

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 company complies with all the requirements concerning corporate governance contained in the Listings Requirements of the JSE Securities Exchange South Africa.

## **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 B P Connellan, R D Hamilton 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 pages 6 and 7 of this report. The Committee is chaired by Dr D Konar.

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 monitors any non-audit services undertaken by the independent auditors in terms of a formal policy which has been adopted in this regard.

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 is chaired by Mr R A Norton, save when it meets to consider nomination matters it is chaired by Mr R A Williams as chairman of the Board. During the year under review, Mr P M Madi was appointed as a member of the Committee.

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 four meetings were held at which there was full attendance by all members, save, as a result of another prior commitment, Mr M J Shaw excused himself from one of such meetings. 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 presently comprises two non-executive independent directors, one of whom is the chairman of the Committee, four of the executive directors and five members of senior management. Members of the Committee are indicated on pages 6 to 8 of this report. The Committee is chaired by Mr M J Shaw. During the year under review, Mr A R Mpungwe was appointed as a member of the Committee.

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. In respect of the past year, two meetings were held, at which there was full attendance by all the director members, save, as a result of other prior commitments, Messrs A R Mpungwe, J T Russell and B M Stuart each excused themselves from one of the scheduled meetings. For the period under review the

*The ISO quality management system accreditation by all factory and field operations is continuing, with most operations having now achieved certification.*

Committee satisfied its responsibilities in compliance with its terms of reference.

### **Executive Committees**

The executive directors along with the company secretary 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.

A group executive committee, comprising the executive directors and certain senior members of management, has recently been established, particularly to share and discuss the group's key strategies and issues. The members of this committee are indicated on pages 6, 8 and 9 of this report. The committee presently meets at least five times a year.

### **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. Provision is also made for any future operating losses that may be incurred from the date of discontinuance to the anticipated disposal date of such assets.

## INTERNAL CONTROL

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

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

The purpose, authority and responsibility of the internal audit department are identified in a formal Charter approved by the Audit Committee and the board. The department is an independent appraisal activity established to conduct reviews of operations and procedures, and to report findings and recommendations to company management, the Audit Committee or the board as may be appropriate. The head of the department reports administratively to the Financial Director, but has unrestricted access to the chief executive, the Audit Committee and the chairman of the board.

The independent auditors, through the audit work they perform, confirm that the abovementioned monitoring procedures 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. All managers are required to give written agreement to this Code. In any instance where ethical standards are called into question, the circumstances are investigated and resolved by the appropriate executive. 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 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 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 35 to the financial statements on page 85.

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 the operations in South Africa, in the cane growing and factory operations in Swaziland, Malawi and Zambia and at the factory in Mozambique. The process of implementation at the remaining operations is progressing well. During the year under review, the factories in South Africa conducted self-assessments in terms of the NOSA programme, while the cane growing and factory operations in Swaziland and Zambia retained their platinum gradings. The cane growing and factory operations in Malawi and the factory in Mozambique were graded on the NOSA green star system.

All but one of the South African operations have been certificated under the ISO 9001:2000 quality management system. The integration of the NOSA and the ISO 9001:2000 systems, with the aim of achieving a single safety, health, environmental and quality system (SHEQ), continues to make progress. The cane growing and factory operations in Swaziland, Malawi and Zambia are also ISO 9001:2000 certificated. Implementation at the remaining operations is being progressed. In addition, the Swaziland factory operations as well as the Merebank distillery have attained the environmental management ISO 14001:1996 accreditation, whilst the factory operations in Swaziland have recently achieved OHSAS 18001 certification for health and safety.

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 26 to 28 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 11 of this report, whilst social investment focus, activities and initiatives are explained in the following section.



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## 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. During the period under review the group contributed over R130 million towards the provision of water, electricity, sanitation, hospitals and clinics, education and community outreach programmes, for the benefit of both employees and local communities.

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.

### 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.

### 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 which has included participation in a 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.

### 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 continues to contribute to the Business Trust which is managed by the National Business Initiative (NBI).



*In South Africa, the company supports a wide-range of education-related initiatives and recently embarked upon a campaign to provide "lap-desks" to learners at rural schools in KwaZulu-Natal which do not have desks of their own.*

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