, several investment grants were allocated to Illovo by the government for small-scale grower development schemes within the group's cane supply regions. These included the establishment of small-scale grower farms, seed-cane nurseries and the provision of assistance with the procurement of key inputs such as fertiliser and ripeners. In a separate initiative, funding of R60 million from The Standard Bank of South Africa Limited was secured for the 'Sizanayo' project which, co-ordinated and implemented by Illovo, local grower bodies and the provincial KwaZulu-Natal government, will assist in the rehabilitation of 2 000 hectares of small-scale grower land and the development of a further 2 000 hectares to sugar cane in the Sezela cane supply region.

Outside South Africa, Illovo initiated various community development farm projects, focused on utilising the value chain to provide opportunities for sustainable development within the communities surrounding Illovo's operations. The projects aim to develop profitable community-owned cane farms, which in supplying cane to Illovo mills will generate sufficient income to finance necessary community development initiatives. To date, successful community farms have been initiated in Malawi and Zambia. In Swaziland, Illovo is assisting the government of Swaziland with the Lower Usuthu Smallholder Irrigation Project, which is ultimately intended to facilitate the development of 8 000 hectares under cane for small-scale growers. Already in its initial phases of development, the project has created almost 1 500 jobs and is ultimately expected to provide economic benefits to 28 000 people.

# Social Impact

## HUMAN CAPITAL

The group recognises the importance of people in the delivery of its stated goals and objectives. Human resource policies and operational strategies are informed by the business needs of the group's operating entities with direction from the corporate office. They appropriately include an understanding of national imperatives and relevant legislation in each country of operation and alignment is achieved through the group's Strategic Intent.

Under-pinning this strategy, 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.

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.

### People highlights

- 12 159 permanent and some 17 000 seasonal employees, adding value in six countries of operation
- Safety indicators improved, with a reduction in the group 12-month rolling average Disabling Injury Frequency Rate from 0.57 in 2010 to 0.44 in 2011
- R57 million invested in employee training and development
- Strong focus maintained on talent management and career reviews
- Organisation effectiveness enhanced through right-sized and relevant manpower structures
- Retention of South Africa's Level 5 Contributor status in terms of the BEE Codes

### Labour relations

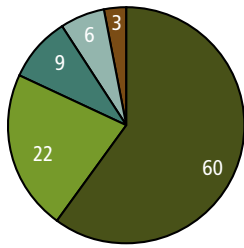
For the company, as a multi-national organisation, employee communication is considered an important criterion towards the building of employees' understanding of the prevailing business context within Illovo. To this end, a group-facilitated Business Understanding Programme is presented to all employees, on an annual basis, promoting an understanding of the prevailing business climate at both the group and operational levels. In 2010/11, approximately 29 200 employees were exposed to this programme.

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

Illovo complies with internationally recognised labour practices as legislated in the various countries of operation, ensuring that sound employee relations prevail. Freedom of association is acknowledged and where employees have adequate representation, recognition agreements are put into place. Collective bargaining conditions via negotiated collective agreements, are established and supported by existing legislation in all countries of operation. The management of collaborative relationships with unions, along with open communication forums, allow for internal issues to be dealt with effectively. Trade union involvement is a normal part of this process and approximately 84% of permanent employees are unionised.

During the year under review, industrial action was undertaken by seasonal employees at the group's Maragra operation in Mozambique to protest against a 3% wage deduction for the Mozambique Social Security System, a legal requirement in Mozambique. Management facilitated discussions between the Maputo Provincial Labour Directorate, the Labour Inspectorate, the Manhica District Government, the Labour union, Sindicato Nacional Des Trabalhadores Da Industria Do Açúcar E Afris SINTIA and the cane cutters. A resolution was reached after three days.

**DEVELOPMENT AND TRAINING INVESTMENT – %**  
R57 million



Technical training
Management trainee programmes
Safety and health awareness
Business alignment workshops
Education-type training, e.g. adult basic education programmes

**Human resources development and training**

Training is 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 skills supply, whilst also supporting employment equity and localisation initiatives. The group invested approximately R57 million in this area over the period under review, representing 4.6% of group payroll.

Examples of the type of programmes include:

- the implementation of internationally accepted safe working practices and health care programmes;
- the continued development, refinement and implementation of performance management systems, along with ongoing technical competency training, which are linked to ISO 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; 218 managers having completed these programmes during the reporting period;
- the provision of Illovo bursaries to 31 students, mainly from the engineering discipline, to further their tertiary education in preparation for inclusion into the Management Trainee Programme upon successful completion of their studies. In 2010/11, at any given time, there were 61 graduates progressing through this programme;
- structured formal technical apprenticeships, with 85 employees presently enrolled in such programmes across the group;
- training-related exchange arrangements between Illovo and AB Sugar for Engineer-in-Training students. During 2010/11, four students benefited from exposure to sugar operations and training practices in the United Kingdom;
- the leveraging of operational best practice across the group;
- accredited arrangements in South Africa for graduate accountants to continue their chartered accountant studies whilst in full-time employment with the company, through the Training Outside Public Practice programme;
- the encouragement of employees to further their study in fields relevant to their positions through a study assistance scheme which is available to all permanent employees; and
- Adult Basic Education and Training (ABET) for employees in need in order to enhance their opportunities to improve personal job competencies and facilitate future career development. This programme in South Africa is aligned with the National Qualification Framework to assist in building formal education qualifications.

**% EMPLOYEE TURNOVER**



**Organisational effectiveness and talent management**

The staffing of all operations within effective organisational structures, with competent personnel, both from an operational and managerial perspective, remains a priority to ensure that the group’s goals and objectives are achieved.

The group continues to 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. A structured approach to career reviews informs individual career and performance plans, contributing to both the succession and retention of key personnel, i.e. being an employer of choice.

Remuneration packages are merit-based and market-competitive in all countries of operation and are constantly reviewed. Similarly, incentives such as performance-related bonuses, share purchase and phantom share schemes are utilised and are continually reviewed and up-dated when necessary to cater for targeted outcomes.

Employee turnover has been stable over the past two years, as reflected in the adjacent chart.



The group invested approximately R57 million in human resources development and training over the period under review, representing 4.6% of group payroll.

### Diversity and equal opportunity

Illovo actively promotes equal opportunity and fair treatment in employment through the elimination of unfair discrimination. The group encourages inclusiveness with regard to human resource practices, irrespective of race, gender, nationality or religious affiliation in an effort to promote global diversity in the workforce.

In South Africa, Illovo is committed to contributing to and promoting social transformation, most notably through the continued advancement of broad-based black economic empowerment (B-BBEE) issues. The group submitted the annual Employment Equity and Income Differential reports to the Department of Labour and the Employment Equity Commissioner, which detail progress made with respect to the company's Employment Equity Plan, a key pillar of its B-BBEE programme. Progress on employment equity continued to be monitored through a group central co-ordinating forum which includes representation from local consultative forums which operate at the various operations.

Relevant statistics in respect of designated employees, as defined in South African legislation, are shown in the table below. They generally reflect a good performance, particularly in the areas of representation in management ranks where designated groups now total 71% (2010: 62%) and internal promotions where these rose to 89% (2010: 71%).

Representative areas	% designated	
	2011	2010
Management level	71	62
Skilled level	90	90
Promotions (management/skilled)	89	71
External recruitments (management/skilled)	75	66
Promotions (all levels)	95	90
External recruitments (all levels)	91	87
Combined recruitments and promotions (all levels)	93	88
Combined recruitments and promotions (management/ skilled)	82	69
Skills development initiatives (permanent employees)	85	88
Management trainees	70	75

Overall focus continues to be given to designated appointments in the more senior levels of management.

Relative to the Codes of Good Practice on Black Economic Empowerment (the Codes), issued in terms of the Broad-Based Black Economic Empowerment Act, 2003, for the year ended 31 March 2010, the company was audited by an accredited external verification agency and its rating was re-confirmed as a Level 5 Contributor, having attained an aggregate score of 60.71% (2009: 59.14%), comprising the component scores as reflected in the table below:

Element	Score (%)		Maximum possible score (%)
	2010	2009	
Ownership equity	4.69	6.88	20
Management control	2.67	1.72	10
Employment equity	8.51	7.26	10
Skills development	6.27	5.24	20
Preferential procurement	18.57	18.04	20
Enterprise development	15.00	15.00	15
Socio-economic development	5.00	5.00	5
Aggregate	60.71	59.14	100

This rating earned Illovo a ranking of 87th place overall and 6th place in the Food Sector in the recent Financial Mail/Empowerdex Top Empowerment Companies report in South Africa.

In 2010/11, designated representation in management ranks increased to 71% and to 89% in internal promotions.



For 2010/11, the group Disabling Injury Frequency Rate improved to 0.44 from 0.57 achieved in 2009/10, below Illovo's objective of less than 0.8.

### Occupational safety

Safety remains a core priority for the group and Illovo is striving to achieve an increasingly safer workplace and cultivate a culture of safety among employees whereby injuries are reduced and safety rules are understood and upheld. The group's safety policy aims to provide a safe and healthy working environment for all its employees in accordance with the relevant statutory requirements in each country of operation.

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. Two agricultural operations obtained NOSA Platinum five-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 group's performance related bonus scheme. The DIFR for the year under review, on a 12-month rolling average basis, was 0.44, an improvement from the 0.57 achieved last year, and within the group's objective of being less than 0.8. The Total Injury Frequency Rate (TIFR) was recorded for the first time this year; the group achieving an overall rate of 3.76 against an internal target of less than 5.0.

### Disabling Injury Frequency Rate per country of operation

Operation	DIFR
Malawi	0.40
Zambia	0.48
South Africa	0.62
Swaziland	0.21
Tanzania	0.45
Mozambique	0.40

Regrettably, three employees were fatally injured in work-related incidents during the past year. These unfortunate incidents were the subject of thorough executive investigation and appropriate remedial actions were taken.

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

In terms of food safety, the Umzimkulu factory, Noodsberg refinery and Eston syrup plant in South Africa, and the Nchalo factory in Malawi have been certified under the Hazard Analysis and Critical Control Point (HACCP) food safety system. A number of other factory operations are making progress towards this accreditation. The group also recently embarked on implementation of the all-encompassing ISO 22000 requirements for Illovo's food safety management plans, and accreditation is anticipated during the course of the current year.

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

### Disabling Injury Frequency Rate

- A disabling injury is one where an employee is booked off-duty for at least one full shift following the shift in which the injury occurred
- The Total Injury Frequency Rate (TIFR) is a measure of the frequency of injuries, regardless of whether the person was able to continue duties or not

### Occupational health

Occupational health is an important facet of the medical services delivered at each operating site. Qualified nursing practitioners provide occupational health services which include regular job-related medical examinations, baseline assessments, and ongoing monitoring and management of illnesses, such as hearing and lung-function testing. Employees who work in factory 'risk areas' are routinely monitored by the staff of the occupational health care centre and are subjected to regular assessments. The Group Medical Consultant is engaged on all matters of health and safety and is informed of any real or alleged health hazard occurring in the workplace. The group recently implemented a central health care data management system, with the aim of better integrating occupational health data with other areas of employee health care and wellness. This is intended to ensure a holistic view of the health risk profile of employees and assist in the management of health-related risks across all operations.

### Employee social benefits

Illovo strives to provide a working environment in which employees can operate in a safe, healthy, and motivated manner, and which contributes towards employee development and to the group's continued success. During the year under review, the group spent approximately R129 million on the provision of employee social benefits, focused primarily on employee accommodation, health care and education.

Categories	2010/11		2009/10	
	Rm	%	Rm	%
Accommodation	64	50	70	54
Health care	37	29	36	28
Education	16	12	14	11
Environmental	7	5	4	3
Community	5	4	6	4
<b>Total</b>	<b>129</b>		<b>130</b>	



The group operates 24 primary health care clinics and four hospitals, staffed by 16 doctors, 148 nurses and other qualified medical staff, and 135 auxiliary personnel to provide a service to approximately 30 000 employees and 70 000 dependants.

### 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, 148 nurses and other qualified medical staff, and 135 auxiliary personnel, and provide a service to approximately 30 000 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 570 000 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 local authorities. The group continues to take a pro-active stance against life-threatening epidemics such as HIV/AIDS, malaria and tuberculosis (TB). 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, HIV counselling and testing (HCT), use of prophylactic antibiotics, effective screening for TB, and the promotion of a healthy lifestyle.

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 HCT 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, some 5 748 employees underwent HCT. Excluding those who have been previously tested and identified as HIV positive, this represents 62% of the permanent complement. Of the employees who have tested positive, many 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; and
- 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.

Disease outbreaks are managed proactively by the group in the interest of maintaining both the health and welfare of employees and their dependents.



Mosquito control spray programmes and the distribution of insecticide-treated bed nets continue throughout the group in malaria affected areas. During 2010/11, Illovo implemented an education/training, counselling, treatment and immunisation programme in which approximately 12 000 children were immunised in response to a measles outbreak in Malawi.

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. During 2010/11, Illovo implemented an education/training, counselling, treatment and immunisation programme, in which approximately 12 000 children were immunised in response to an outbreak of measles in Malawi. In the case of TB, the group works closely with national programmes, and assists with the diagnosis, treatment and follow-up of TB cases where appropriate.

#### **Accommodation**

Accommodation is provided to permanent employees, mostly at the larger estates outside of South Africa, depending on local circumstance and availability. Accommodation varies between hostel dwellings for fixed-term contract employees, informal villages and formal staff housing. Where accommodation is provided, Illovo supplies all amenities, including potable water and electricity, together with basic maintenance. During 2010/11, R64 million was spent on employee accommodation including the associated amenities.

#### **Educational assistance**

As part of Illovo's ongoing commitment towards social empowerment, a social investment scheme assists employees with costs associated with dependants' education. Assistance further includes the allocation of bursaries, grants and loan funding for higher/further education. During the year, R16 million was allocated to education.

#### **Retirement funding schemes**

In addition to legislated national retirement funds provided in the countries of operation, the group offers membership of a number of provident and defined contribution pension funds. Elected employee trustees represent the interests of members and assist with the prudent management of the various funds. The benefits associated with the group's retirement schemes include, *inter alia*, retirement, death, disability, funeral, critical illness and life insurance provisions and are stipulated within the group's relevant conditions of employment.

### Employee share purchase schemes

Share purchase schemes are offered to employees in certain countries where the operating subsidiary company is listed. The share purchase scheme provides employees with the opportunity to share directly in the continued profitability and growth of the business.

### PUBLIC POLICY

In South Africa, uncertainty around land tenure as a result of the delayed land restitution process has discouraged grower reinvestment. Reduced reinvestment has been evident in delayed replant in some areas and reductions in key inputs such as fertiliser, which has contributed to declining cane yields and overall cane supply. 43% of the total area of land supplying cane to Illovo mills is subject to unsettled land claims in terms of the Restitution of Land Rights Act, 1994. To mitigate this potential impact on cane supply, Illovo has a well-established strategy for working with affected growers, land claimants and the government to ensure that farms are transferred in accordance with the terms of the restitution process. Illovo assists industry and government in developing best practice regarding the submission, control and implementation of grant and loan funding for agricultural development under the umbrella of land reform. This is undertaken in close collaboration with the South African Sugar Association, via broad consultation with both millers and growers to expedite grower development with the purpose of ensuring future growth and sustainability of cane supply from claimed properties.

### SOCIAL INVESTMENT

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 economic partner in these countries, over and above the considerable contribution towards employee social benefits, active social investment programmes are in place at each of the operations which aim to promote people-centred, needs-driven activities. The majority of social investments are directed primarily towards education, job creation, health and wellbeing, culture and sports development, and limited once-off grants and donations.

All community projects are considered on the basis that they are motivated by members of the communities and designated company representatives. To gain company support, projects must be shown to be meaningful and sustainable, with significant community reach and participation. Initiatives are managed both at a group and business unit level, depending on the circumstance.

During the year under review, the group contributed R14.4 million towards socio-economic development projects, mostly for the benefit of the communities within the immediate vicinity of the operations. Initiatives supported during the past year included financing the development of a government-run hospital within the Kilombero community in Tanzania and contributions towards the construction of a new building at the Ubombo Police Station in Swaziland. Other ongoing social investment activity includes:

- upgrading of schools and administration assistance at schools across the group; 27 schools in five countries benefiting from this support;
- ongoing support of government and corporate education-related campaigns, including national literacy programmes, teacher support initiatives and provision of equipment;
- support of community-based welfare and fund-raising organisations across the group, involving national health initiatives, feeding schemes, upgrading of public facilities and self-help programmes; and
- continued support of local indigenous growers to develop agricultural technical, financial and administrative competence to grow their own businesses, together with assistance to access grant and other funding for agricultural projects, such as irrigation schemes. Total cane supplies from smallholder farmers across the group amounted to about two million tons, generating revenue of R618 million.



During the year under review, the group contributed R14.4 million towards socio-economic development initiatives, mostly for the benefit of the communities within the immediate vicinity of operations, including classroom building projects.

#### Social investment spend

Categories	Rm	
	2010/11	2009/10
Health care	3.9	3.5
Education	3.3	3.0
Donations	1.0	0.7
Community	6.2	6.9
<b>TOTAL</b>	<b>14.4</b>	14.1

Illovo complies with all relevant safety, health, environmental and quality legislation in each of the countries of operation, striving for implementation of industry best practice.

## **PRODUCT RESPONSIBILITY**

### **Customer health and safety**

Illovo complies with all relevant safety, health, environmental and quality legislation in each of the countries of operation as well as striving for implementation of industry best practice. The group's production facilities have been certified under the ISO 9001:2008 quality management system. Additionally, in South Africa, Illovo has adopted the Hazard Analysis and Critical Control Point (HACCP) SANS 10330:2007 food safety system at its pre-packed sugar and syrup packing facilities. Other operations in South Africa, Malawi and Zambia are currently making progress towards HACCP and ISO 22000 accreditation, with the Nchalo mill in Malawi having achieved HACCP accreditation. In addition, the operations in Malawi and Zambia are registered with the Supplier Ethical Data Exchange (SEDEX), a membership organisation for businesses committed to continuous improvement of the ethical performance of their supply chains.

The group ensures that its products do not pose unintended hazards to health and safety. Certain downstream products require specific handling and storage as some products may be considered hazardous. All products are supported with Material Safety Data Sheet (MSDS) documentation, together with certificates of analysis. These documents certify quality, in addition to recommended procedures relating to health, safety, storage and handling.

### **Product and service labelling**

Illovo ensures that appropriate information is provided to the group's customers. All products carry product labels describing pertinent information about the product, in compliance with the respective country legislation and labelling regulations. In addition, downstream products supplied to the pharmaceutical industry are required to meet the Food and Drugs Act standards. The requirements of any amendments to food labelling and advertising legislation are promptly addressed, as evidenced by the group's rapid response to the new food labelling and advertising legislation promulgated in South Africa in March 2010 under the Consumer Protection Act, 2008.

### **Market communications**

The group ensures that its marketing communication activities are conducted in a responsible manner and in accordance with the relevant legislation and in-country requirements. 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 incident reports relating to marketing and communications during the year under review.

### **Customer support and complaints**

Illovo operates a formal customer complaints process in the form of a sugar customer care line facility in South Africa, Malawi and Zambia, details of which are reflected on all domestic sugar packaging and syrup pre-packs. This affords customers the opportunity to contact Illovo directly to address any issues relating to product and/or service. Customer complaint procedures are implemented in accordance with the guidelines of the HACCP procedural document, which 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. Regular supplier and customer audits are undertaken while customer feedback mechanisms guarantee open communication between Illovo and customers following complaints and investigations. Outside of South Africa, customer complaints are handled directly by the respective marketing departments and distribution companies which distribute sugar within the countries of operation. All customer queries and complaints are investigated and rectified where appropriate.

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# Environmental Impact

The underlying philosophy of Illovo's environmental management approach is to continually investigate means to reduce the environmental impact of the group's operations. This is achieved through both the efficient use of natural resources and committing the group to continuous improvement.

Illovo complies with country-specific environmental legislation and regulations and adheres to international best practice standards, as well as internal operational environmental policies. Environmental management at the operations is carried out in line with the NOSA Integrated Five-Star System, which incorporates environmental management. When considering new business ventures and expansions, due diligence and environmental impact assessments are undertaken to ensure that potential negative environmental impacts are identified and mitigation or management plans implemented.

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## TECHNOLOGY, RESEARCH AND DEVELOPMENT

In order to optimise the return from existing installed capacity, the group has well-established in-house resources which provide technical expertise in agricultural production and sugar and downstream product manufacture to all operations. A centralised core of expertise exists to ensure technical standards are optimised and maintained for both existing equipment and new agricultural and factory installations, and to keep abreast with technical innovations. This in-house function is also involved in investigating opportunities to expand 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 optimisation between the group's technical team and AB Sugar is ongoing. 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 at all operations, resources 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 AB 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.

## OPERATIONAL ASPECTS

### Agriculture

In respect of its agricultural operations, the group adopts 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 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



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 group comprises only approximately 4% of total energy usage.

cane yield of the plant reduces below a predetermined level, whereafter replanting is undertaken. This generally takes place every seven to ten 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 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 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. The recent completion of Ubombo's major factory expansion and co-generation project in Swaziland has enabled this operation to also export power into Swaziland national grid.

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 4% of total energy usage.

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

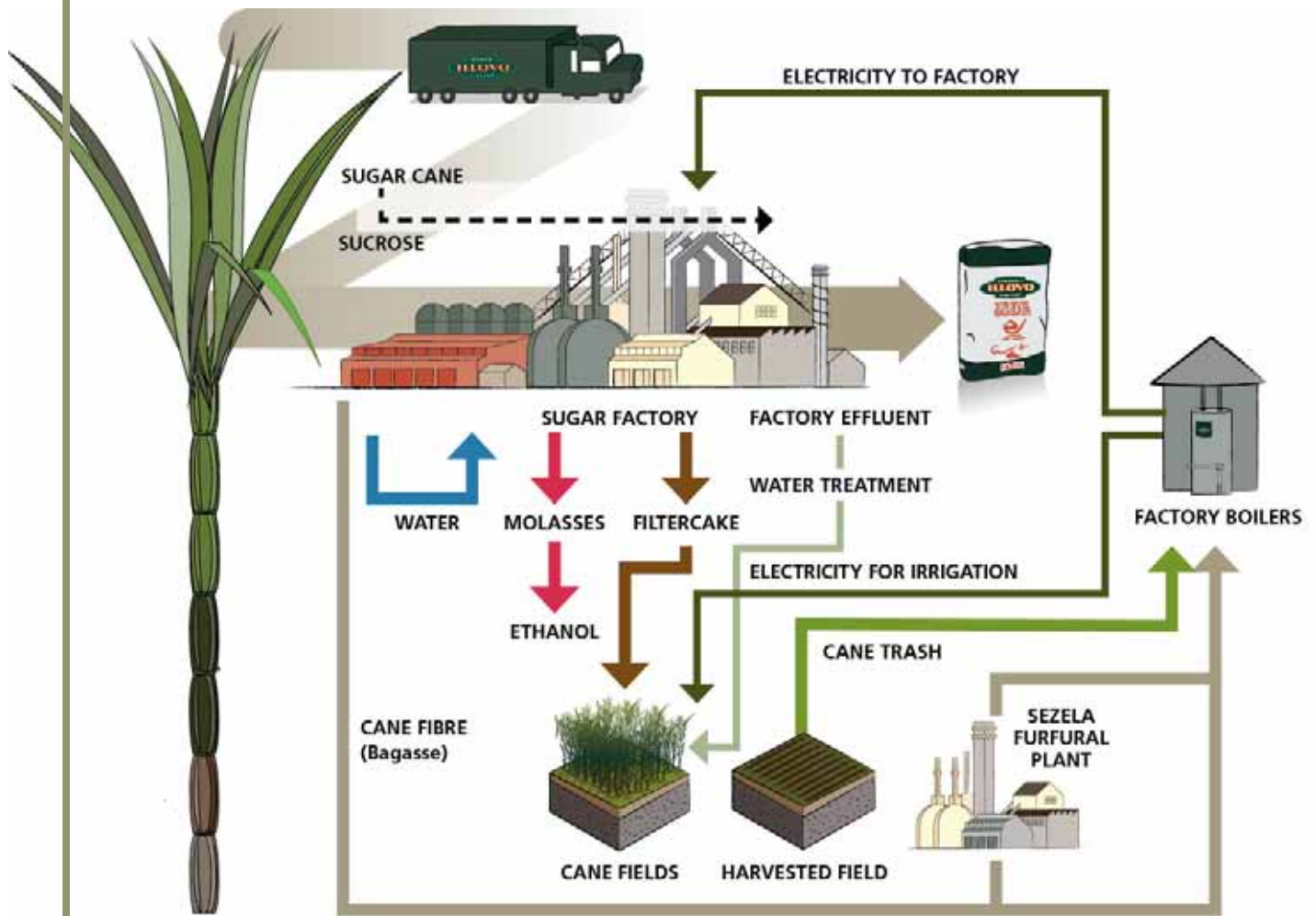
Type	2011 GWh	%	2010 GWh	%
Bagasse	8 855	88	9 370	88
Coal	435	4	520	5
Electricity	430	4	360	3
Imported steam	168	2	160	2
Gas/oil/diesel	152	1	120	1
Biomass	68	1	108	1
Other sources	1	–	32	–
<b>Total</b>	<b>10 109</b>		<b>10 670</b>	

In total, the group used 10.109 GWh of energy for production during the year under review. It is significant that 89% of the group's energy requirements is produced 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.

(continued on page 88)

Cane sugar sustainability model



**Sugar cane**

- Sugar cane is a large grass variety which grows well in tropical and sub-tropical climates across the globe
- Harvesting takes place in the southern hemisphere between April and December when the cane is 12 to 24 months old
- Once harvested, the cane commences a new growing cycle from its existing roots; this re-growth is called a "ratoon". Replanting takes place only every 7 to 10 years, minimising soil disturbance and exposure to wind and water erosion
- Rainfed cane in South Africa, with industry yields of around 65 tons of cane per hectare, minimises the impact on subterranean water supplies, whilst in other countries of operation, where yields are approximately 100 tons of cane per hectare, water for irrigation is sourced from secure water resources such as large rivers, lakes and dams

**Maximum usage**

The sugar cane manufacturing cycle makes maximum usage of all its input materials with very few waste products.

- Sugar cane contains between 13% to 15% sucrose which is used in sugar factories to produce granulated brown and refined sugar
- Cane fibre or bagasse, the fibrous residue following the extraction process, is used as a bio-renewable fuel source by the factory boilers to produce steam for processing requirements and to generate electricity to power the factory and other operations:
  - at the Sezela downstream plant in South Africa, plant material in the bagasse is extracted to produce low-volume/high-value downstream products. Once processed, the bagasse is routed to the boilers for electricity operations;
  - at Illovo's operations in Swaziland and Malawi, cane trash is blended with bagasse to increase the volume of fuel feedstock for the boilers, thereby providing for increased electricity generation; and
  - Illovo's objective is to be self-sufficient in its own electricity requirements and, where feasible, to export surplus power into the national grids of the countries in which it operates. In 2010/11, 89% of the group's power requirements were produced by the group's own installed electricity generating capacity from renewable resources;
- Water contained in sugar cane amounts to between 68% and 72% of total content. During the extraction process, this water is released and recycled for use within the factory, reducing reliance on external water resources;
- A by-product of the manufacturing process is molasses which is used by Illovo to produce potable and denatured alcohols for use in the cane-based liquor, pharmaceutical, cosmetic and printing industries; and
- Organic and non-organic impurities captured in the form of 'filtercake' during the manufacturing process are returned to the fields for use as a fertiliser.

## Downstream products

Downstream product manufacture is a core activity of Illovo, fulfilling the group's Strategic Intent to optimise the return on every stick of cane by adding value to its core commodity products: fibre, sugar and molasses. The group, out of its downstream production plants in South Africa, is a material player in most of the world markets in which it participates, and exports furfural, furfuryl alcohol, diacetyl, 2,3-pentanedione, natural methanol, ethanol and lactulose to 81 countries. The group has also developed and is commercialising a range of agricultural products derived from furfural. Crop Guard® and MultiGuard Protect® are nematicides. Protect® is a nematicide and fungicide whilst BioMass Sugar® is classified as an organic fertiliser, phytofortifier or soil improver dependent upon the country-specific regulations where it is sold.

## Sezela downstream

PRODUCT PRODUCED	USES
Furfural	Mainly for the production of furfuryl alcohol and in lube oil refineries as an extractive solvent in the purification of base oils. It is also used for specialist applications such as the manufacture of grinding wheels, friction pellets for brake pads, crucible manufacture, and to a small extent as a flavour ingredient.
Furfuryl Alcohol	Used to produce a resin used in the foundry industry as a polymeric binder for foundry sands. It is also used for wood treatment, to produce acid resistant coatings and certain pharmaceuticals, and as a flavour ingredient.
Crop Guard® MultiGuard Protect®	Used as an agricultural contact nematicide, at plant and within the growing season. <i>(Developed and marketed by Illovo's "Agriguard" business as an agricultural chemical under the trade names Crop Guard® in South Africa and MultiGuard Protect® in the USA.)</i>
Protect®	Used prior to plant, as a nematicide and fungicide
BioMass Sugar®	Used as phytofortifiers/soil improvers or as a liquid organic fertiliser
Diacetyl	Used as an ingredient in butter flavourings.
2,3-pentanedione	Used as an ingredient in butter flavourings and as an intermediate in the manufacture of pyrazines.
Natural Methanol	Used in the manufacture of natural flavour ingredients.

## Merebank

PRODUCT PRODUCED	USES
Ethanol Potable Extra Neutral Alcohol (ENA) – 96.4%*	A very high quality potable alcohol used by liquor industries for the production of branded alcoholic drinks (e.g. canes, vodkas, gins, rums, liqueurs and aperitifs).
Anhydrous Alcohol – 99.9%	Used in the pharmaceutical industry to produce pharmaceutical intermediaries and products (e.g. in cough mixtures, alcohol is used to dissolve ingredients not able to be dissolved by water). Also used in surgical spirits, medical disinfectants, and in the production of solvents for use in the printing ink and flexible packaging industries.
Rectified Extra Neutral Alcohol (REN) – 96.4%	Also has pharmaceutical applications but used mainly in the personal care industry to produce cosmetics, hair care products, toiletries, fragrances and perfumes. In the food industry, it is used to produce flavours and spirit vinegar which is used in various pickling processes and in the production of condiments (e.g. tomato sauce, chutney, mayonnaise and salad dressings).
Industrial Alcohol – 95%	Used in the production of methylated spirits, solvents and thinners.
Lactulose **	Mild, natural laxative.

\* Potable Extra Neutral Alcohol is also produced at the Glendale Distillery on the KwaZulu-Natal north coast

\*\* Lactulose, a mild, natural laxative, is produced at Merebank utilising Illovo's significant fermentation technology expertise

Water released in the extraction process is recycled for use within the factory operations, thereby minimising the dependence of the factories on external water sources

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, 9 447 tons (2010: 72 500 tons) of non-hazardous waste and 413 tons (2010: 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 ethanol. Illovo utilises a significant portion of its molasses output in the production of ethanol at its Merebank plant in Durban and its Glendale distillery on the KwaZulu-Natal north coast.

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.

#### **RENEWABLE ENERGY**

Illovo proactively monitors and manages energy consumption throughout the group's operations. During the year under review, around 89% of the energy consumed within the operations was supplied from renewable resources.

#### **Co-generation**

Dry, fibrous bagasse, remaining after the extraction of juice from the crushed stalks of sugar cane, provides Illovo with a substantial renewable energy opportunity. Co-generation utilising bagasse substantially reduces the group's reliance on electricity from the national grids as well as greenhouse gas emissions. In addition to the use of bagasse, the operations in Swaziland and Malawi augment co-generation capacity by utilising green cane biomass as a boiler feedstock. During 2010/11, the two operations supplemented boiler fuel-feedstock by approximately 33 000 tons of biomass. The group is currently assessing opportunities to increase the co-generation capabilities of all its operations to further decrease the group's externally-sourced electricity requirements and consequently Illovo's cost base.

In addition to the environmental and cost benefits, co-generation provides a potential source of additional revenue through the export of energy into the national grid. During the year under review, the operation in Swaziland exported 16.5 GWh to the Swaziland national grid, whilst following the commissioning of the new co-generation plant, it is planned to export 55 GWh to the grid over a 48-week period in the current year.

#### **Bioethanol**

An additional renewable energy opportunity provided by sugar processing is the fermentation of molasses to produce bioethanol. Illovo is currently considering entering the bioethanol market at a number of its operations. The group's move into the market will depend on commercial viability and on the implementation of facilitatory mechanisms within the various countries of operation. In preparation for such a move, the following steps were undertaken during the year under review:

- the operation in Zambia initiated a feasibility study for the development of biofuel on the estate; and

- progress on the capital investment in Mali continues, where a greenfield cane sugar project would annually produce 200 000 tons of sugar and 15 000 kilolitres of fuel-blend ethanol, while producing sufficient energy for the agricultural and factory operations, with additional capacity to export power into the national grid.

The production of bioethanol will provide Illovo with the opportunity to further decrease its fossil fuel usage and greenhouse gas emissions, as well as provide an additional revenue stream.

#### **NON-RENEWABLE ENERGY**

The largest consumers of coal within the group are the operations in South Africa. During the year under review, approximately 45 000 tons of coal was consumed by these operations, representing around 75% of the group's coal usage. A broad-scale Performance Optimisation Plan (POP) has been employed to improve energy efficiencies at an operational level within the South African factories, with the aim of reducing the consumption of purchased electricity and coal.

Specific initiatives within the POP undertaken at Illovo's South African operations during the year under review included:

- the operation of only one of two boilers at the Glendale distillery during the summer season in an attempt to reduce coal consumption;
- the manufacture and use of polyfuel, a heavy hydrocarbon derived from a blend of methanol, ethanol, diacetyl, water, furfural, furyl methyle ketone, 5-methyl furfural and acetic acid, as a supplementary fuel in Sezela's boilers;
- energy mass balance assessments of the Sezela and Noodsberg mills in order to maximise factory modification and monitor energy reduction equipment performance; and
- the installation of a thermal compressor at Noodsberg; initial mass balance calculations reflecting savings of around six tons of high pressure steam per hour, equating to a coal saving of 0.82 tons per hour.

#### **AGRICULTURE AND BIODIVERSITY**

The management of the natural areas surrounding and within the group's operations is extremely important due to the high conservation status of such areas at a number of Illovo's operations. Illovo is cognisant of the group's potential impacts on these areas and supports a number of initiatives to preserve ecosystem integrity. Nature conservation areas supported by the group, either financially, managerially or through the donation of land, include:

- **Mhlongsinga Nature Reserve at Ubombo in Swaziland:** Illovo manages the 1 000 hectare game reserve which forms part of a greater 10 000 hectare conservancy combining national, private and community-owned reserves;
- **Nyala Park at Nchalo Estate in Malawi:** Situated on the border of Nchalo Estate, the Illovo-owned private game reserve, Nyala Park, is 300 km<sup>2</sup> in extent and is rated as being one of the best managed protected areas in Malawi;
- **Mwanachingwala Conservation Area at Nakambala in Zambia:** This conservation area is situated on the border of the Nakambala Estate, within the Kafue Flats. Illovo donated land towards the establishment of the area to ensure the protection of the RAMSAR-listed Kafue Flats; and
- **Magombera Forest at Kilombero in Tanzania:** Magombera Forest is an area of low-lying tropical forest with significant biodiversity value on the southern boundary of the Kilombero Estate. Illovo withdrew expansion plans originally intended for the area in light of the forest's biodiversity value and is attempting to negotiate with the Tanzanian authorities to lease the Magombera Forest land for conservation management.

Additionally, the group supports the Malawian Government Reforestation Initiative aimed at rehabilitating the Shire Valley through the cultivation of indigenous trees and woodlots. The cultivation of Eucalypt woodlots is promoted in an effort to reduce the harvesting of indigenous trees for firewood and charcoal production, a serious threat to Malawi's natural environment. Approximately 6 000 trees are planted annually by Illovo. Indigenous tree seedlings were also donated by the company to individuals and conservation organisations for planting.