



LOGISTICS INTERNATIONAL REVIEW

MATERIAL SUSTAINABILITY ISSUES

Issue

MANAGING ECONOMIC PERFORMANCE IN A CHALLENGING ENVIRONMENT

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MANAGING ECONOMIC PERFORMANCE IN A CHALLENGING ENVIRONMENT

Geographically, Logistics International's primary focus is Germany and Europe, which together with its client base and offering, means it operates in a stable and mature market. However, it also means that the market is characterised by high levels of competition which place pressure on margins and returns. Part of the division's strategy to achieve margin improvements is a focus on operational excellence, implemented through the Lean Excellence initiative which is aimed at achieving a cultural shift towards lean operations and increased productivity.

The restructure of the division into two pillars (Transport Solutions and Supply Chain Solutions) has created a clear structure that is easily understood by its clients. A central sales support department and a new client relationship management system have been implemented. Strategic Key Account Management teams, consisting of representatives across both pillars, service the division's Top 50 clients and hold strategic meetings with them to understand how Logistics International can assist them to achieve their development plans. For small and medium-sized clients, a single point of contact that takes care of all their logistical needs is provided. These initiatives have been well-received by the division's clients and are assisting it to access new business opportunities. Client relationship targets have been set and are monitored weekly.

Environmental and labour factors also impacted the division's operations during the

year. In Europe historical low water levels were experienced from August to November 2015, impacting load capacity. The mix of owned and sub-contracted capacity within the European shipping business, the largest business for Transport Solutions, enabled it to mitigate operating risk and even benefit in some businesses from the low water levels. For the manufacturing business, the increasing costs of energy in Germany as a result of increased renewable energy surcharges, and the cost of energy networks and CO₂ certification, is a key concern. Finally, wage negotiations with the metalworkers' union, which started representing workers in the automotive logistics industry during the year, resulted in material changes to labour cost structures. Despite these challenges, Logistics International performed well for the year ended 30 June 2016, and after adjustments for disposals and acquisitions, both revenue and operating profit increased by 4% in euro.

MANAGING COMPLIANCE AND GUARDING AGAINST CORRUPTION

APPROACH

ENGAGEMENT WITH REGULATORS



For the reporting year, engagement with regulators covered regulatory compliance on a number of pieces of legislation applicable to the division, including but not limited to regulations on anti-bribery, cartel law, tax, customs duty, environmental protection (European emissions standards, energy taxes and the requirements of the European Union (EU) energy directive), and donations and sponsorship.

Performance

At the beginning of 2016, the board established a compliance department responsible for implementing the systems and processes required to improve compliance management, with a particular focus on anti-bribery and cartel regulation. The department reports directly to the Imperial Logistics International B.V. & Co. KG board.

The 2015 restructuring of the division together with the increasing complexity of legal requirements faced by the business across multiple jurisdictions, have necessitated a new approach to maintaining ethical business practices. Engagement with the division's customers and other stakeholders highlights that compliance and the ethical conduct of employees are key areas of focus. The compliance department provides compliance guidance for critical decisions and the team includes auditing and legal experts.

A revised code of conduct applicable to all operations within the division was launched in June 2016. The code covers the protection of human rights, compliance with legislation and internal regulations, engaging with stakeholders, dealing with conflicts of interest, the prevention of corruption, money laundering and terrorist financing, principles of social responsibility (including compliance with environmental legislation) and the protection of business assets. Data protection and the handling of confidential information

are also covered. The code applies to all employees and businesses within the division.

In addition, a new anti-bribery policy was implemented in April 2016 covering issues such as payments to government officials, facilitation payments, gifts and entertainment, and political and charitable contributions.

These measures are aimed at instilling high ethical standards and protection against non-compliance, which could result in loss of stakeholder trust and increased financial costs. Appropriate compliance programmes will also

protect the division’s board members, directors and management in the event of prosecution.

Management is receiving training on risk management, compliance, the code of conduct and internal control standards. Updated training and awareness interventions on the code of conduct and the anti-bribery policy are also being rolled out to ensure that compliance is a high business priority for the division’s employees.

To the best of the division’s knowledge there were no instances of material non-compliance with legislation, including environmental legislation, for the reporting year.

Looking ahead

For the 2016/2017 financial year, the compliance department will focus on compliance communication and training, as well as employee and business partner screening. It is expected that changes around environmental and labour legislation, particularly around temporary work, will continue to impact the division’s operations going forward.



DEVELOPING EFFECTIVE LEADERSHIP AND EMPOWERED PEOPLE

APPROACH

MARKETING INTERVENTIONS AND ENGAGING WITH TERTIARY INSTITUTIONS



An ageing population and a low unemployment rate in Germany, means that attracting qualified and skilled people into the logistics industry is a challenge. In addition, the chemical manufacturing business requires very specialised individuals. A number of initiatives are in place to increase the profile of Imperial Logistics International among trainees, students, graduates, young professionals and engineers. This includes participation at vocational training, and career and recruitment fairs. Consultant agencies are used to further increase the division’s access to tertiary institutions and an online platform facilitates the recruitment process.

TRAINING FACILITIES AND DEVELOPMENT PROGRAMMES



The division’s intention to shift its business model to a more ‘know-how’ and IT-based business with a clear focus on managed logistics, will require new skills sets. Ongoing training is critical to ensure that employees remain motivated, and in the absence of skilled employees, to internally develop trainees. Training initiatives are offered for different employee categories and include apprenticeship programmes. Employees are selected for programmes based on assessments and the outcomes of the division’s training and development initiatives are measured.

The division’s leadership guideline outlines the competencies that make leaders successful and able to motivate and lead teams of highly skilled employees. The guideline is used as a basis for leadership development interventions.


The Develop Yourself programme assists young professionals, individuals younger than 35 who have been identified as talented, to achieve and maintain the required competency levels. The programme addresses topics such as change management, conflict management and how to manage complexity. The programme provides participants with the opportunity to learn about and interact with the various businesses within the division.

Performance

The Polish operation received the Solid Employer of the Year Award by Rzecz o Biznesie in 2016. The award identifies the best employers in Poland, particularly those that implement best practice human resources solutions and share their experiences with others. Companies are assessed on their timely payment of salaries, social conditions, career and promotion path and employee development, as well as the opinions from internal and external stakeholders.

Employee engagement

To give impetus to the Lean Excellence initiative, lean managers have been appointed for four warehouse branches and fulfil a mentoring and coaching function. Training and awareness around the initiative has been delivered to employees and Lean workshops enable employees to convey their ideas on improving operational efficiency.

 See the online case study titled 'implementing the Lean Excellence initiative to drive operational efficiency' for more information.

Talent management

A succession programme has been established and potential successors in middle management have been identified. These managers are being developed through various programmes to enhance their management skills, including how to manage people. Another key focus for the year has been embedding the leadership guidelines throughout the division.

The newly introduced Develop Your Company programme is aimed at driving innovation and enables young professionals to participate in the division's strategic projects, particularly those that contribute to shifting the division into a more digitally-focused organisation.

Gender diversity is a key strategic focus area for Logistics International, which aims to voluntarily increase its quota of women representation at senior level. One executive member out of 22 executives is a woman and female representation at senior level is 10%. To achieve its gender diversity goals, the division is identifying talented women and supporting their progress through personal development interventions. The succession programme is also geared to

ensure that women are adequately represented in the succession pipeline.

The division's gender objectives are to increase the number of women executives to two and to increase representation in leadership roles to equal the annual average women employment rate, with a minimum of 20% of new hires being women.

Training and development

To assist with career planning and personal development, an appraisal process is being implemented which requires that line managers engage with their employees at least once a year.

Looking ahead

Aligned to the group's Organisational Effectiveness Framework, the division will focus on standardising the talent management process across its businesses. This will include transparent appraisal interviews, identification of talented individuals and a clear understanding of the roles that are critical to the division's sustainability. These measures will inform the succession planning programme. Being able to demonstrate a focus on personal development will contribute to employee retention and attraction through an enhanced employer brand.

R24 million

SPENT ON TRAINING AND DEVELOPMENT (2015: R22 MILLION).

56

YOUNG PROFESSIONALS HAVE COMPLETED THE DEVELOP YOURSELF PROGRAMME SINCE ITS INTRODUCTION IN 2014, OF WHICH 30% ARE WOMEN. THE PROGRAMME HAS BEEN EXTENDED TO INCLUDE THE OPERATIONS BEYOND GERMANY.

4 960 hours

2 800 HOURS (2015: 1 232 HOURS) AND 2 160 HOURS (2015: 1 904 HOURS) DEDICATED TO TRAINING MANAGERS AND YOUNG PROFESSIONALS RESPECTIVELY.

ALL EMPLOYEES IN THE DIVISION RECEIVE TRAINING AND PERSONAL DEVELOPMENT RANGING FROM LANGUAGE COURSES TO TRAINING ON SAFETY AND COMPLIANCE, HOWEVER THESE HOURS ARE NOT CENTRALLY COLLATED AT THIS STAGE.



EMPLOYEE RELATIONS AND WAGE AGREEMENTS

APPROACH

ENGAGEMENT WITH TRADE UNIONS



The contract logistics business model for the automotive and steel industry falls within the objective of the metalworkers' union to include production-related logistics services in their collective wage agreement which has substantially higher wages. This is expected to further increase cost structures. The division proactively engages with the relevant unions to negotiate wages that remain competitive. Other topics discussed with trade unions include fair working conditions, and the health and safety of employees.

COMPLIANCE WITH MINIMUM WAGE REQUIREMENTS



Germany's minimum wage requirements impact the transport and logistics industries on two levels; firstly that foreign companies are expected to pay the minimum wage for employees located in Germany which secondly, includes transit traffic where for example a Polish driver transports goods from Poland to the Netherlands through Germany. The requirement relating to transit traffic is being challenged by the European Commission which argues that the law contradicts European freedom of services and trade. In addition, the administration time and effort required to comply with the regulation is onerous for transport companies.

Performance

IG Metall, the union for metal and steel workers, is expected to increasingly represent more of the division's employees, particularly in the steel and manufacturing sectors. Clauses are being introduced into client service contracts to mitigate the risk of labour cost increases as a result of changes in union representation.

Remuneration models relating to truck drivers are being amended to meet the requirements of minimum wage legislation. For the 2016 financial year, there were no instances of non-compliance with minimum wage legislation.

ENSURING EMPLOYEE HEALTH AND SAFETY

APPROACH

COMPLIANCE AND INTERNATIONAL SAFETY STANDARDS



Logistics International requires specialised capability in terms of high technical standards and the responsible management of hazardous goods, particularly for the chemical manufacturing business. The division's management systems meet the following internationally recognised quality, environment, health and safety standards:

- > The International Labour Office's guidelines on occupational safety and health management (NLF/ILO-OSH 2001).
- > ISO's specifications for occupational health and safety management (OHSAS 18000) and standards related to quality management systems (ISO 9001).
- > Authorised Economic Operator's (AEO) guidelines on safety and security for customs procedures.
- > Verband der Automobilindustrie's (VDA) quality management for service providers to the automotive industry (VDA 6.2).

SAFETY COMMITTEES AND EMPLOYERS' LIABILITY INSURANCE ASSOCIATIONS



Each business within the division operates a safety committee which meets quarterly. The division holds memberships in employer liability insurance associations which ensure that the health and safety interests of employers' and employees are met. German occupational health and safety regulation is highly developed and these memberships ensure that the division complies fully with the strict health and safety obligations that apply to it as an employer.

RISK ASSESSMENTS



All accidents and incidents are investigated and monitored, whether or not they result in injury or occupational disease. This provides a clear understanding of what constitutes unacceptable risk and the relevant preventative measures required. Occupational health and safety checks are conducted at all businesses monthly and are undertaken by internal safety specialists and external certified experts.

APPROACH

EMPLOYEE TRAINING AND ENGAGEMENT



Ongoing training on the safe handling of chemicals, protective clothing and adhering to health and safety regulations is provided to employees. Projects are undertaken to engage with employees on the prevention of work-related incidents and illnesses, and communication on health issues such as managing stress are also provided.

Employees are interviewed on their return from long absence due to illness and their feedback is used to inform the measures required to make the working environment healthier.

SAFETY MEASURES ON TRUCKS TRANSPORTING LIQUID CHEMICALS



Trucks used to transport bulk liquid chemicals are fitted with a number of safety measures some of which include active brake assist, tyre-pressure warning systems, LED daytime running lights, lane departure warning systems, built-in rain and light sensors, semitrailer coupling sensors and breathalysers linked to engine mobilisers.

Performance

A quality, environment, health and safety (QEHS) department was established during the year and serves to centralise the division’s health and safety processes. A division-wide QEHS policy is being developed and will include key performance indicators to measure progress. Going forward, the policy will be communicated across the division to further improve the safety culture among employees.

ROAD SAFETY

	2016	2015	2014
Kilometres travelled (million)	79	71	54
Road accidents	133 ¹	42	33
Road injuries	8	9	5
Road fatalities	0	0	0

¹ Increase is due to more stringent safety reporting criteria introduced during the reporting year.



MINIMISING THE ENVIRONMENTAL FOOTPRINT

APPROACH

<p>QEHS DEPARTMENT, AND MONITORING AND MEASURING ENVIRONMENTAL IMPACT</p> 	<p>Clients are increasingly requiring social and environmental clarification and data in their tender requests. Being able to effectively demonstrate environmental and social performance to meet client needs, provides a competitive advantage. In addition, reducing the environmental footprint can result in cost reductions which aligns to the lean culture that the division is building.</p> <p>The newly established QEHS department is responsible for ensuring compliance with environmental legislation and that certain sites (according to client requirements) meet ISO standards relating to environmental management (ISO 14001). Responsibility for data collection occurs at a sub-division level.</p> <p>The division’s most material impacts on the environment are emissions, and energy and water consumption, with waste being of lesser importance. The two main consumers of electricity are the chemical manufacturing process and the lighting of offices, warehouses and terminals. While transporting goods by inland waterway is less harmful to the environment, the emissions from chemical manufacturing and the transport of goods by road are more emissions intensive. Water is used in large quantities in the manufacture of chemicals, particularly as a coolant and to clean tanks.</p> <p>Environmental data is monitored at an Imperial Holdings level by the group’s sustainability data management system. However, to meet the EU energy directive and German legislation the division is aligning its energy management systems to the ISO 50001 standard.</p> <p>The transportation of hazardous goods such as liquids and gases raises the risk of spillages. The division considers regulatory requirements, best practice and industry guidelines, as well as its own expertise, to ensure the safe transportation of goods. All environmental incidents are investigated and environmental audits are undertaken to check effectiveness and efficiency.</p> <p>A partnership with UCON, an environmental management consulting agency, further ensures that legal requirements are met and that opportunities to achieve higher environmental and safety standards are identified.</p>
<p>ENERGY EFFICIENCY</p> 	<p>Energy efficiency projects include installing LED lighting systems, lighting control systems, renewable energy sources, where relevant, and energy-saving enhancements to IT infrastructure.</p>
<p>CO₂ EMISSIONS</p> 	<p>Alternative methods and technologies to reduce fuel consumption and emissions are constantly investigated. The road transport fleet consists of Euro 6 compliant trucks which emit lower levels of exhaust emissions such as nitrogen oxide (NOx), carbon monoxide (CO) and hydrocarbons. Cost savings are achieved through reduced fuel consumption and toll charges for Euro 6 vehicles. The 300 newly acquired prime mover trucks are equipped with systems to adjust gear selection and cruise control settings to the course of the road, delivering savings in fuel consumption of up to 5%. In addition, a staff car policy regulates the engine power and emissions criteria of staff vehicles.</p> <p>The Imperial Freight Management System in the shipping business, allows for dynamic route planning in real time which enables the conservative use of fuel, and the lowering of costs and emissions. Clients benefit from shorter delivery times and receive real-time information on the status of their goods. The shipping fleet consists of a combination of push boats and barges to enhance efficiency and conserve fuel use.</p>
<p>WATER RECYCLING</p> 	<p>Wastewater treatment plants which enable the re-use of cleaned wastewater for other industrial purposes are in place at various sites, particularly those related to chemical production.</p>
<p>WASTE MANAGEMENT</p> 	<p>Hazardous waste from the chemical manufacturing process is disposed of in accordance with the requirements of Germany’s Waste Management Act. Where possible, the division uses paperless systems or processes to save on paper consumption.</p>
<p>ENVIRONMENTAL TRAINING</p> 	<p>Training and awareness on energy saving is delivered to employees, including the division’s truck drivers and barge masters on how to save fuel. Training is also delivered on the transportation of hazardous goods.</p>

Performance

During the reporting year, Logistics International continued to modernise its fleet with Euro 6 trucks. A total of 100 trucks in the fleet were upgraded to the higher European emissions standard, resulting in an annual toll charge and fuel cost saving of EUR382 800. In addition, 204 000 litres of diesel was saved and CO₂ emissions reduced by 536 tonnes.

During the year, the division completed phase one of the ISO 50001 energy management system implementation which covers the identification of energy sources, and current and previous energy uses. This was accomplished within the legal timeframe, and the division is on track to achieve certification by the end of 2016. Once fully operational the system will assist to identify where energy efficiency initiatives can be implemented. An energy management team has been established to support the implementation and 27 auditors were trained on how to effectively audit energy consumption.

The QEHS policy will include key performance indicators related to environmental performance. A sustainability strategy for the division is also being worked on.

ENVIRONMENTAL PERFORMANCE

	2016	2015	2014
ENERGY			
Road fuel usage (kilolitres)	25 709	25 207	18 685
Non-road fuel usage (kilolitres)	65 535	69 917	68 784
Purchased electricity (megawatt hours)	52 194	56 890	54 176
WATER			
Water purchased from municipalities (kilolitres)	230 180	225 993	191 323
EMISSIONS			
Scope 1 emissions (tonnes of CO ₂)	260 757	280 312	204 178
Scope 2 emissions (tonnes of CO ₂)	25 672	26 129	30 685
ENVIRONMENTAL INCIDENTS			
Number of environmental incidents	0	1	0

Looking ahead

The division has set a target to reduce its energy consumption by 1,5% by December 2017, calculated using the 2015/2016 financial year as a baseline. A key focus is to optimise the collection of environmental data across sub-divisions, and improve the quality of the division's sustainability data.

ONLINE CASE STUDIES

IMPLEMENTING THE LEAN EXCELLENCE INITIATIVE TO DRIVE OPERATIONAL EFFICIENCY

Logistics International's Lean Excellence initiative is aimed at achieving competitive advantage through improved processes and service to clients.

A NEW TRAINING CENTRE IN POZNA'N FOR FORKLIFT OPERATORS

203 people have received practical and theoretical training from the centre, positively contributing to the quality standards of Logistics International.

INTRODUCING TWO ENVIRONMENT-FRIENDLY PUSH BOATS TO THE SOUTH AMERICAN FLEET

Logistics International introduced two new push boats equipped with innovative energy efficiency solutions.

RECONDITIONING IT HARDWARE AND PROVIDING EMPLOYMENT FOR PEOPLE WITH DISABILITIES

Since the initiative began over a year ago, Logistics International's decommissioned IT hardware has secured one job for a person with a disability at AfB.

OPTIMISING TRANSPORT SERVICES WITH NEW LIGHTWEIGHT TRAILERS

Imperial Logistics International's new lightweight trailers reduce operating costs and carbon emissions due to fewer transport runs.

More information from a group-level perspective can be found in the following downloadable sections of the Sustainable Development Report:

- > *Aligning Imperial's human capital resource to its strategy, promoting workforce diversity, and training and development in the our people section.*
- > *The group's contribution to society including regulatory compliance, accelerating transformation progress in South Africa, corporate social investment and road safety in the demonstrating social value section.*
- > *Environmental management in the minimising our environmental footprint section.*

GRI G4-4, G4-8, G4-19, LA6, LA7, LA10, SO8, EN3, EN8, EN15 to 16, EN24, EN27, EN29