The directors and employees of Illovo Sugar strive to ensure that the company is managed in an efficient, accountable, responsible and moral manner. The board of directors (the board) endorses the Code of Corporate Practices and Conduct contained in the King Report on Corporate Governance for South Africa 2002 (the King II Report), and believes that in all material respects the company complied with the principles contained in such Code throughout the year under review.

THE BOARD AND BOARD COMMITTEES

The company has a unitary board of directors which comprises a majority of non-executive independent directors (presently eight non-executive independent directors and six executive directors). Non-executive directors are chosen for their business acumen and skills pertinent to the business of the group and meet the criteria of the King II Report. The board is ultimately responsible for ensuring that the business is a going concern, and to this end effectively controls the group and its management and is involved in all decisions that are material for this purpose. The board functions in terms of a formal Board Charter which requires that there is an appropriate balance of power and authority on the board. The Board has defined and monitors levels of materiality and has formally documented matters which it has delegated to the board committees and management.

The roles of the chairman and the chief executive are separated and the chairman is a non-executive independent director.

New appointments to the board are subject to the recommendation of the Remuneration / Nomination Committee and formal approval by the board. All directors are subject to retirement by rotation and re-election by shareholders every three years. The appointments of new directors are subject to confirmation by shareholders at the next annual general meeting following their appointment.

Members of the board have access to the advice of the company secretary, and may, in appropriate circumstances, take independent professional advice at the company's expense.

The board has five regular meetings a year. In addition, there is provision in the company's Articles of Association for decisions taken between meetings to be confirmed by way of directors' resolutions.

In respect of the five meetings held during the year under review, there was full attendance by all the directors in office during the period, save, as a result of other prior commitments, Messrs R L Hetzler, P M Madi and A R Mpungwe each excused themselves from one of such meetings.

Audit Committee

The group Audit Committee presently comprises four non-executive, independent directors, one of whom is the chairman of the Committee, and the chief executive. The members of the Committee are indicated on page 6 of this Report.

The Committee has formal terms of reference approved by the board. Its main task is to ensure the maintenance of and, where necessary, the review of the effectiveness of internal financial controls in the group, along with the maintenance of adequate accounting records. It also oversees the financial reporting process and is concerned with the review of important accounting issues, pending litigation, specific disclosures in the financial statements and a review of the major audit recommendations. The Committee approves any non-audit services undertaken by the independent auditors.

The independent and internal auditors have unrestricted access to the Committee and its chairman. The Committee chairman is available at the annual general meeting.

The Committee has three regular meetings a year which are also attended by the independent and internal auditors and appropriate members of executive and senior management. In the past year there was full attendance by the Committee members at all three meetings. For the year under review the Committee satisfied its responsibilities in compliance with its terms of reference.

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

Remuneration / Nomination Committee

The company's Remuneration / Nomination Committee comprises exclusively non-executive independent directors. The members of the Committee are indicated on page 6 of this Report.

The Committee has formal terms of reference approved by the board. The remuneration philosophy of the group is to ensure that employees are rewarded for their contribution to the group's operating and financial performance at levels which take account of industry, market and country benchmarks. The Committee is responsible for the assessment and approval of a broad remuneration strategy for the group. It is also responsible for the development and determination of the company's general policy on executive and senior management remuneration; the positioning of senior executive pay levels relative to local and international industry benchmarks; the determination of the remuneration packages of the company's executive directors; and making recommendations to the board on the fees and remuneration payable to the company's non-executive directors. The Committee plays an integral part in succession planning relative to senior executives. The Committee is apprised of any movements in the beneficial shareholdings of all directors of the company.

The Committee also gives consideration to the composition of the board and makes appropriate recommendations in this regard to the board.

The Committee meets at least twice a year at which meetings

appropriate members of executive management are in attendance. In the past year, two meetings were held at which there was full attendance by all members. For the period under review the Committee satisfied its responsibilities in compliance with its terms of reference.

Risk Management Committee

The company's Risk Management Committee is chaired by a non-executive director and otherwise comprises four of the executive directors and five members of senior management. Members of the Committee are indicated on page 6 and 7 of this report.

The Committee has formal terms of reference approved by the board. The Committee is responsible for reviewing the Company's risk philosophy, strategy and policies, and ensuring compliance with such policies; reviewing the adequacy and overall effectiveness of the Company's risk management function; ensuring the implementation of an ongoing process for risk identification, mitigation and management; ensuring the establishment of a comprehensive system of controls; pursuing measures for increasing risk awareness throughout the company; reviewing any significant legal matters; and reviewing the adequacy of insurance coverage.

The Committee meets at least twice a year. During the past year, two meetings were held, at which there was full attendance by all the director members, save, as a result of another prior commitment, Mr B M Stuart excused himself from one of such meetings. For the period under review the Committee satisfied its responsibilities in compliance with its terms of reference.

Executive Committee

The executive directors meet on a weekly basis to review operational performance, capital programmes and other relevant issues. In addition, consideration is given to major investment and capital expenditure proposals as well as issues of strategic importance to the group, for recommendation to the board. Furthermore, the daily involvement of the executive directors with operational executives ensures the interactive nature of the overall management reporting structure.

MANAGEMENT REPORTING

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

FINANCIAL STATEMENTS

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

The annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice. They are based on appropriate accounting policies which have been consistently applied, except when otherwise stated in which case full disclosure is made, and are supported by reasonable and prudent judgements and estimates.

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

Where the closure or discontinuation of an operation is anticipated, provision is made to reduce the carrying cost of the relevant assets to net realisable value if this is below cost.

INTERNAL CONTROL

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

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

The independent auditors, through the audit work they perform, confirm that the abovementioned monitoring procedures are being applied effectively.

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

ETHICS

It is a fundamental policy of the company, embracing all group operations, to conduct its business with honesty and integrity and in accordance with the highest legal and ethical standards. The company has established a Code of Conduct and Business Practices, determining the minimum standards required of all staff, which is disseminated throughout the group and reviewed annually by the executive directors.

In any instance where ethical standards are called into question, the circumstances are investigated and resolved by the appropriate executive. A "Crimeline" facility, inviting people from within and outside the company to report any wrongdoings is operated by independent forensic accountants.

INSIDER TRADING

The Company has a code of conduct for dealing in securities issued by any of the group's listed companies. Directors and officers of the group who have access to unpublished, price-sensitive information in respect of any of these companies are prohibited from dealing in the shares of such companies during defined restricted periods, including those periods immediately prior to the announcement of interim and final financial results and periods during which cautionary announcements are operative. This prohibition does not apply to the exercising of options in terms of the company's share option scheme. Directors and the company secretaries of both Illovo Sugar Limited and its major subsidiaries are required to obtain clearance from either the chairman or the chief executive officer before dealing in company shares.

RISK MANAGEMENT

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

The major risks are the subject of the ongoing attention of the board of directors and are given particular consideration in the annual strategic plan which is approved by the board.

The management of financial risk is covered under note 34 to the financial statements on pages 83 and 84.

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

The NOSA Integrated Five Star System covering safety, health and environmental management is implemented at all of South Africa's operations and at the mills in Swaziland, Malawi and Zambia, whilst the process of implementation in Tanzania and Mozambique is progressing well. During the year under review, six factories in South Africa and the one in Swaziland retained their platinum gradings, with the Nakambala mill in Zambia also achieving platinum status.

The conversion from the ISO 9002 (1994) to the latest ISO 9001(2000) quality system has been completed for all but one of the South African operations. The Ubombo factory operations in Swaziland and the field and factory operations in Malawi were previously accredited. The integration of the NOSA system with ISO 9001(2000), with the aim of achieving a single safety, health, environmental and quality system (SHEQ), continues to make progress.

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

ENVIRONMENT

The underlying philosophy of the group's environmental policy is the adoption of protective strategies to manage and control the impact of Illovo's agricultural and manufacturing operations upon the environment, at the same time as safeguarding its extensive assets and human resources. Agricultural operations are guided by the adoption of conservation farming practices to ensure agricultural production on a sustainable basis with minimum impact on the environment and the community. Practices include the implementation of land use plans and adherence to industry environmental guidelines, including those pertaining to cane burning. At the manufacturing level, factory emissions are monitored in accordance with prevailing legal limits and company standards.

SUSTAINABILITY

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

The group's strategies, policies, actions and achievements in respect of employee development, employment equity and health care are covered under the Human Resources section of the Review of Operations on pages 27 to 29 of this Report.

Risk management is an integral part of Illovo's business. The safety, security and preservation of our people and property are essential for the group's sustainable growth. The company's risk philosophy, strategies, practices and achievements are reported elsewhere in this Corporate Governance report. Environmental policy and practices are similarly reported.

The group's integrated approach to Black economic empowerment are covered under the Chairman's Statement on page 12 of this Report, whilst social investment focus, activities and initiatives are explained in the following section.

In Swaziland, Malawi, Zambia, Tanzania and Mozambique the group participates widely in the upgrading of schools and assists in their administration and management in an effort to improve education delivery.

Illovo has qualified for inclusion in the Socially Responsible Investment ("SRI") Index of the JSE Securities Exchange South Africa.

SOCIAL INVESTMENT

The group operates in diverse environments many of which are predominantly rural, with limited infrastructure and significant development needs. These challenges are most evident in the group's African countries of operation outside South Africa.

In line with the group's strategic intent as a long-term investor and a major player in these communities, an active social investment programme is in place at each of the operations and is structured to address the specific needs of the respective communities. The group contributed over R30 million to such programmes during the period under review.

Community projects are considered on the basis that they are motivated by members of the local communities and designated company representatives. To gain company support, projects must be shown to be meaningful and sustainable, with significant community reach and participation. Given the significant challenges faced by communities in the areas of education, health care and development, the majority of the projects undertaken are focused on addressing these needs.

Education

In Swaziland, Malawi, Zambia, Tanzania and Mozambique, the group participates widely in the upgrading of schools and assists in their administration and management in an effort to improve education delivery. There are 27 schools in five countries currently benefiting from this type of support. In South Africa, the company is involved in a wide range of education-related initiatives including participation in a three year project with the Sugar Industry Trust Fund for Education for the implementation of the Education Quality Improvement Partnership (EQUIP) programme at 14 schools on the south coast of KwaZulu-Natal. In addition, the group provides ongoing financial support for tertiary educational institutions.

Health care

Illovo provides its own health care facilities across its operations to employees, their dependants and, where no other public medical facilities exist, members of surrounding communities. Presently the group operates 28 primary health care clinics and 4 hospitals. In many instances, the company also provides financial and other support, such as the provision of specialised medical equipment, for public health care institutions where these benefit both the company and the local community.

Community development

Job creation in the communities in which Illovo operates is actively promoted, in the agro-processing industry through small and medium-scale farm developments, and in community-based co-operative schemes, including the outsourcing of support services and procurement requirements which can be supplied by local entrepreneurs.

In addition to providing financial and other support for community-based welfare and fund-raising organisations, Illovo also contributes to the South African Sugar Association's community development programme which operates in the northern region of the Eastern Cape, KwaZulu-Natal and Mpumalanga, and has been an active contributor to the Business Trust, managed by the National Business Initiative.