



Illovo Sugar

South Africa Socio-Economic Impact Assessment

Internal Management Report

April 2014

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Executive Summary

Headline figures for 2012/13

Illovo Sugar South Africa has:
Contributed an estimated ZAR 6.9 billion to the South African economy in 2012/13, including direct, indirect and induced impacts. This equates to about 0.2% of South Africa's GDP – equivalent to 8.4% of the size of the country's agricultural sector
Directly employed 3,659 people in South Africa (including seasonal and non-permanent workers), supported an estimated 22,651 people through outgrowers, and supported further estimated indirect and induced employment of between 5,262 and 22,626. In other words, for every direct employee of Illovo, between 7.6 and 12.4 workers are supported in the wider economy, primarily due to the company's large amount of sourcing from outgrowers.
Paid ZAR 23 million in corporate income tax (20% of pre-tax profit), and a further ZAR 109 million in indirect taxes.
Supported the livelihoods of up to 195,743 people, including dependents, through direct, indirect and induced employment (based on national average household sizes).
Spent over ZAR580 million on remuneration and employee benefits. All employees including agricultural and factory workers, earn above the statutory minimum wage. In addition, they receive benefits such as housing, healthcare and education allowances.
Purchased 93% of its sugar cane from independent outgrower farmers in South Africa. Spent ZAR 1.9 billion buying cane – equivalent to 46% of the total revenues in 2012/13. Spent an additional ZAR 1.6 billion with non-sugar cane suppliers, almost exclusively from companies based in South Africa.
Supported more than 5,000 small-scale farmers through a guaranteed market for cane as well as through investment, training, advice to improve productivity.
Employed 35 full time employees in assisting the Government on its land reform programme. Actively supported Broad-based Black Economic Empowerment (BBBEE) and improved score from level 5 to level 3 (on a scale of 1-8, with 1 representing best performance).

South Africa's development challenges

- South Africa has the largest GDP of any African country and has experienced sustained annual GDP growth since the early 1990s. However, the country faces development challenges: it has the fourth highest rate of HIV infection in the world at 17%, and its poverty rate of 23% almost doubles to 52% for rural areas. Income inequality remains a persistent problem, one that the Government is seeking to address through the Broad-based Black Economic Empowerment Act (BBBEE).

Illovo in South Africa

- **Illovo Sugar is South Africa's largest sugar producer, owning and operating four sugar mills (with a share in a fifth) and representing over 30% of total sugar production** in the country. Sugar itself is South Africa's second largest field crop and ninth most valuable agricultural product. As a result, Illovo's operations have a far-reaching impact on South Africa's economy as a whole.
- **Illovo's most significant impacts are the value created by its business and the significant contribution that it makes to rural employment** in KwaZulu-Natal, where its operations are concentrated. Rural poverty and land reform are two of South Africa's greatest national challenges, and Illovo has a significant impact on both of these areas.

Contributing to South Africa's economy

- **Illovo contributed nearly ZAR 6.9 billion to the South African economy in 2012/13. This equates to about 0.2% of South Africa's GDP – equivalent to 8.4% of the size of the country's agricultural sector.** Illovo's contribution takes the form of direct impacts (wages paid to Illovo employees, tax payments, interest spending and dividends), indirect impacts through the company's value chain, and induced impacts in the form of increased consumption and spending in the economy as a whole.
- **Illovo's business benefits many stakeholders in South Africa.** Illovo directly added ZAR 828 million of gross value to the South African economy. 68% of the company's value added went to employees as salaries, wages and benefits. In 2012, ZAR 1,931 million or 46% of revenues were paid to outgrowers. The company also paid ZAR 133 million in tax for 2012/13, including VAT, employee, customs and excise taxes, and corporate income tax of ZAR 23 million (20% of pre-tax profit).
- **Illovo is a major employer** directly employing 3,659 people in South Africa and further supporting an estimated 22,651 workers through outgrowers, and further estimated indirect and induced employment of between 5,262 and 22,626. In other words, **for every direct employee of Illovo, between 7.6 and 12.4 workers are supported in the wider economy.** Based on an average household size of four, Illovo is estimated to support the livelihoods of between 126,286 and 195,743 people throughout South Africa (inclusive of dependents).

Supporting outgrowers and suppliers

- **Illovo buys 93% of its sugar cane from independent outgrower farmers in South Africa,** representing a significant support to the livelihoods of rural farmers, their families, and local communities. **It also spent ZAR 1.6 billion with non-sugar cane suppliers, almost exclusively with companies based in South Africa.**

- **Illovo's sugar cane supply chain includes more than 5,000 small-scale farmers.** The company supports them through a guaranteed market for cane as well as through investment, training, advice to improve productivity. Illovo invested ZAR 44 million in such initiatives during 2012/13. **The company has a long-term commitment to smallholder farmers** – it has a target to increase the contribution of new freehold and small-scale growers by 1 million tonnes in the next six years. It is also supporting small-scale growers supplying its Noodsberg mill to achieve Fairtrade certification.
- **As a strategic partner in the South African government's land reform programme, Illovo is committed to supporting the sustainability and productivity of redistributed land.** It has been estimated that nationally, only 10% of land redistributed since 1990 is still in production. In contrast, redistributed land in Illovo's supply chain achieves 94% of its productivity potential.
- **Illovo has met or exceeded the target score in the BBBEE categories of Land Ownership, Enterprise Development, and Socio-Economic Development.**

Investing in employees

- **Illovo spent over ZAR 580 million on remuneration and employee benefits in 2012/13.** Lowest paid workers receive wages either in line with or above the statutory minimum wage. In addition, Illovo provides major additional benefits, including accommodation in certain instances, healthcare and medical aid for all employees and the families of permanent employees.
- **Illovo Sugar South Africa has invested ZAR 18 million in training and development** including programmes to promote local talent into senior leadership and address skills gaps. Of the company's senior leaders, 99% are local citizens.
- **The company is a pro-active supporter of Broad-based Black Economic Empowerment (BBBEE),** and voluntarily submits a scorecard on its performance empowering previously disadvantaged groups. **Illovo has improved its performance from level 5 to level 3** (on a scale of 1-8, with 1 representing best performance).
- **The company has a strong focus on HIV/AIDS healthcare initiatives.** It follows a Triple Zero approach to the challenge of HIV/AIDS, aligned with the UNAIDS strategy. The company provides healthcare support for the 22% of Illovo direct employees who are HIV positive and undertakes initiatives to help HIV negative employees stay that way.

Investing in the wider community

- **Illovo invested ZAR 6.3million in social community programmes during 2012/13.** Improving education provision in KwaZulu-Natal is a particular focus. The company has funded the construction and renovation of classrooms, and provided equipment such as computers and educational materials.

Promoting environmental sustainability

- **Illovo has been an early adopter of sustainable sugar farming practices through the SusFarMS environmental management system,** which was pioneered by the growers association that supports Illovo's Noodberg mill. The programme has been scaled up in

partnership with the World Wildlife Fund (WWF) and South Africa Sugar Resource Institute (SASRI).

- **Droughts in recent years have increased the importance of promoting best practice in water stewardship in KwaZulu-Natal.** All cane delivered to Illovo Mills in South Africa is rain-fed and not additionally irrigated. Wherever possible water is recycled extensively through an “open loop” system within factories.
- **Illovo South Africa is working to reduce its dependence on coal-fired energy for the cane-crushing process,** with a target of reducing coal consumption during the crushing season by 25% before 2017. Bagasse, a by-product of the cane crushing process provides an excellent renewable energy source and its potential has been demonstrated by Illovo operations in other African countries.

Future considerations

It is evident that Illovo Sugar has significant positive impacts in the communities in which it operates. However, the Group recognises there is more it can do. In addition to this country report, Corporate Citizenship has produced a detailed management presentation outlining key observations and recommendations for Illovo to enhance its positive social, economic and environmental impact.



Introduction

Illovo Sugar Limited (Illovo) is Africa's biggest sugar producer with extensive agricultural and manufacturing operations in six African countries: Malawi, Tanzania, Mozambique, Swaziland, Zambia and South Africa itself.

To form a deeper understanding of its impact, Associated British Foods, which has a 51 percent holding in Illovo, commissioned Corporate Citizenship to undertake a socio-economic impact assessment of Illovo's operations.

This internal management report sets out key findings from the assessment and focuses on Illovo's direct socio-economic impact in South Africa, as well as its indirect and wider impacts through its value chain (outgrowers, suppliers and customers).

Other reports are available covering the socio-economic impact of Illovo in the other African countries where it operates. In addition, there is a Group-wide management presentation outlining key observations and recommendations.

Methodological note

Corporate Citizenship's process for this project involved reviewing financial and management information provided by each Illovo country team. This was followed by site visits to Swaziland, Mozambique, Zambia and Malawi to visit the operations and their surrounding communities, as well as interview senior management and key stakeholders affected by the business. These varied by country but included sugarcane farmers, small-holder association representatives, employees, trade union representatives, local suppliers, doctors, teachers and other beneficiaries of Illovo's social investment spend. Corporate Citizenship also conducted its own desk-based research and analysis.

The data presented within this report is based on internal financial and management information provided by key personnel within Illovo and has not been audited by Corporate Citizenship.

A detailed methodological note on our approach to estimating total economic impact and employment is available separately (Appendix 1).

Section 1: Sugar in South Africa

Headline messages:

- South Africa has a national unemployment rate of 23%, with rural unemployment rates significantly higher at 52%. Other social challenges include high rates of income inequality, the challenge of redistributing land, and high rates of HIV/AIDS.
- Illovo accounts for over 30% of total sugar industry production in South Africa, making it the country's largest sugar producer.
- Illovo is a leading partner in implementing the Government's land reform programme.
- South Africa's sugar industry faces current challenges in the form of recent droughts in its KwaZulu-Natal heartland, and maintaining production during the Government's land reform programme.

South Africa: an economic summary

South Africa has experienced sustained annual GDP growth since the early 1990s and has the largest GDP in Africa.

In the past decade, the economy has shifted away from agriculture towards industry and services.² Agriculture now accounts for 3% of GDP and employs 9% of the labour force.

Development challenges

South Africa's national unemployment rate currently stands at 23%, with employment opportunities particularly limited in rural areas. Unemployment rates in rural areas reached 52% in 2012.³

South Africa Country Data¹

Economic Indicators (2012 est.)

GDP (purchasing power parity)	\$592 billion
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GDP per capita	\$11,600
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Annual GDP growth rate	2.5%
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Labour Market Indicators

Population	48.6 million (2013)
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Labour Force	18 million (2012)
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By occupation (2007)	Agriculture 9% Industry 26% Services 65%
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Population location	Rural 38% Urban 62% (2011)
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Unemployment rate	22.7% (2012 est.)
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Poverty Indicators

Population living at or below - \$2 per day (PPP)	31.3 (2009)
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Adult literacy rate	93%
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Life expectancy at birth	49 years (2013)
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Inequality continues to be a significant challenge. The Employment Equity Act and the Broad-Based Black Economic Empowerment Act (BBBEE) require businesses to establish

¹ CIA (2013) *World FactBook: South Africa*

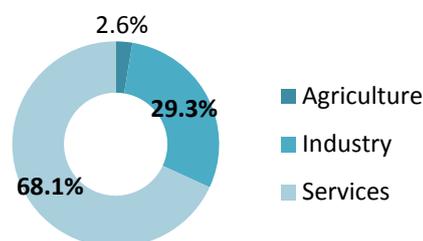
² South Africa: Economic Research Division (2010) *The Declining Contribution of Agriculture to GDP: Is the Role of Agriculture Becoming Less Important?*

³ Mail & Guardian (2012), 'Alarming' rise in rural unemployment, MPs told
<http://mg.co.za/article/2012-09-12-alarming-rise-in-rural-unemployment-mps-told>

targets, plans, and programmes to achieve a more equitable workforce and help address inequality.

HIV/AIDS remains the biggest health issue facing the country. South Africa has the fourth highest rates of HIV/AIDS globally with 17% of the population infected and an average life expectancy that has declined to 49 years.

GDP breakdown by sector



Sugar and South Africa's economy

Sugar cane occupies a pivotal role in South Africa's rural economy: the second largest field crop in the country, and the ninth largest agricultural product when measured by gross value. Illovo itself accounts for more than 30% of the nation's total sugar industry production, making it the country's largest sugar producer.

According to the South African Sugar Association (SASA), the sugar industry is the largest agricultural employer in South Africa, representing 11% of the total agricultural workforce. The sugar industry supports approximately 29,130 sugar cane growers and their families, 95% of whom are small-holders who rely almost wholly on the crop. Its secondary impact is wider still, with many rural communities heavily dependent on the income that sugar provides.

Challenges for the sugar industry in South Africa

South Africa's sugar industry is concentrated in the north-eastern provinces of KwaZulu-Natal and Mpumalanga, where recent droughts have caused declining yields and increased pressure on small-holders, their families and communities.

Additional pressure results from the challenges of South Africa's land reform programme, which redistributes land to black farmers. New farmers often lack the funds and expertise to grow crops on a large scale, and this leaves them extremely vulnerable to agricultural setbacks. According to some reports, up to 90% of land distributed to black farmers since 1994 is no longer productive⁴. This makes Illovo's work supporting land reform (Illovo is a strategic partner of the South African government) a key area of socio-economic impact.

Illovo in South Africa

Illovo is a major industry player accounting for more than 30% of the total sugar industry in South Africa. It has extensive operations in the country, mainly in KwaZulu-Natal province in the north-east which includes cane estates, sugar mills, a refinery and downstream plants. Of the fourteen sugar mills in South Africa, Illovo owns four, and has a minority shareholding in a fifth. South Africa is Illovo's biggest country of operations, producing almost 600,000 tonnes of sugar (over 34% of the company's total sugar production) in

⁴ Voice of America News, 29/10/12, [*Black Farmers in South Africa Still Struggling with Land Reform*](#)

2012/13. Illovo has long history of promoting small-scale farmers, currently sourcing from more than 5,000 such outgrowers.

Section 2: Supporting economic growth

Headline messages:

- Illovo contributed an estimated ZAR 6.9 billion to the South African economy in 2012/13, including direct, indirect and induced impacts. This equates to about 0.2% of South Africa's GDP – equivalent to 8.4% of the size of the country's agricultural sector.
- Illovo directly employs 3,659 people in South Africa, supports an estimated 22,651 people through outgrowers, and supports further estimated indirect and induced employment of between 5,262 and 22,626. In other words, for every direct employee of Illovo, between 7.6 and 12.4 workers are supported in the wider economy, primarily due to the company's large amount of sourcing from outgrowers.
- Illovo's business benefits many stakeholders. In 2012, ZAR 1,931 million or 46% of revenues were paid to outgrowers. 68% of the company's value added went to employees as salaries, wages and benefits.
- Illovo paid ZAR 133 million in tax for 2012/13, including VAT, employee, customs and excise taxes, and corporate income tax of ZAR 23 million (20% of pre-tax profit).
- 78% of Illovo's revenues in South Africa come from domestic sales, mainly of sugar and syrup, while 22% are from exports, mainly of downstream products such as syrups, alcohols and furfural.

Illovo adds value to the economy of South Africa by taking raw sugar cane, milling and refining it, and producing sugar and downstream products. The company has impacts on a wide range of stakeholders in the local community and the wider economy, through three main channels:

- **Direct** impacts, through Illovo's direct employment of workers on farms and in factories, as well as tax payments, interest spending, shareholder dividends, investments and other payments;
- **Indirect** impacts in the value chain, through sourcing sugar cane from farmers and payments to suppliers and distributors, as well as impacts on those selling Illovo products or using them in their businesses;
- **Induced** impacts, through spending by direct and indirect employees of Illovo, leading to increased consumption and employment elsewhere in the economy.

Additional, secondary impacts that result from Illovo's presence in South Africa include the provision of infrastructure such as roads, water, schooling and healthcare. These are described in this report, but have not been given a financial value.

In order to estimate Illovo's full macro-economic impacts, Corporate Citizenship has used information from various academic studies into the economic impacts of the sugar industry in southern Africa, including "multipliers" which estimate, for example, the amount of indirect and induced employment created per direct employee in the sugar industry. Full details are contained in Appendix 1.

The sugar industry in southern Africa is noted in a variety of studies for its large multiplier effects. This is due to the relative labour intensity of production, compared to other agricultural crops such as maize and wheat, as well as the large number of smallholder farmers in the value chain. Sugar cane must be milled as soon as possible after harvesting in order to preserve its sucrose content, resulting in the widespread and rapid transmission of income to local people. As well as consuming inputs such as fertiliser, fuel and mechanical equipment, sugar provides opportunities to sectors such as transport, retailing and hospitality, as well as food processing and beverage companies.

Total economic impact

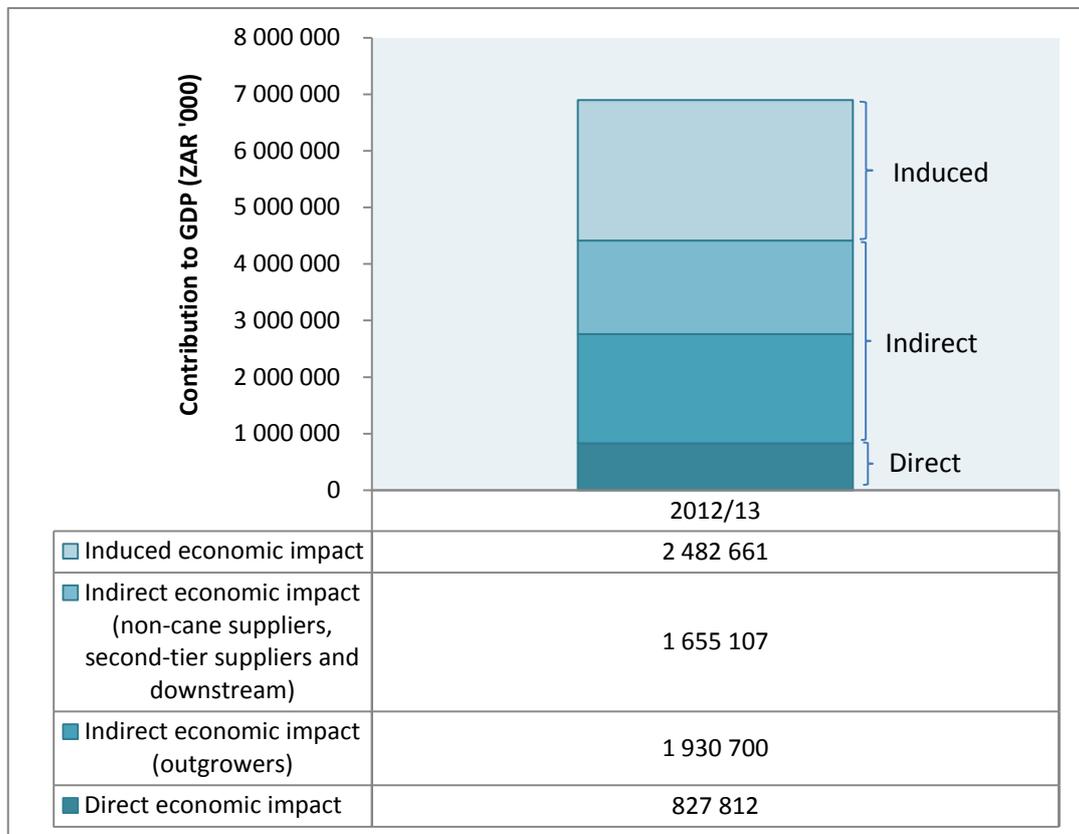
Illovo's direct contribution to the South African economy, measured in terms of its gross value-added, was ZAR 828 million in 2012/13. The company's additional indirect impacts in South Africa are estimated at ZAR 3,586 million⁵, and its induced impacts at ZAR 2,483 million.

We therefore estimate Illovo's total economic impact on South Africa at ZAR 6,896 million. This equates to about 0.2% of South Africa's GDP – equivalent to 8.4% of the size of the country's agricultural sector^{6,7}. As the chart below shows, indirect impacts make up over half of this total, due to the large proportion of sugar cane that Illovo sources from external growers.

⁵ Including spending with outgrower farmers of ZAR 1, 937 million and non-cane procurement spending of ZAR 1.6 billion (see Section 4), as well as wider impacts through second-tier supplier spending and impacts in the downstream value chain. See Appendix 1 for an explanation of the multipliers used. As the chart below shows, spending with non-cane suppliers almost accounts for the entire estimate of indirect impact, calculated from the multipliers. This is due to the very high proportion of procurement spending which takes place in South Africa versus the rest of the world. However, this does not account for the effect of "leakage", i.e. South African suppliers importing goods from overseas.

⁶ [IMF World Economic Outlook Database](#), South Africa gross domestic product, current prices, 2012

⁷ [CIA World Factbook for South Africa](#), GDP - composition, by sector of origin

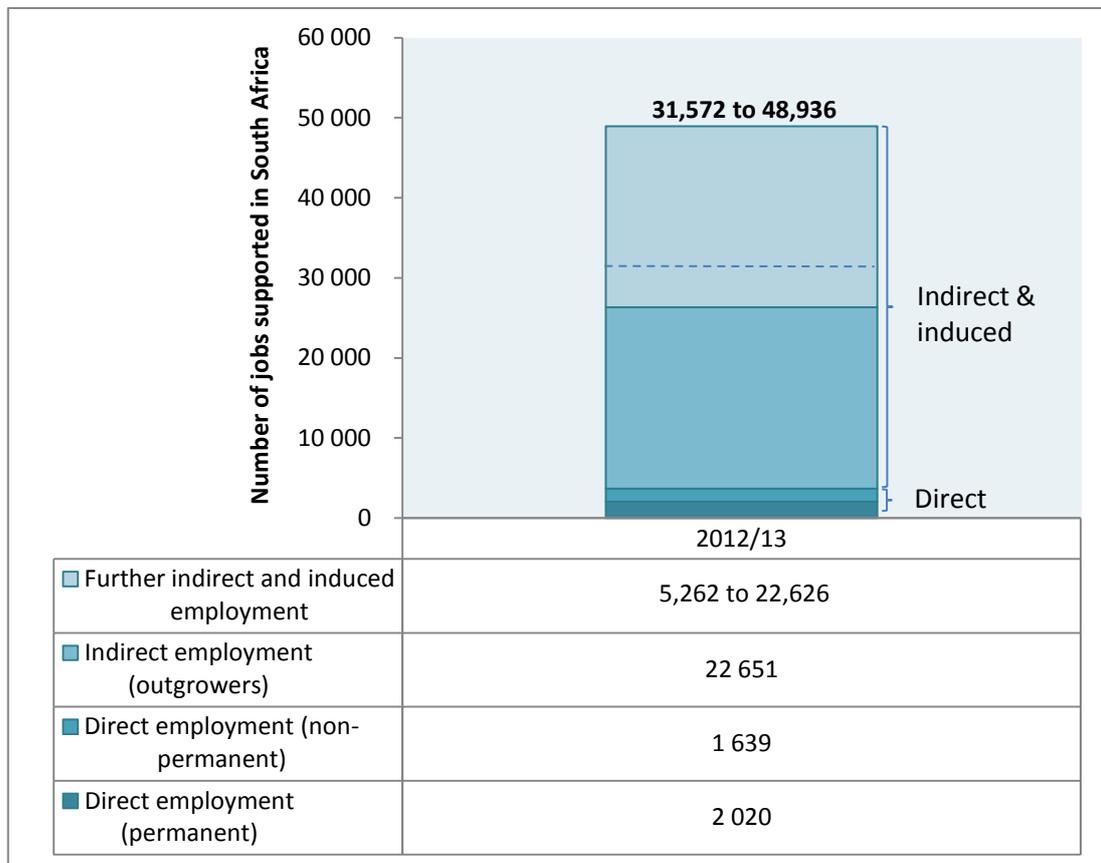
Illovo South Africa: Total economic impacts in South Africa (estimated), 2012/13

Illovo Sugar is estimated to support between 31,572 and 48,936 jobs in South Africa. This includes direct employment of 3,659⁸, an estimated 22,651 people supported through outgrower farms, and further estimated indirect and induced employment of between 5,262 and 22,626⁹. In other words, for every direct employee of Illovo, between 7.6 and 12.4 workers are supported in the wider economy, reflecting the company's large amount of sourcing from outgrowers. These estimates are based on a range of conservative multipliers from external studies, and may in fact understate Illovo's total employment impact, since some informal employment may not be accounted for.

Illovo's impact on livelihoods does not end with those who it employs. The rural areas in which the sugar industry is primarily based means that there is a significant impact on workers' dependents (i.e. immediate and extended family). The average household size in KwaZulu-Natal is four (see Appendix 1), although the total number of dependents supported by rural farmers may well be higher. Illovo Sugar is therefore estimated to support the livelihoods of between 126,286 and 195,743 people throughout South Africa, equivalent to up to 53 people for every direct employee of the company.

⁸ 2,020 permanent employees, plus 1,639 seasonal workers. Seasonal workers are hired according to the milling season of 6-9 months, so receive a significant proportion of their incomes from the company.

⁹ See Appendix 1 for an explanation of the multipliers used

Illovo South Africa: Total employment impacts in South Africa (estimated), 2012/13**Distributing wealth**

Illovo South Africa is a successful and growing business. In 2012/13, the company's gross revenues were ZAR 4,229 million. This was a significant increase on revenues in the previous two years, due mainly to recovery following widespread droughts in 2010. Pre-tax profits also increased substantially, from ZAR 61 million in 2011/12 to ZAR 155 million in 2012/13.

A wide range of stakeholders benefit from Illovo's revenues in South Africa. The wealth that Illovo creates for the economy and society is captured by its "value-added". This is defined as the difference between the company's revenues and its outgoings.

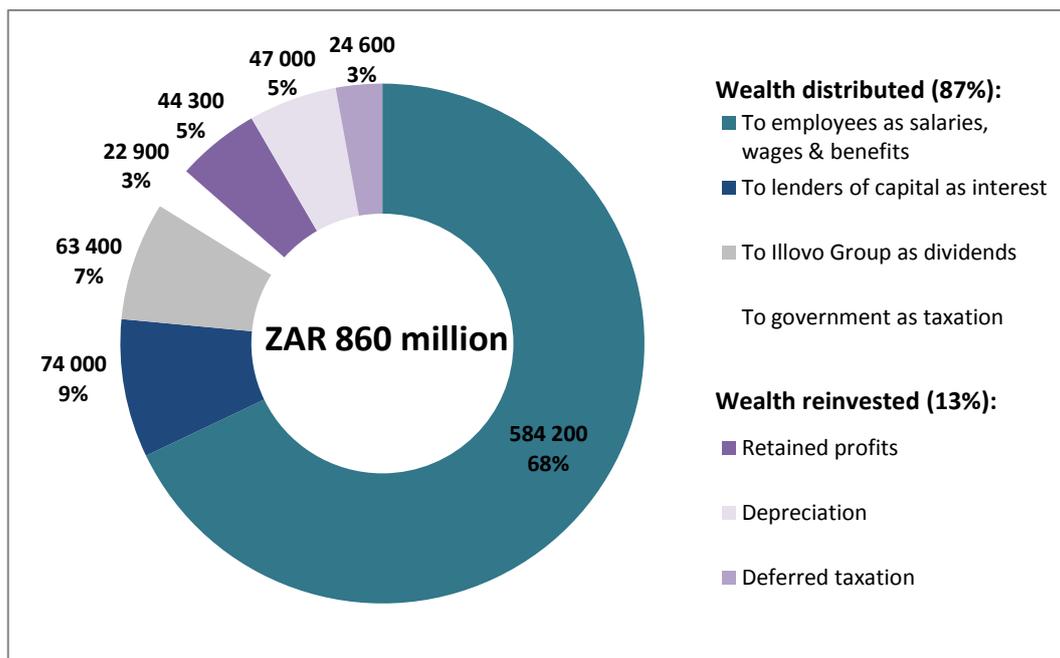
Outgrower farmers are the biggest beneficiaries of Illovo South Africa's outgoings, receiving 46% of revenues. This spending has significant impacts on the livelihoods of poor, rural farmers, as discussed in Section 4.

Illovo South Africa wealth creation, 2012/13¹⁰

Revenues	ZAR 4,229 million	
Paid to outgrower farmers	(ZAR 1,931 million)	46%
Manufacturing costs	(ZAR 1,438 million)	34%
Total value-added	ZAR 860 million	20%

The majority of Illovo's value-added total of ZAR 860 million is distributed to its stakeholders, with some retained for reinvestment. In 2012/13, 87% of value added was distributed to employees, providers of capital and governments, and 13% reinvested in the business.

Dividends to Illovo Group account for about 7% of gross value-added. Of this, 51.4% goes to Associated British Foods (ABF) through its shareholding in the Group, with the remainder going to other shareholders, many of them in South Africa. After dividends to ABF are subtracted, this therefore leaves a total direct value-added contribution to South Africa's GDP of about ZAR 828 million.

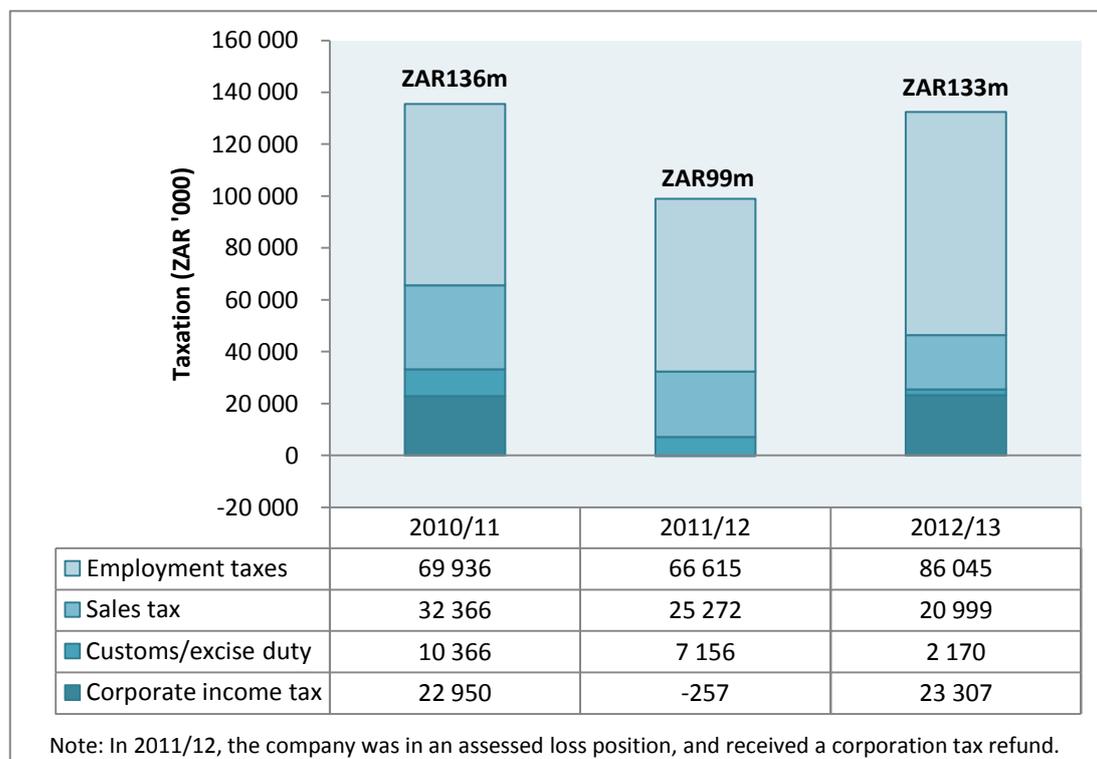
Distribution of South Africa value-added, 2012/13**Contribution to public finances**

Illovo South Africa's total direct and indirect tax payments in 2012/13 amounted to ZAR133 million. ZAR 23 million of this came in the form of corporate income tax (20% of pre-tax

¹⁰ For consistency, figures have been taken from the Illovo Group value-added statement.

profit), and the majority through indirect taxes, including sales taxes (VAT), employee taxes and customs and excise taxes. In 2012/13, these amounted to ZAR 109 million.

Illovo South Africa taxation, 2011-13



Administering government grants

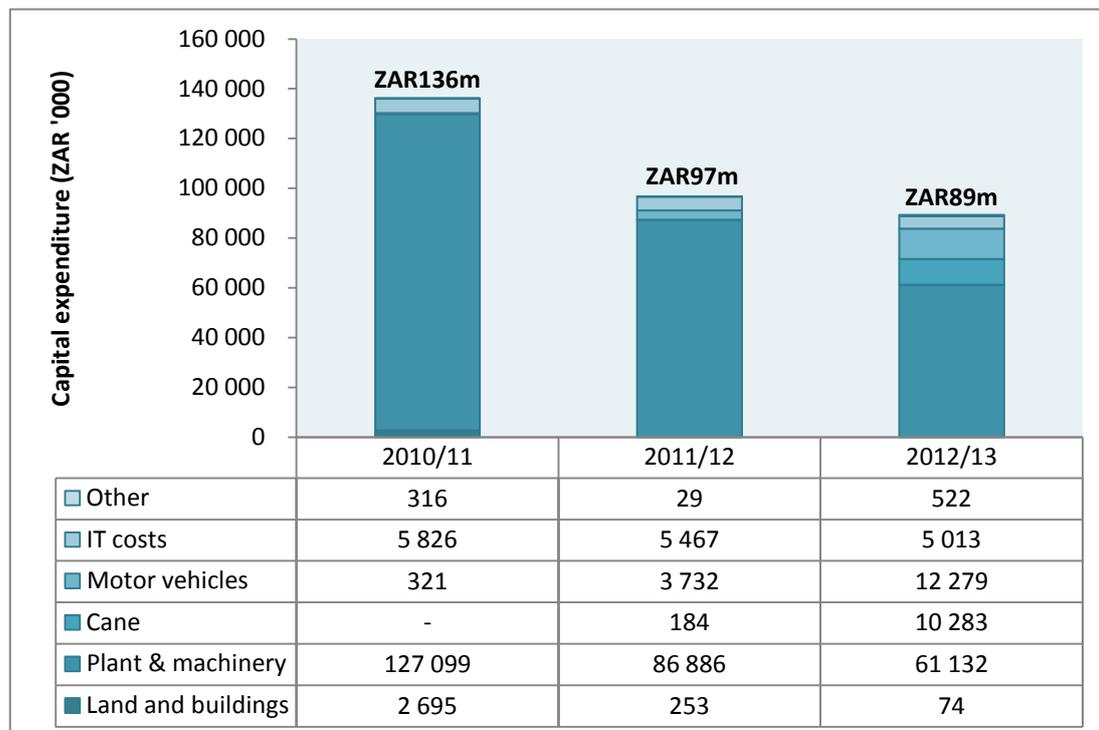
In addition to its own value-added impact, Illovo administers grants from the South African government, which are used to fund agricultural development schemes under land reform legislation. Further information on these is given in Section 4. In 2012/13, government subsidies to Illovo South Africa totalled ZAR 23 million, compared to ZAR 25 million in 2011/12 and ZAR 17 million in 2010/11.

Investing in the future

In 2012/13, Illovo South Africa's capital expenditure totalled over ZAR 89 million, a slight decrease from the previous year. This total includes spending on land and buildings, plant and machinery, and sugar cane.

Improving the productive capacity of its land is a key focus of Illovo's investment, and has contributed to three of the company's four mills now operating at full capacity, while the fourth currently operates at 70%. Illovo is currently investing in a boiler upgrade at Noodsberg Sugar Mill & Refinery and a packaging plant at Eston Sugar Mill. Such investments will continue to improve the profitability and value-added impact for the business.

Illovo South Africa capital expenditure, 2011-13



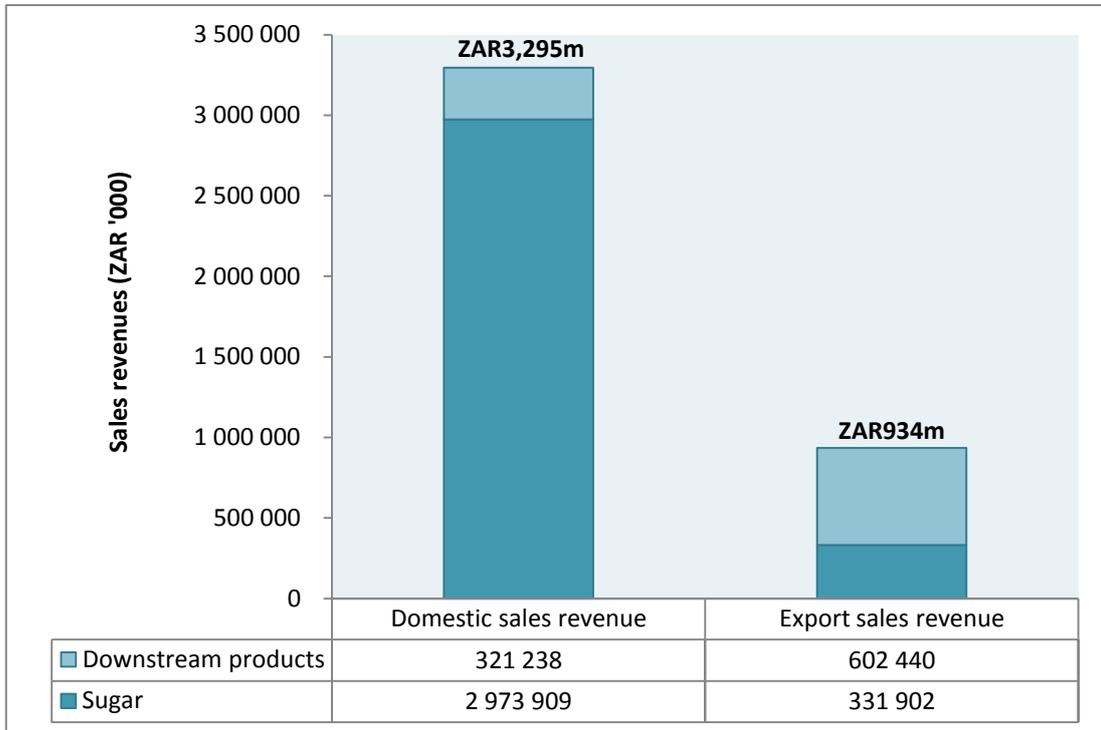
Contribution to trade

Sales of sugar into domestic markets benefit local consumers and help reduce reliance on imports, while exports have a positive impact on South Africa's balance of trade, increasing flows of foreign revenues into the country.

Illovo South Africa sells the majority of its product domestically, both direct to consumers and to other businesses. Domestic sales revenues, primarily from sugar and syrup, amounted to ZAR 3,295 million in 2012/13 – nearly 78% of total sales.

The company also sells a significant amount of its production overseas. In 2012/13, Illovo's export sales revenue totalled ZAR934 million, primarily from downstream products, and accounted for over 22% of total sales. The company also indirectly enables further exports through its sales to industrial customers in South Africa. This far outweighs Illovo's imports in 2012/13.

Illovo South Africa domestic and export sales revenues, 2012/13



Section 3: Creating jobs and supporting livelihoods

Headline messages:

- Illovo directly provides employment for 3,659 people in South Africa, including 2,020 permanent and 1,639 seasonal workers. Through providing direct employment, the company supports the livelihoods of over 14,500 employees and family members.
- The company spent over ZAR 580 million on remuneration and employee benefits in 2012/13. Illovo South Africa pays all employees either in line with or above the statutory minimum wage. Furthermore, employee incomes are above both the government set poverty line and the absolute poverty line at \$2 a day. In addition to basic wage, employees receive benefits such as housing, healthcare and rations, significantly contributing to their livelihoods and wellbeing.
- Illovo Sugar South Africa has invested ZAR 18 million in training and development including programmes to promote local talent into senior leadership and address skills gaps. Of the company's senior leaders, 99% are local citizens.
- Illovo Sugar South Africa has made progress towards achieving its target for proportion of female employees to 30% by 2015, from a baseline of 18%. However, the company will have to focus more on gender diversity to meet its target of 30% by 2015.
- Illovo's investment in employee health and safety has helped to significantly reduce the injury frequency rate by over 50% in the last 3 years, from 0.61 to 0.18.
- Illovo South Africa achieved level 3 certification in the BBBEE scorecard, up from level 5 previously.

Direct employment overview

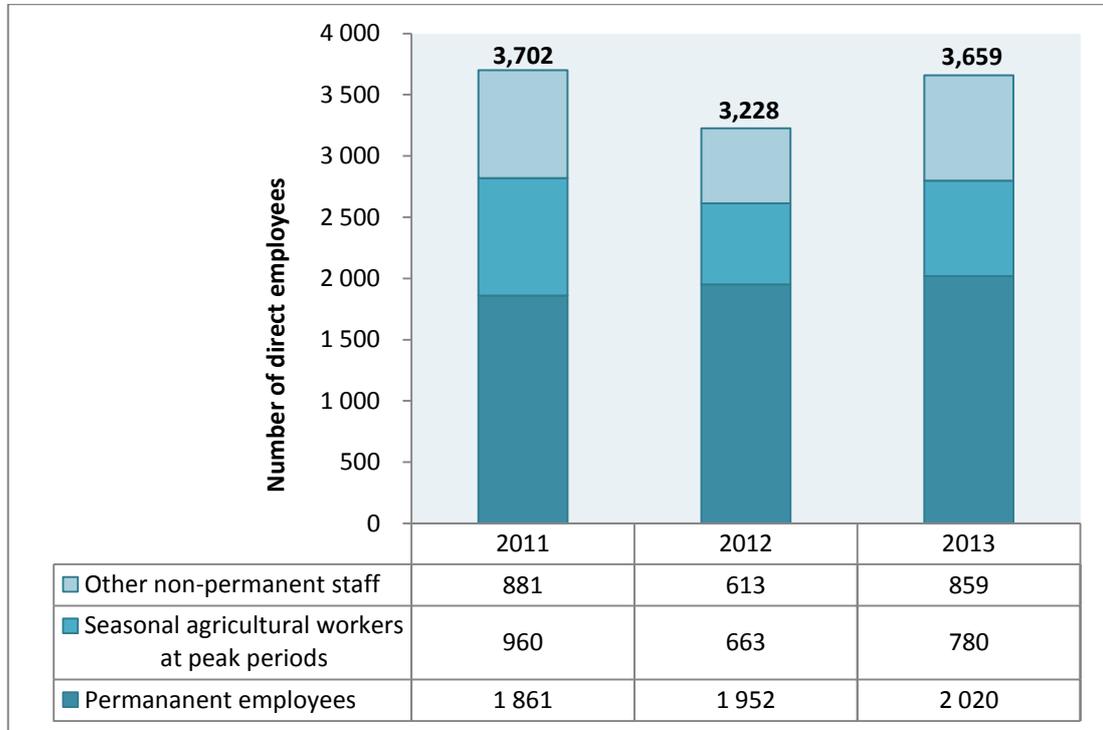
Rural employment is a priority for the South African Government's current job creation strategy. Illovo plays an important role in generating direct and indirect employment opportunities in KwaZulu-Natal, where unemployment runs consistently above 20% and poverty remains embedded in parts of the community.

The 3,659 people directly employed by Illovo include 2,020 permanent employees, and 1,639 non-permanent employees of which around 780 are seasonal agricultural workers¹¹.

¹¹ Employment figures may differ from those reported in the Illovo Integrated Report due when the headcount on employee numbers was conducted.

Illovo has provided a stable source of employment over the past three years. Employee turnover in 2012/13 was 5.1%, down from 6% in the previous year¹².

Illovo South Africa direct employment, 2011-13



We estimate the direct jobs provided by Illovo support the livelihoods of 14,636 people once families and dependents are taken into account. This is based on KwaZulu-Natal’s average household size of four. In many cases, the province’s households are supported by a single wage-earner and although some families in Illovo’s Durban headquarters may have more than one earner, anecdotal evidence suggests this is balanced by rural households which often number more than four people.

Direct employment represents only one aspect of Illovo’s support for livelihoods in South Africa. The company also indirectly supports livelihoods through jobs in the wider value chain.

Extended impact of direct employment



¹² Data sourced from the Illovo Integrated Report, 2013.

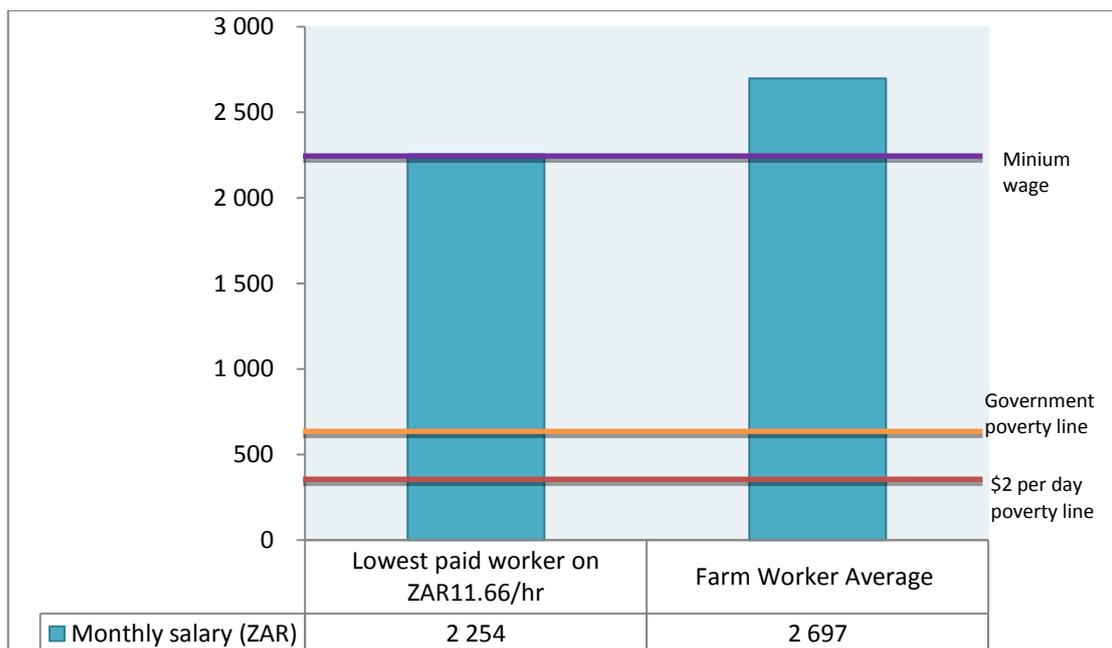
Competitive income levels

In 2012/13, Illovo South Africa spent a total of ZAR 584 million¹³ on employee salaries and benefits.

Illovo pays all employees above the standard minimum wage. The lowest paid worker at the company is paid in line with the recently raised statutory minimum wage for farm workers, which equates to a monthly salary of ZAR 2,273 per month. Once feeding allowance is included, Illovo's lowest-paid worker earns ZAR 2,400 per month, while the average farm worker at Illovo earns ZAR 2,697 per month.

According to a 2009 study, 31% of South Africans live on or below US\$2 a day (PPP). All employees at Illovo South Africa, including agricultural and factory workers, receive enough money to support both themselves on both the government set upper-bound poverty line at ZAR 640 and the median poverty line for the developing world defined by the World Bank at \$2 (PPP) per person a day. The income of the lowest paid worker at Illovo becomes stretched if we assume that they are the sole earner of a typical household.¹⁴ However, this does not take into account the additional benefits such as healthcare, education allowances and housing which employees and their dependents receive.

Illovo South Africa monthly wages, 2012/13



¹³ For the purposes of consistency, this is based on the amount included within the detailed country value added breakdown provided for the Integrated Report.

¹⁴ The \$2 a day (PPP) poverty line has been calculated as ZAR 348 per person per month (2013 prices), or ZAR 1,392 per household per month. South Africa's government set upper-bound poverty line calculated as ZAR 640 per person per month (2013 prices), or ZAR 2,560 per household per month (see Appendix 2 for further detail)

Employee representation

Sugar cane harvesters, particularly those who work on a seasonal basis, are some of the most vulnerable workers in Illovo's value chain. Strong and active unions help to promote constructive dialogue and workers' interests, and labour standards. Illovo South Africa has the lowest percentage of unionised employees within the Illovo Group as a whole: 71% in 2012/13¹⁵. This is partly due to the relatively large number of management employees in the country. Many of these have chosen not to join a union despite being entitled to do so. Representation tends to be focussed amongst entry grade positions.

Additional benefits

Illovo Sugar South Africa employees receive a wide range of benefits in addition to their salary. Permanent employees receive healthcare and medical aid, and performance based bonuses where eligible, with healthcare and medical aid also extended to their families and dependents. Seasonal agricultural workers receive both accommodation and access to healthcare services during their employment.

A total of 409 employees receive company funded accommodation. Healthcare and medical aid is extended to cover 3,416 employees, including permanent, contract and seasonal workers. Furthermore, all employees qualify for performance-related bonuses, which 1,539 employees received in 2012/13.

Illovo Sugar breakdown of spend on main benefits, 2013

Benefit	Spend (ZAR)'000
Accommodation	2,740
Healthcare & medical aid	21,309
Bonus (C3 employment category and below)	14,885

Contributing to health and wellbeing

Provision of health care and medical aid

With poor access to medical facilities in many rural areas, Illovo's provision of healthcare and medical aid to employees, families and dependents has an important impact on livelihoods.

¹⁵ Data sourced from the Illovo Integrated Report, 2013.

A key aspect of the healthcare programme involves HIV/AIDS, which represents a huge challenge for South Africa as a whole. Currently Illovo is providing support for 336 of its direct employees who are HIV positive. The company's HIV strategy aims to identify which employees is HIV negative and help them to stay that way, to ensure the ones that are HIV-positive receive suitable medical management programmes, and to reduce stigma and discrimination around HIV and AIDS. This approach is deliberately aligned with UNAIDS 'Triple Zero' strategy of zero infections, zero deaths and zero discrimination.

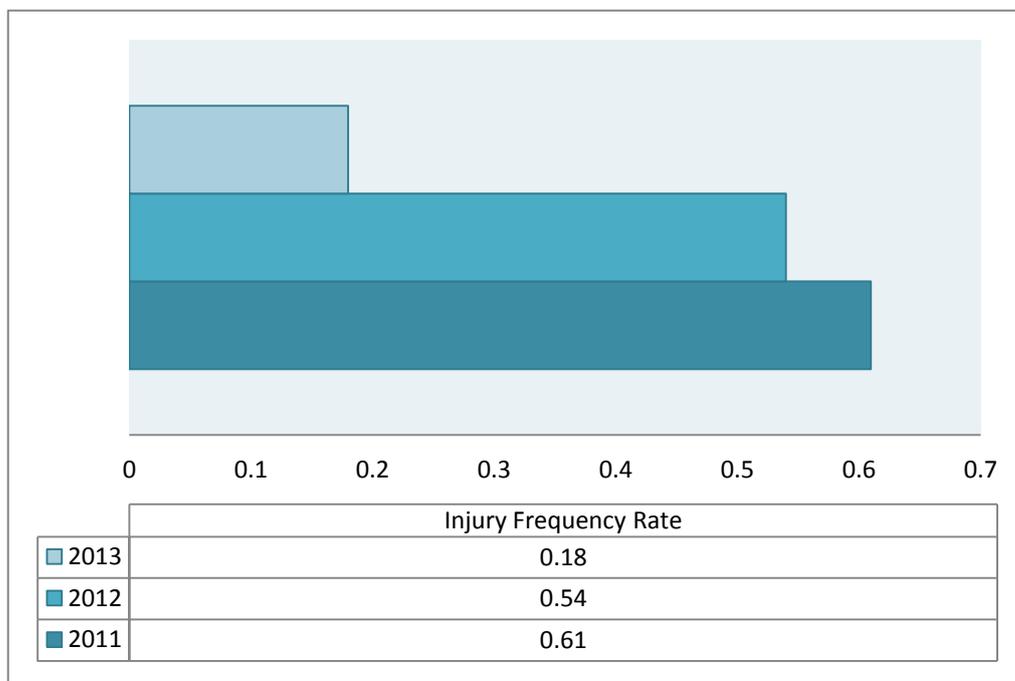
In addition to HIV and AIDS, Illovo's health programmes also focus on tuberculosis and other priority health issues for the country.

Occupational health and safety

Illovo follows best practice international standards when it comes to health and safety. All of Illovo's cane-growing and factory operations in South Africa have either four- or five-star accreditation under the NOSA Integrated Five-star System covering safety, health and environmental management. The company's distilleries also hold Occupational Health and Safety Management System OHSAS 18000:2007 accreditation.

Illovo Sugar South Africa has invested heavily in safety training and equipment. As a result of, the injury frequency rate (the number of injuries per 200,000 man-hours worked) has fallen by over 50% from 0.61 to 0.18, in the last three years. The company has experienced no fatalities during this time.

Illovo Sugar South Africa Injury Frequency Rate, 2011-13



Improving diversity

Illovo South Africa operates within the Employment Equity Act of 1998. This protects workers and job seekers from unfair discrimination, and also provides clear guidelines for affirmative action, which is being applied to help redress inequality in employment in the country through BBBEE.

Women's participation is an increasingly important issue for the development agenda and campaigning NGOs, as evidence suggests economically active women help to build stronger, thriving communities. The sugar industry traditionally has a strong gender bias – women face barriers to accessing land and credit, earning income and developing skills.

In accordance with the Act, Illovo has drawn up an Employment Equity Plan for South Africa, which includes clear targets for achieving a more equitable workforce. Each year, Illovo submits an Employment Equity Report to the Department of Labour with details of the profile of its workforce and the company's progress against its Employment Equity targets.

In particular, the company has made progress towards achieving its target for proportion of female employees to 30% by 2015, from a baseline of 18%. However, the challenges for women in the workforce and in the sugar industry remain and the company has a big gap to close.

Illovo Sugar South Africa workforce profile, 2012/13:

	Permanent	Temporary	Foreign nationals	Senior management	Middle Management
Males	1712	978	13	75	165
Women	488	238	5	18	37
Percentage female	22%	20%	28%	19%	18%

Illovo also submits an entry to the Broad-Based Black Economic Empowerment (BBBEE) scorecard. This is not a legal requirement. However, preferential treatment is given to government suppliers who support the BBBEE agenda in this way. Businesses are scored in seven weighted categories and receive a certification level of 1-8, with 1 denoting the best performance. Illovo South Africa currently has level 3 certification, up from level 5 previously. The company met or exceeded the target score in the categories of Land Ownership, Enterprise Development, and Socio-Economic Development. However, the company still lags behind the target score in the elements of Management Control, Employment Equity, Skills Development and Preferential Procurement.

Illovo's contribution to career advancement opportunities for South Africans is reflected in the fact that 99% of senior management are South African citizens¹⁶.

Agricultural Sector BBBEE Scorecard for Illovo Sugar (South Africa) Limited¹⁷:

ELEMENT	TARGET	SCORE
Ownership Equity	N/A	N/A
Land Ownership	20	25
Management Control	10	4.81
Employment Equity	10	5.59
Skills Development	20	11.06
Preferential Procurement	20	7.84
Enterprise Development	10	10
Socio-Economic Development	10	11
Total Score	100	75.30

Developing skills and talent

The availability of skilled labour is a key issue in South Africa, with engineering skills a particular gap. Employee development is part of Illovo's strategy for ensuring the growth and sustainability of the business in the country. The company spends ZAR 18,188,000 on training and up-skilling its workforce, which amounts to between 1 and 5 days of training for each employee.

Illovo South Africa's bursary programme provides financial support to engineering students, with the majority of these students going on to join the company. In accordance with the Employment Equity Plan, 70% of bursaries are granted to priority employment groups.

The company also provides apprenticeships for artisans, many of whom are employed by Illovo upon completing their apprenticeships. Additionally it offers engineer-in-training, management development, and leadership development, both for current and emerging leaders.

¹⁶ Data sourced from the Illovo Integrated Report, 2013.

¹⁷ <http://www.illovosugar.co.za/Files/BBBEE%20Certificate%202013.pdf>

Training offered	Description	Attendees in 2012/13
Apprenticeships	Structured formal trainee programmes, mainly for artisans to provide work experience and develop skills.	23
Bursaries	Mainly from the engineering discipline, to further their tertiary education in preparation for inclusion into the Management Trainee Programme	31
Engineers-in-training	Structured formal trainee programmes to help employees further develop skills.	21
Leadership programmes	Conducted in partnership with business schools, targeting high potential middle, senior, general and executive managers identified via the succession planning process	23
Management development	Delivery of group-based management development programmes, aimed at both first-line and upper management.	30
Total		128



Section 4: Value chain impact – suppliers

Headline messages:

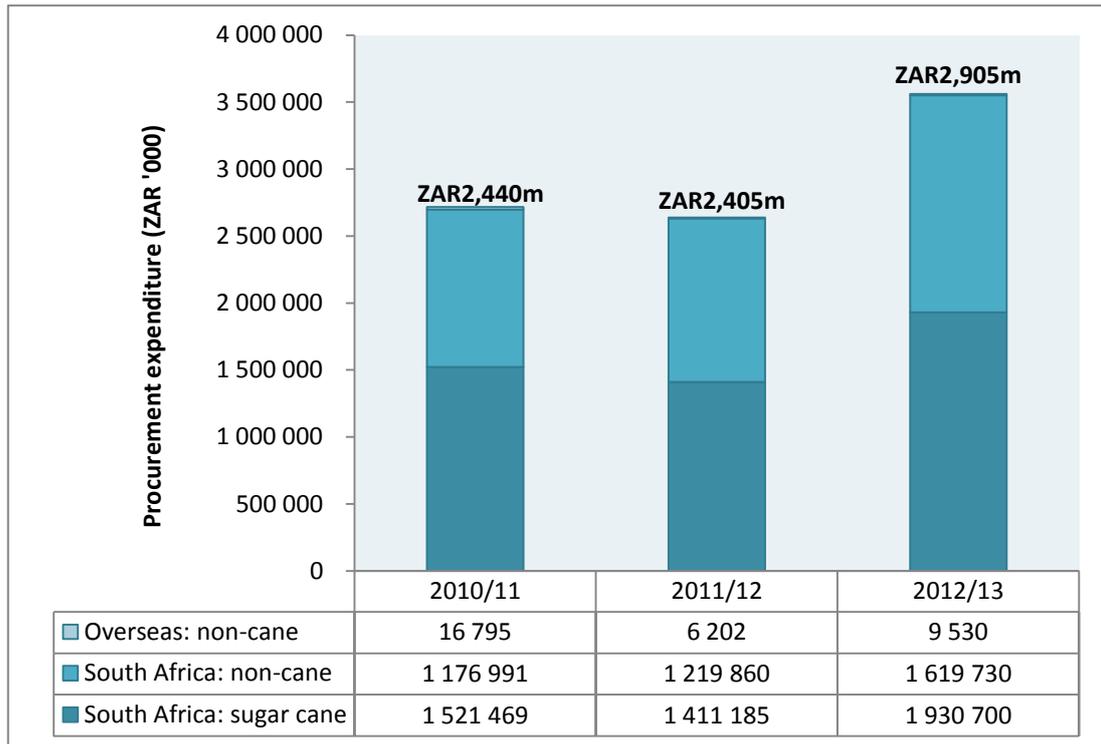
- In 2012/13, Illovo spent ZAR 1,931 million (46% of total revenues) acquiring sugar cane from local farmers in KwaZulu-Natal. 93% of sugar cane production is represented by outgrowers.
- In addition, Illovo spent ZAR 1.6 billion with non-sugar cane suppliers. Such procurement was almost exclusively from companies based in South Africa.
- Over 5,000 small-scale growers supply Illovo with sugar cane, representing 5% of the total supply. Illovo is investing in a range of initiatives to increase the capacity of such small-scale growers. Its target is to increase the contribution of new freehold and small-scale growers by 1 million tonnes in the next six years.
- Illovo has been appointed as a strategic partner to the South African government on land reform; redistributed land in the company's supply chain has a significantly higher productivity and success rate than other redistributed farmland in South Africa.
- Illovo recently submitted an application for Fairtrade accreditation for small-scale growers supplying its Noodsberg mill. Its target is for all Noodsberg growers to achieve certification by 2014/15.
- Illovo has met or exceeded the target score in the BBBEE categories of Land Ownership, Enterprise Development, and Socio-Economic Development.

Illovo's supply chain

Some of Illovo South Africa's most significant impacts are through its supply chain. Just 7% of the sugar cane used by Illovo in South Africa is grown on the company's own land. The remainder is acquired from independent farmers within KwaZulu-Natal. Through its procurement of sugar cane, Illovo has a significant impact on the livelihoods of small, rural farmers, their families, and local communities. In all, Illovo's supply chain includes 5,000 small-scale sugar cane farmers and 600 larger sugar cane farms, all of which are close to the company's own farms and mills. The 93% of sugar cane production represented by outgrowers is the largest of any Illovo company, a situation that reflects South Africa's particular system of land rights.

Illovo paid ZAR 1,931 million¹⁸ to sugar cane farmers in 2012/13, acquiring 5.4 million tonnes of cane. In addition, the company spent ZAR 1.6 billion on non-cane procurement, including spending on maintenance, fuel, other raw materials, packing, transport and marketing. The vast majority of this is spent with companies in South Africa, as the following chart shows, although it is likely that a greater proportion of tier-two suppliers (i.e. companies supplying Illovo's suppliers) are from outside South Africa.

South Africa procurement spending, 2011-13



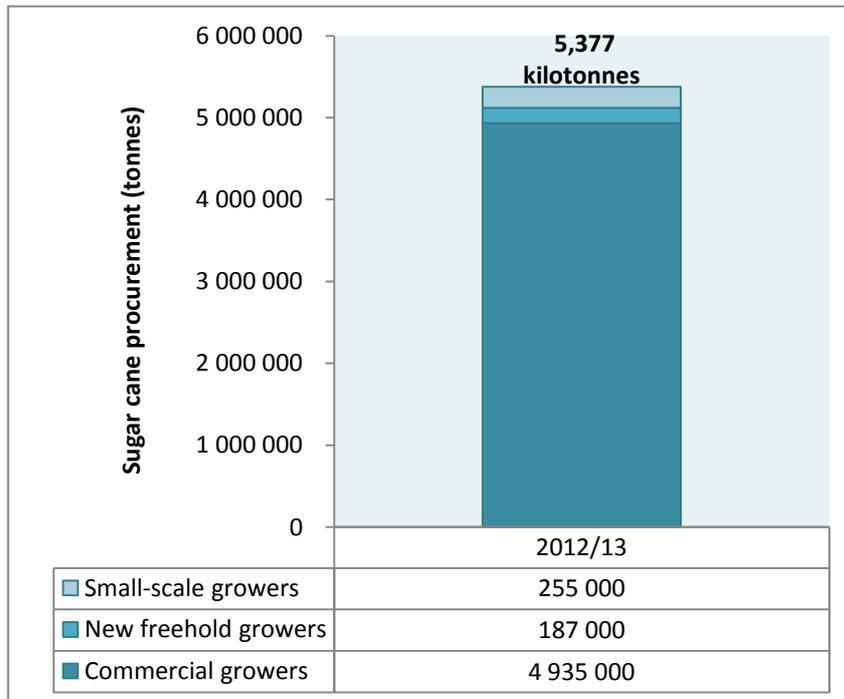
Outgrower farmers supplied Illovo South Africa with almost 5.4 million tonnes of sugar cane in 2012/13. Cane is procured from three main types of growers:

- Small-scale growers: usually with around 3-5 hectares of land under cane. The 5,071 small-scale growers supplying Illovo represent 5% of the company's total cane supply.
- New freehold growers: black growers who own and farm former Illovo company farms, under South Africa's land reform legislation (see below). Illovo buys cane from 58 such farms, accounting for 3% of total tonnage.
- Commercial growers: large-scale farmers with over 50 hectares (and sometimes in excess of 500 hectares) of land under cane. Illovo buys cane from 578 of these farms, representing 92% of total tonnage.

¹⁸ For the purposes of consistency, this figure has been taken from the Illovo Group value-added statement. The figure provided by Illovo South Africa was ZAR 1,937 million.

Illovo is undertaking several initiatives that aim to increase the proportion of sugar cane sourced from small and medium-sized growers. Its target is to increase the contribution of new freehold and small-scale growers by 1 million tonnes in the next six years.

South Africa: Tonnes of cane by size of outgrower farmer, 2012/13



Supporting employment in the supply chain

Outgrower employment

Illovo provides significant indirect employment through its spending with outgrower farmers. This includes the 5,707 farmers from whom the company sources (only some of whom work on their land but all of whom are supported through their business with Illovo Sugar) and also the workers who plant, fertilise, weed and harvest the crop. Detailed surveys would be required to give a precise estimate of the total employment that this represents. However, a rough estimate of the impact can be projected from the figures available for Illovo's own farms.

Taking Illovo's agricultural employment in 2012/13¹⁹ and scaling this by the tonnage of sugar cane procured from small-scale, commercial and new freehold growers gives an

¹⁹ 980 (200 permanent agricultural workers plus 780 seasonal workers). Seasonal workers are hired according to the milling season of 6-9 months, so receive a significant proportion of their incomes from the company.

employment estimate of 16,944, and adding the 5,707 farm-owners brings the total estimate of employment through outgrowers to 22,651²⁰.

Based on an average household size of four people in the province (although the total number of dependents supported by rural farmers is often higher), Illovo is estimated to support the livelihoods of 90,602 people through its sourcing of sugar cane from outgrowers in South Africa, although this figure may well be an underestimate.

Further supply chain employment

Illovo also supports further indirect employment through its spending with non-cane suppliers, such as providers of haulage, distribution, machinery and maintenance. It also supports induced employment, via spending by indirect employees leading to increased consumption and employment throughout the economy. This employment, along with overall economic impacts, is estimated in Section 2.

Paying a fair price

Illovo pays its outgrowers more than the minimum price stipulated by the South African Sugar Association (SASA), which regulates the division of proceeds from sugar between growers and millers. Growers receive approximately two-thirds of the proceeds of sugar manufactured, coming to approximately ZAR350 per tonne of cane in 2013. Small-scale growers also receive an additional ZAR 70 per tonne in subsidies from SASA, towards which Illovo pays a significant contribution.

In addition, Illovo makes supplementary payments of ZAR 4.80 per tonne of cane over and above this minimum price to growers who guarantee a steady supply of cane to Illovo's mills (although growers are not obliged to sign the agreement, and Illovo would still accept their cane if they did not). In reality, only a small percentage of Illovo's growers have the option of deliver their cane to a non-Illovo mill, due to long distances and substantial fuel and logistics costs.

Illovo recently submitted an application for Fairtrade accreditation, which applies to the small-scale growers supplying its Noodsberg mill. Illovo's target is for all Noodsberg small growers to be covered by the scheme by 2014/15.

Conditions worked by outgrowers are governed by South Africa's Basic Conditions of Employment Act, which regulates working hours, leave and other terms of employment contracts.

²⁰ This estimate depends on a number of assumptions, the main one being that commercial and new freehold growers have similar productivity rates (in terms of workers per tonne) to Illovo's own farms. If outgrower farms are more productive than Illovo's farms, then this figure will be an overestimate. However, this is unlikely given the farms' proximity to Illovo's own and the consequent likelihood of similar growing environments. In fact, fewer economies of scale and issues with the process of land reform may mean that external farms are less productive than Illovo's own.

Supporting farmer productivity

Beyond providing work, Illovo provides important additional support towards the long-term sustainability of its suppliers' farms.

The company's Grower Affairs department invested more than ZAR 44 million in a wide range of voluntary cane development schemes during 2012/13. These on-going schemes are designed to increase outgrower capacity and ensure on-going sustainability for all supplier farms, with costs for 2013/14 currently estimated at ZAR 128 million.

Cane development schemes	Cost to Illovo, 2012/13
Seed cane incentive scheme: Funds for planting on new land, which has not been planted with cane for three years or more.	ZAR 4,949,000
Transport subsidy: Support for growers located over 50km from the mill.	ZAR 7,554,000
Cane ripener subsidy: Subsidy for chemical ripeners, which accelerate maturity and increase sucrose content. This is predicted to rise to over ZAR 1 million in 2013/14.	ZAR 245,000
Supplementary payment: ZAR 4.80 per tonne available to all growers to guarantee cane supply.	ZAR 12,872,000
Small-scale grower mentorship scheme: Training scheme for small-scale growers. The investment will increase to ZAR1.2 million in 2013/14.	ZAR 807,000
Small-scale grower development costs: Additional support to small-scale growers.	ZAR 8,029,000
Diversions of cane from oversupplied to undersupplied Illovo mills.	ZAR 15,513,000
Operating costs of grower extension offices, including staff salaries.	ZAR 5,592,000
Total	ZAR 55,561,000

Illovo South Africa also administers and manages a number of investment grants, amounting to over ZAR 150 million, which have been allocated to small-scale growers and beneficiaries of the land reform programme by the South African government. These form part of the initiatives co-ordinated by Illovo and local grower associations to develop new cane supply and rehabilitate existing land.

Illovo also receives funding from the SASA Grower Development Account, which allocates proceeds from sugar sales to the USA to training for small-scale growers. This fund represents about ZAR 26 million.

Promoting a profitable mix of crops

Sugar, unlike many other crops, provides farmers with income for ten months of the year, and Illovo represents a guaranteed market for its farmers. While South African farmers do have other options in terms of cash crops, these do not provide farmers with as secure a supply of income as sugar cane does. Macadamia nuts offer high demand with lower input costs and a similar return per hectare to sugar cane. However, macadamia trees take about eight years to begin producing nuts, making them less viable for small farmers.

Illovo's outgrowers also grow crops such as maize, bananas and yams for their own consumption, to supplement their income from sugar and ensure their food security. While sugar cane may be grown on land which would otherwise have been used for food, it also has positive impacts on farmers' food security – income from sugar cane can be used to purchase food, as well as inputs such as fertiliser which lead to greater yields and a greater range of food crops grown. Many of the larger commercial growers tend to grow crops such as cabbages alongside cane, and Illovo funds NGOs such as the Lima Rural Development Foundation, which works with small, rural outgrowers to help them cultivate garden crops.

Partnering on land reform

Illovo has a long history of working to redistribute land in South Africa. Over three decades ago, before the introduction of legislation, Illovo began a programme of land redistribution. In the following years, Illovo has sold more company-owned cane land to black farmers than any other sugar company in South Africa, totalling 26,882 hectares, with an aggregate of 17,120 hectares under cane. All land was sold at a discount to market value.

The South African government has appointed Illovo as a strategic partner on land reform, a role that involves working with the Government, affected growers, land claimants and the rest of the industry, and assisting in the development of best practice.

Land reform faces a number of challenges, including the time taken to process claims, which results in uncertainty amongst growers and reluctance to invest in re-planting and fertilising. This is exacerbated by the fact that new owners of redistributed land often lack the funds and expertise needed to grow crops on a large scale.

From 2009 to 2012, 11,000 new smallholder farmers were established in South Africa, out of a target of 50,000. Of these 11,000, only 5,381 are now involved in agriculture and only 3,910 have a verifiable route to market²¹. According to some reports, up to 90% of land distributed to black farmers across South Africa since 1994 is no longer productive²². These challenges make Illovo's contribution to the land reform programme an important area of its socio-economic impact, and have led it to institute programmes to help new farmers.

²¹ SANews.gov.za, 01/06/12, *Govt hails improvement on land reform*

²² Voice of America News, 29/10/12, *Black Farmers in South Africa Still Struggling with Land Reform*

Illovo has approximately 35 full-time employees dedicated to the process of land reform, including mentoring new farmers for several years after land is transferred to them. As a result, redistributed land in Illovo's supply chain tends to achieve around 94% of its potential, in marked contrast to the average performance of redistributed land nationally. Where there are cases of failing farms in its supply chain, Illovo is working with the government to recapitalise them.

Standards in the supply chain

In order to ensure the quality and integrity of Illovo's products, it is necessary to not only ensure standards within the company, including ISO 9001 and FSC certification, but also those of suppliers and subcontractors. Challenges faced generally in the sugar industry worldwide include the use of child labour; forced or compulsory labour; poor working conditions and long hours, although not all of these are challenges in the South African context.

Smallholder farmers supplying Illovo at Noodsberg are currently in the process of attaining Fairtrade certification. Not only will this provide them with an additional premium on the price of cane, for investment in social, environmental or economic development projects, it will also require independent audits on internationally-recognised standards for best practice.

Under Illovo Group policy, contracts signed by non-cane suppliers include a clause on ethical business practices, which includes stipulations on working conditions and hours, living wages, freedom of association, non-discrimination, non-child labour, environmental management programmes, and anti-bribery and corruption.

Illovo South Africa is in the process of rolling out the SusFarMS system to its outgrowers – an independent industry standard designed to promote sustainable sugarcane production through the implementation of environmental best practices.

Supporting local businesses

Illovo South Africa's non-cane procurement, including spending on maintenance; electricity, fuel and water; transport; packing and storage; and marketing, comes almost entirely from South African businesses. The company has policies at Group level which favour sourcing from local businesses, even where they may be more expensive, since it brings benefits to Illovo in terms of shorter supply chains and faster response times. In some cases, goods such as packaging may be sourced locally even where they are of inferior quality or consistency. The Group procurement system includes a list of stock items that can be purchased locally, requests for which are automatically sent to local procurement. Payment terms may also be adjusted to suit local suppliers.

South Africa's Broad-Based Black Economic Empowerment (BBBEE) Act scores companies on their support for the empowerment of previously disadvantaged groups. Illovo has a

preferential procurement policy, which favours BBBEE-accredited suppliers in the tendering process.

Section 5: Value chain impact – customers

Headline messages:

- Illovo's sugar is sold directly to consumers, and also to companies in industrial sectors including baking, beverages, confectionery and pharmaceuticals.
- Illovo has achieved quality management certifications in all of its operations, and food safety certifications for the majority.

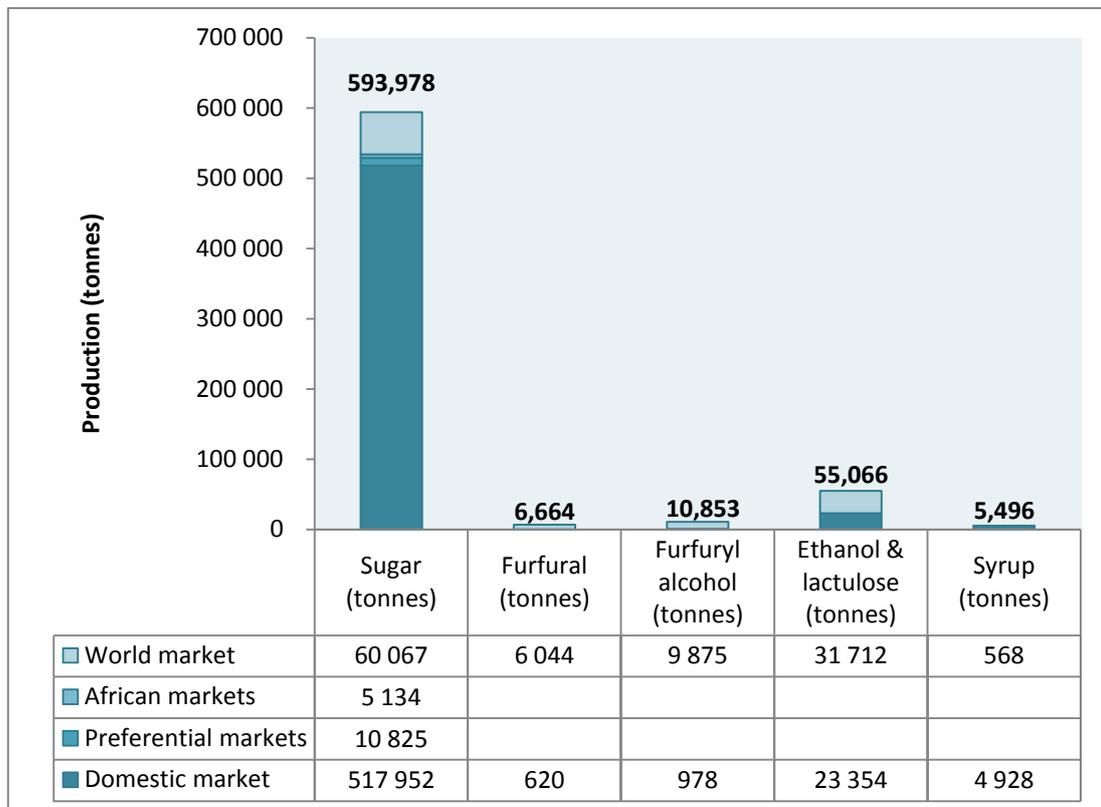
Serving customers

Illovo sells raw, brown, refined and speciality sugars, as well as syrup, alcohols and other downstream products, and supplies both South African and international markets. Illovo syrup is the market leader in South Africa, and Illovo exports ethanol and furfural to the USA and EU under preferential trade agreements.

Illovo's customers are predominantly manufacturers across all sectors, including baking, beverages, confectionery, pharmaceuticals, and re-packers. Approximately 28% of Illovo's sugar is sold into the retail and wholesale market, including sales in Botswana, Lesotho and Namibia.

The following chart breaks down Illovo's total production, including sugar and downstream products, by destination.

Illovo South Africa production by product type and destination, 2012/13



Illovo ensures the quality and safety of its products using the internationally approved certifications schemes ISO 9001 (quality management systems) and FSSC 22000 (food safety systems). All Illovo sites in South Africa that directly supply the consumer market have achieved both of these certifications, with the exception of the Eston Mill, where FSSC 22000 certification is awaiting the completion of the Eston Packaging Plant.

All products carry product labels containing pertinent product information, in compliance with South Africa's Consumer Protection Act 2008. In addition, downstream products supplying the pharmaceutical industry are highly regulated and are required to meet the South African Food and Drugs Act standards.

Through the South African Sugar Association, Illovo co-funds a programme that works with the government to promote balanced eating plans, exercise and healthy lifestyles. This includes balanced diet education programmes, workshops and conferences for teachers and nurses.

Supporting downstream employment

Illovo supports indirect employment through downstream activities in its value chain, including jobs at distributors, retailers, re-packers, food processors and pharmaceuticals. Spending by such indirect employees represents an induced impact on South Africa's economy, leading to increased consumption and employment for the country. This employment, along with overall economic impacts, is estimated in Section 2.

Section 6: Social Responsibility and Community Investment

Headline messages:

- Illovo invested ZAR 6.3 million in social community programmes in 2012/13. Investment focused on education, support for not-for-profit organisation, and support for outgrowers.

Investing in local communities

Illovo's Group-wide strategy recognises that the prosperity and sustainability of the business is closely aligned with that of its surrounding communities. Through the creation of jobs, directly and indirectly, and the provision of benefits and support to employees and suppliers, Illovo Sugar South Africa is helping to create sustainable economic development, and raise the standards of living for people living in the area.

In addition, Illovo Sugar South Africa has development initiatives and community investment projects.

Illovo has invested ZAR 6,305,642 in communities in South Africa during 2012/13. This equates to roughly 4% of pre-tax profit and took the form of ZAR 5.8million in cash donations and ZAR 0.5million in in-kind donations, such as equipment. One focus of this contribution was on improving education in KwaZulu-Natal, through construction and renovation of classrooms, and provision of equipment such as computers and educational materials.

Community investment activity	Value (ZAR):
Schools subventions and support	719,140
Not-for-profit organisations Support Group	336,136
Support and investment in outgrowers	5,250,366
Total	6,305,642



Section 7: Environmental sustainability

Headline messages:

- Illovo uses 57,197 tonnes of coal in its South African sugar mills and ethanol distilleries. This is the largest use of non-renewable energy across the Group. The majority of energy usage takes place during the cane-crushing season. The company aims to reduce its coal consumption by 25% by 2017.
- All cane delivered to Illovo Mills in South Africa is rain-fed and not additionally irrigated. Wherever possible water is recycled extensively through an “open loop” system within factories.
- Illovo adheres to SusFarMS good practice. All Illovo farms are analysed by SASRI (South African Sugar Research Institute) and the company follows all SASRI recommendations and conservation guidelines.

Sugar cane cultivation is associated with a number of environmental issues, in particular water usage and the risk of polluting water supplies. The potential for over-use of fertilisers and pesticides affects the protection of land and biodiversity.

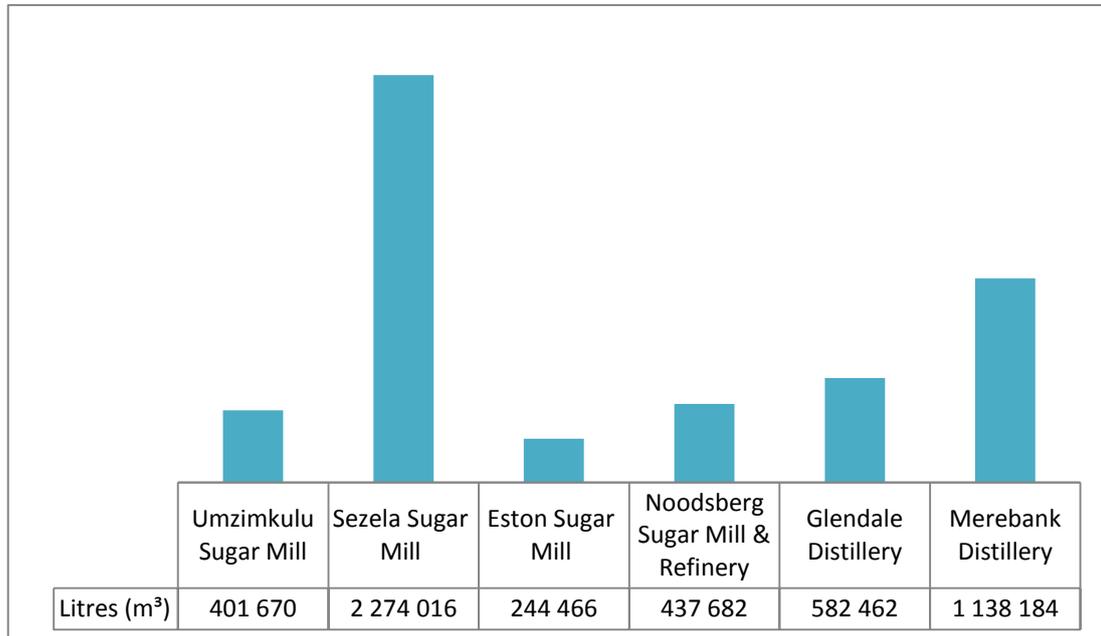
Promoting environmental best practice is closely linked with Illovo’s social and economic impacts. Environmental issues have a direct impact on the quality and productivity of land, and affect the livelihoods of farmers, workers and the wider community.

Promoting water stewardship

Water scarcity is not traditionally an issue of concern for the region. However droughts in recent years have raised concerns over the impact of climate change on water supplies, and promoting best practice in water stewardship is increasingly important to the future of the region.

All cane supplied to Illovo is rain-fed, with no artificial irrigation. This ensures minimal pressure on water supplies. Illovo’s factory processes do require water, however this is recycled through an open loop system to reduce the requirement for water abstraction.

In addition, Illovo reduces its impact on water pollution by treating all effluent streams under permit at each of its locations. A brine recovery plant installed at Noodsberg mill refinery in 2011 enables the plant to recover brine and water contained in effluent, which are re-used in factory processes.

Illovo Sugar South Africa water abstraction by source:**Protecting land and biodiversity**

Illovo works with outgrowers to develop or re-develop areas of cane cultivation, often restoring lapsed agricultural land that was previously used for growing the crop. The company applies SASRI's field conservation guidelines to all of its agricultural operations, in order to ensure minimum impact on the environment.

Case study:**Sustainable Sugar Farm Management System (SusFarMS) at Noodsberg**

Illovo Sugar South Africa assisted in the development of the Sustainable Sugar Farm Management System (SusFarMS), which aims to integrate environmental, social, and economic considerations into sugar cane cultivation. SusFarMS provides a management framework for sustainable field layouts, waterways, weeding and harvesting, along with management of acidification and nitrogen levels in the soil.

SusFarMS uses an audit tool and user manual to help growers manage their environmental impacts and optimise ecosystems and was first adopted by the Noodsberg Cane Growers Association (NCGA), which supports Illovo's Noodsberg mill.

The programme has been scaled up in partnership with the World Wildlife Fund (WWF) and South Africa Sugar Resource Institute. The WWF has adapted the SusFarMS criteria for a variety of other crops, including honey, citrus, and potatoes.

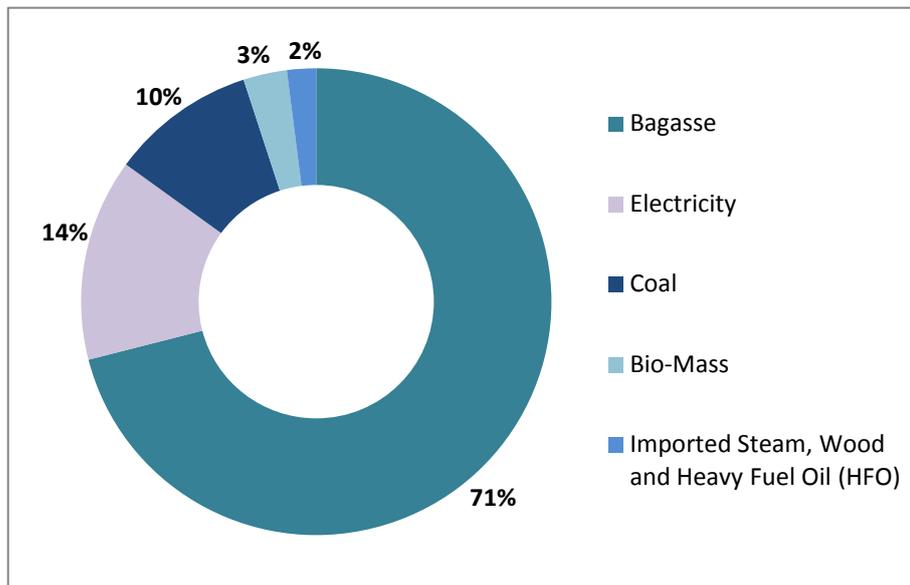
Energy use and emissions

At Group level, Illovo participates in the Carbon Disclosure Project (CDP), demonstrating commitment to transparency on reducing greenhouse gas (GHG) emissions. The company has publicly committed to reducing GHG emissions across the group by 10.7% from its 2010 levels by 2020. When a projected increase in sugar production is taken into account, this commitment amounts to an effective emissions reduction of 34%.

In the year 2012/13, Illovo Sugar (South Africa) Limited produced 365,000 tCO₂e, a 5.7% reduction on the previous year's figures.

Sugar cane offers excellent opportunities for the production and use of renewable energy. Illovo South Africa is currently the Group's largest user of non-renewable energy, namely coal, although it still equates to only 10% of total energy consumption. During 2012/13, South Africa operations consumed 57,197 tonnes of coal, representing 85% of Illovo's total coal usage. Most of this energy usage takes place during the cane-crushing season. The company aims to reduce its coal consumption by 25% by 2017, compared to 2009 levels. Given the significant impact on carbon emissions, this should be a top priority for Illovo in South Africa.

Illovo Sugar South Africa breakdown of energy consumption, 2013



Waste

In response to Government legislation, Illovo undertook a comprehensive review of waste management in South Africa during 2011/12.

This review confirmed that the company produces a total of 1,929 tonnes of non-hazardous waste and 1,864 tonnes of hazardous waste. Of the non-hazardous waste 53% of this is

recycled and 47% goes to landfill. All hazardous waste is disposed of through an approved recycling company.

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