

## **THE SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE REPORT TO THE SHAREHOLDERS**

### **INTRODUCTION**

This report is presented on behalf of the Board of Directors of Adcock Ingram in accordance with regulation 43(5)(c) of the Companies Regulations, 2011. This Committee was established in May 2012 in accordance with section 72 of the Companies Act, 71 of 2008 (Companies Act) and regulation 43 as well as clause 8 of the board charter. It is presented to the Shareholders by the Chairman of the Social, Ethics and Transformation Committee (the Committee).

### **COMPOSITION OF THE COMMITTEE**

The Social, Ethics and Transformation Committee consists of three independent non-executive directors, two executive directors and two members of management. The three independent non-executive directors are not and have not been involved in the day-to-day management of the Company's business within the previous three financial years. Members of the Social, Ethics and Transformation Committee are suitably skilled and experienced. The Committee is chaired by an independent non-executive director elected by the Board, taking into account the relevant business experience, leadership skills, knowledge and experience relative to the Committee's mandate.

### **COMMITTEE'S LEGISLATIVE MANDATE**

The primary mandate of this Committee is to guide, monitor, review and evaluate the Group's progress in respect of the mandate of the Committee as set out in regulation 43(5). This includes but is not limited to monitoring the Company's participation in social and economic development, promotion of equality, prevention of unfair discrimination, reduction of corruption, and transformation; environmental, health and public safety matters; and labour and employment. Below I report on how Adcock Ingram performed in relation to the requirements set out in regulation 45(3).

### **SOCIAL AND ECONOMIC DEVELOPMENT**

**MONITORING IMPLEMENTATION OF THE BBBEE ACT:** The Committee is enjoined to monitor the Company's implementation of the Broad Based Black Economic Empowerment Act (BBBEE Act) among others. I can confirm that based on the current rating from Empower Logic, an independent BEE rating agency, Adcock Ingram's BBBEE compliance achieved a level 3 Contributor status. The Committee and the Board have been advised of the new BBBEE Codes (the new Codes). Management has presented the new Codes to the Committee and highlighted the implications thereof. The new Codes were gazetted in October 2013 but the implementation date has been postponed to April 2015. In preparation for the implementation of the new Codes some members of management attended a presentation on the new Codes to ensure shared meaning thereof. There are other management led initiatives which are being undertaken to ensure compliance with the new Codes when they come into effect.

### **GOOD CORPORATE CITIZENS**

**PROMOTION OF EQUALITY, PREVENTION OF UNFAIR DISCRIMINATION AND REDUCTION OF CORRUPTION:** The Committee is also required to monitor the Company's activities with regard to matters relating to good citizenship, including these matters. I report on some of the activities undertaken by the Company to ensure compliance with this legislative requirement:

The Company has a dedicated "*Tip Offs Anonymous*" line which is used by its employees, third parties and service providers to raise concerns or lodge complaints about any wrongdoing or suspected wrongdoing within Adcock Ingram. The policy that regulates this matter requires a complaint lodged to be genuine and it should relate to a commission or

suspected commission of a criminal offence, acts of dishonesty or unethical conduct, including human capital issues. In the period under review the Company has extended this hotline for whistleblowers to its operations in Ghana, Zimbabwe and India to encourage them to report any wrongdoing. This hotline makes provision for complaints to be lodged confidentially and anonymously. The use of this hotline has assisted in exposing, reducing and preventing corrupt activities. For more information on this matter, including the number of complaints received in the period under review, you are kindly referred to the integrated report.

Furthermore, in accordance with the Company's policy of "zero tolerance" against conduct that is inconsistent with its policies and where such conduct relates to criminal conduct, the matter is normally referred to the law enforcement agencies. Any misconduct is measured and dealt with in accordance with the company's policies.

CONTRIBUTION TO DEVELOPMENT OF COMMUNITIES IN WHICH THE COMPANY'S ACTIVITIES ARE CONDUCTED: Adcock Ingram has three factories in South Africa, all of them situated in Gauteng, specifically in Aeroton; Clayville and Wadeville. The majority of employees in these factories come from the surrounding areas. This is one of many ways in which the company contributes to the reduction of unemployment in these areas.

RECORD OF SPONSORSHIP, DONATIONS AND CHARITABLE GIVING: As part of its stakeholder engagement strategy, the Company regularly interacts with relevant stakeholders across all sectors of society to understand how the Company could effectively fulfil its social responsibility role. In the period under review, Adcock Ingram's charitable giving and donation initiatives were directed predominantly at organisations and initiatives within the healthcare industry. Adcock Ingram spent in excess of R3 million in support of such worthy initiatives and organisations.

EMPLOYMENT EQUITY: Adcock Ingram complies with the provisions of the Employment Equity Act (EE Act). The Committee is pleased to report that in order to avoid unfair discrimination, all benefits and conditions of employment including salaries and wages are offered to employees based on objective reasons such as the scope, role and level of the position. EE reports are submitted annually to the Department of Labour and to date no adverse findings have been made against the Company. On behalf of the Committee, I can confirm that Adcock Ingram has appropriate and competent fora, including this Committee, to monitor and evaluate progress on the implementation of employment equity. Furthermore, the Company has adopted employment policies that support these requirements of the EE Act. These policies support fair recruitment and selection and are only biased to the extent required in law.

I can confirm that based on the documents presented to the Committee and on management's assurance that Adcock Ingram complies with the provisions of the EE Act.

#### **EMPLOYEE RELATIONS – UPDATE**

TRADE UNIONS: Adcock Ingram is a multi-union organization with three trade unions representing organized labour across all its sites and distribution centers. The three active trade unions within Adcock Ingram are: CEPPAWU (Chemical, Energy, Paper, Printing, Wood and Allied workers Union), GIWUSA (General Industries Worker Union) and SACWU (South Africa Chemical Workers Union). Organized labour represents 41% of our total staff composition in South Africa.

EMPLOYEES' DEVELOPMENT: The Group has established a talent pipeline as part of its commitment to transformation and to accelerate development of previously disadvantaged people. The following programmes are in place in support of the above initiatives: pharmacy interns, graduate development, apprentices training and a learnership for employees living with disabilities, as well as a learnership for pharmacist assistants. Adcock Ingram also assists full-time employees to develop and improve their literacy and numeracy levels through the Adult Basic Education and Training (ABET) programme and offer financial assistance to

employees who are studying part-time towards relevant qualifications. Leadership development is supported through various leadership programmes such as MAP and MBA as well as mentorship.

**ENVIRONMENT, HEALTH AND PUBLIC SAFETY:** The protection of the environment is central to Adcock Ingram's focus on social responsibility to create an awareness of the importance of reducing our carbon footprint and to ensure that our operations are conducted in a responsible manner. You will note from the information provided below that the consumption of both water and electricity decreased in 2014, as the Company is only reporting on a 9 month period that ended on 30 June 2014, versus 12 months in 2013. It is also important to note that diesel, as a source of energy, is only used at the factories when there are power failures. There were less incidents of power failure than in the previous comparative period. The data on environmental impact is tracked and measured on a monthly basis. The outcomes thereof are presented to the Committee quarterly. These environmental audits normally measure elements such as the management of water quality, waste, hazardous waste materials, packaging, energy, air quality and land quality management. Below is a summary of how the Company managed environmental, health and safety issues:

**ENERGY:** The first industrial application of geothermal technology in South Africa is currently being used at our high-volume liquids facility at Clayville. This technology reduces energy consumption by using the earth's constant underground temperature to warm, cool and ventilate buildings.

**WATER AND ELECTRICITY CONSUMPTION:** In the period under review, the Company expended a total of R5.3 million (i.e. approximately 294 000 KL) compared to R7.6 million (i.e. approximately 400 000 KL) in 2013. Electricity consumption cost R35.9 million (i.e. approximately 35.9 million KWH) compared to R51.6 million (i.e. approximately 47.8 million KWH) in 2013. The diesel consumed in the factories during power failures in the factories in the period under review was worth approximately R160 000 (i.e. approximately 12 100 L) compared to approximately R296 000 in 2013 (i.e. approximately 23 000 L). Diesel consumed in the distribution channel was worth approximately R35.5 million (i.e. approximately 2.7 million L) compared to approximately R32 million in 2013 (i.e. approximately 2.9 million L).

The figures provided above are for the Company's water and electricity consumption in South Africa. Full information on the Group's water and electricity consumption is available in the Integrated Report.

**CARBON FOOTPRINT:** Below is a summary of the Company's carbon footprint:

<b>Carbon Footprint 2014</b>				
		<b>Financial year ended 30 June 2014 Tonnes</b>	<b>Financial year ended 30 September 2013 Tonnes</b>	<b>2014 % Change</b>
<b>Carbon Footprint</b>				
<b>Scope 1</b>				
Company-owned/ controlled vehicles		4 813	3 684	31%
Stationary fuels		8 437	13 177	-36%
Fugitive emissions (Kyoto)		69	33	<b>110%</b>
<b>Scope 2</b>				
Electricity		38 623	50 538	-24%
<b>Total Scope 1 and 2</b>		<b>51 942</b>	<b>67 432</b>	<b>-23%</b>
<b>Scope 3</b>				
Business travel		1 721	2 201	-22%
Employee commute		5 672	7 865	-28%
Outsourced distribution (import and export)		12 814	11 137	15%
Packaging materials		11 867	20 612	-42%
Paper use		48	70	-31%
Waste		470	523	-10%
Water (embedded CO <sub>2</sub> e)		516	628	-18%
<b>Total Scope 3</b>		<b>33 111</b>	<b>43 036</b>	<b>-23%</b>
<b>Total Scope 1, 2 and 3</b>		<b>85 053</b>	<b>110 468</b>	<b>-23%</b>
Non-Kyotogas		1 116	2 130	-48%
<b>Grand total</b>		<b>86 169</b>	<b>112 598</b>	<b>-23%</b>

ENVIRONMENTAL AUDIT: Adcock Ingram undertakes an independent environmental audit as part of its risk management intervention and the reports are tabled to the Committee on a quarterly basis. Based on the results of the independent audit, the average rating for risk control for the sites audited was 97% (96% - 2013) and 97% for environmental control (95% - 2013). Clayville scored 98% in respect of risk control standards (97% - 2013) and 97% for environmental control standards (95% - 2013). The Critical Care facility in Aeroton scored 96% for risk control standards (96% - 2013) and 97% for environmental control (95% - 2013). More information on what the audit measured is available on the website.

**Prepared by:** Ntando Simelane – Group Company Secretary

**For:** Social, Ethics and Transformation Committee

**Date:** 11 November 2014