

Corporate governance

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 group complied with the principles contained in such Code throughout the year under review. The group's compliance in respect of the King Report on Governance for South Africa 2009 and the King Code of Governance for South Africa 2009 (the King III Code) will be reported upon in the 2011 Annual Report.

The company complies with all the requirements concerning corporate governance contained in the Listings Requirements of the JSE Limited.

THE BOARD AND BOARD COMMITTEES

The company has a unitary board of directors which comprises a majority of non-executive directors (presently nine non-executive, independent directors, four non-executive directors, three of whom are nominated by the holding company, and five 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. At each annual general meeting of shareholders, not less than one-third of the directors must retire, being those directors longest in office since their appointment or last re-election, and may, if available, be proposed for re-election. 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 six 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 the past year, six meetings were held, attendance at which is reflected in a table on page 32 of this report.

Audit Committee

The responsibilities and activities of the group Audit Committee are covered in the Audit Committee Report on pages 65 and 66 of this report.

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

Remuneration / Nomination Committee

The responsibilities and activities of the Remuneration / Nomination Committee are covered in the Remuneration Report on page 34 of this report.

Risk Management Committee

The company's Risk Management Committee presently comprises six non-executive directors, four of whom are independent and one of whom is the chairman of the Committee, three of the executive directors and five members of senior management. Members of the Committee are indicated on pages 6, 7 and 8 of this report. The Committee is chaired by Mr M J Shaw, and upon his retirement in July 2010 will be chaired by Mr D G MacLeod.

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 gives particular focus to operational risks, including health and safety.

The Committee meets at least twice a year. In respect of the past year, two meetings were held, attendance at which by the director members is reflected in a table on page 32 of this report. For the period under review, the Committee satisfied its responsibilities in compliance with its terms of reference.

Corporate governance continued

Attendance at board and committee meetings during the year ended 31 March 2010

	Board		Audit Committee		Remuneration / Nomination Committee		Risk Management Committee		Annual General Meeting	
	A	B	A	B	A	B	A	B	A	B
Carr M I	6	5			5	5			1	1
Clark G J	6	6					2	2	1	1
Connellan B P	6	6							1	1
Hankinson M J	6	6	3	3	5	5	2	2	1	1
Haworth D L	6	6							1	1
Konar D	6	4	3	3					1	1
# Langlands D R	5	2	3	** 1			1	0	1	0
Lister P A	6	3							1	0
MacLeod D G	6	6	3	** 3	5	5	2	2	1	1
Madi P M	6	5			5	4			1	1
Molope C W N	6	6	3	3					1	1
* Mpungwe A R	4	3					0	0	0	0
≈ Munday T S	1	1					0	0	0	0
^ Norton R A	2	2	2	2	2	2			1	1
∅ Pike R N	1	1					0	0	0	0
Riddle L W	6	6							1	1
Shaw M J	6	6	3	3	5	5	2	2	1	1
Stuart B M	6	6					2	2	1	1
Williams R A	6	5	3	2	5	4	2	+2	2	1
Zarnack K	6	6					2	2	1	1

Column A indicates the number of meetings held during the period the director was a member of the board / committee.

Column B indicates the number of meetings attended during the period the director was a member of the board / committee.

Resigned with effect from 28 January 2010

* Appointed with effect from 1 September 2009

≈ Appointed with effect from 9 March 2010

^ Retired on 14 July 2009

∅ Appointed with effect from 28 January 2010

** Participation in his capacity as a non-independent, non-executive director as an attendee

+ Participation in his capacity as chairman of the board as an attendee

Executive Committees

The executive directors along with the human resources executive and the company secretary constitute the Executive Committee which meets 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 and functional executives ensures the interactive nature of the overall management reporting structure.

A Group Executive Committee, comprising the executive directors, one of the non-executive directors, nominated by the holding company and certain senior members of management, meets on a regular basis, particularly to share and discuss the group's key strategies and issues. The members of this Committee are indicated on pages 6 to 9 of this report. The Committee presently meets at least four times a year.

A Corporate Executive Committee, comprising the executive directors and certain senior members of corporate management meets on a regular basis to discuss and agree implementation processes in respect of corporate strategies and policies. The members of this Committee are indicated on pages 6 and 8 of this report. The Committee presently meets at least nine 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 on-going 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 International Standards on Auditing and reporting their findings.

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the Companies Act, 1973, as amended. They are based on appropriate accounting policies which have been consistently applied, except when otherwise stated, in which case full disclosure is made.

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

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 defined in a formal Charter approved by the Audit Committee and the board. The department functions as 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 its chairman, and the chairman of the board.

The independent auditors, through the audit work they perform, confirm that the abovementioned monitoring procedures have been implemented.

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 Committee. The Code prescribes, inter alia, that the company shall not make political contributions. 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.

"Crimeline" facilities, inviting people from within and outside the company to anonymously report any wrongdoings are operated by independent forensic accountants, and all matters arising are then appropriately investigated and reported upon.

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. 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.

Remuneration report

REMUNERATION PHILOSOPHY AND POLICIES

The remuneration philosophy and policies of the group are designed to not only attract, retain and motivate employees, but also to reward them for their contribution to the group's operating and financial performance. They take into account market conditions at both industry and country levels.

Apart from fixed remuneration, an element of variable remuneration is provided in the form of short and longer-term incentive schemes which are used to reward employees for the achievement and out-performance of specified targets and objectives, and to assist in attracting and retaining key personnel.

For the short-term, all employees participate in a performance related bonus scheme designed and implemented on a financial-year basis, with payments made for performance against pre-set criteria at the end of the financial year. The targets set are both of a financial and 'line-of-sight' operational nature, directly relevant to the performance expectations for each operation in the ensuing year. Performance against the targets is readily measured, and progress towards achievement thereof is communicated on an ongoing basis.

Longer-term incentives include share purchase schemes and a performance-related phantom share scheme, the latter being extended to key senior staff members, and which are aligned to the company's share performance. These schemes are more fully described under Statutory Information on pages 67 to 69 of this report.

REMUNERATION / NOMINATION COMMITTEE

For the year under review, the company's Remuneration / Nomination Committee comprised initially seven non-executive directors, five of whom were independent, reducing to six and four respectively upon the retirement of Mr R A Norton with effect from 14 July 2009. The members of the Committee are indicated on page 7 of this report. The Committee was chaired by Mr R A Norton until his retirement and thereafter by Mr M J Shaw, except when it meets to consider nomination matters, it is chaired by Mr R A Williams as chairman of the board.

The Committee has formal terms of reference approved by the board. The Committee is responsible for the assessment and approval of a broad remuneration strategy for the group, and for the development and determination of the company's general policy on executive and senior management remuneration. It is also responsible for 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, and also gives consideration to the composition of the board and makes appropriate recommendations in this regard to the board.

The Committee is apprised of any movements in the beneficial shareholdings of all directors of the company.

The Committee meets at least three times a year at which meetings appropriate members of executive management are in attendance. In the past year, five meetings were held, attendance at which is reflected in table on page 32 of this report. For the period under review, the Committee satisfied its responsibilities in compliance with its terms of reference.

EXECUTIVE AND SENIOR MANAGEMENT REMUNERATION

The group aims to adhere to the broad guidelines of executive remuneration set out in the King II Report, in respect of the remuneration packages of the company's executive directors and senior management, ensuring that -

- the positioning of the remuneration packages is aligned between the market median and upper quartile of local and international industry benchmarks;
- there is an appropriate balance between fixed and variable remuneration which is modelled to achieve superior performance;
- short-term and long-term driven incentives are implemented which contribute to a performance-focused culture and which are aligned to sustainable shareholder value.



COMPENSATION OF DIRECTORS

The remuneration of executive directors for the year ended 31 March 2010 was as follows -

	Salary	Bonus	Retirement and medical contributions	Other benefits	Option gains	Total
	R000	R000	R000	R000	R000	R000
Clark G J	3 000	465	367	123	-	3 955
* # Haworth D L	1 431	150	173	182	-	1 936
# Riddle L W	1 432	222	188	204	662	2 708
Stuart B M	2 289	286	277	192	19	3 063
Zarnack K	1 826	237	214	154	868	3 299
Total	9 978	1 360	1 219	855	1 549	14 961

Appointed with effect from 1 April 2009

* To retire on 31 May 2010

The remuneration of executive directors for the year ended 31 March 2009 was as follows -

	Salary	Bonus	Retirement and medical contributions	Other benefits	Option gains	Total
	R000	R000	R000	R000	R000	R000
Clark G J	2 177	2 368	268	123	1 078	6 014
* MacLeod D G	3 890	4 259	441	183	1 747	10 520
* Russell J T	1 818	1 973	222	195	-	4 208
Stuart B M	1 930	2 126	234	196	-	4 486
Zarnack K	1 603	1 740	189	176	-	3 708
Total	11 418	12 466	1 354	873	2 825	28 936

* Retired on 31 March 2009

The fees paid to non-executive directors were as follows -

	2010 R000	2009 R000	
Connellan B P	180	150	# Appointed Deputy Chairman 1 April 2009
Hankinson M J	403	229	* Resigned 31 March 2009
Konar D	315	268	≈ Appointed 1 September 2009
# MacLeod D G	1 200	-	^ Appointed 9 March 2010
Madi P M	258	220	∅ Retired 14 July 2009
* Mkhize I N	-	210	Ω Resigned 28 January 2010
Molope C W N	258	84	~ Appointed 28 January 2010
≈ Mpungwe A R	106	-	+ These directors, nominated by the holding company, have each elected not to receive the payment of the fees due to them as non-executive members of the board and the board committees upon which they serve
^ Munday T S	13	-	
∅ Norton R A	143	314	
Shaw M J	441	367	
Williams R A	1 820	1 640	
+ Carr M I	-	-	
+Ω Langlands D R	-	-	
+ Lister P A	-	-	
+~ Pike R N	-	-	
Total	5 137	3 482	

Post-retirement medical aid contributions paid on behalf of past directors amounted to R46 940 for the year (2009: R40 794). In addition, option gains aggregating R6 261 965 were received by Mr D G MacLeod in respect of options granted whilst he was an executive director.

Remuneration report *continued*

SHARE OPTIONS

Illovo Sugar 1992 Share Option Scheme

This option scheme is covered under Statutory Information on pages 67 and 68 of this report.

The table below reflects options previously granted to directors, any options exercised during the year under review, and options unexpired and unexercised as at 31 March 2010.

	Options as at 31 March 2009	Option price (cents)	Options exercised during the year	Exercise price (cents)	Options as at 31 March 2010	Expiry date
Clark G J	50 698	805	1 874	3 100	48 824	20.05.2012
	68 500	680	–	–	68 500	20.05.2013
	46 000	770	–	–	46 000	01.06.2014
	165 198				163 324	
* MacLeod D G	57 100	680	57 100	3 300	–	20.05.2013
	105 300	770	105 300	3 300	–	01.06.2014
	162 400		–	–	–	
Riddle L W	3 600	770	–	–	3 600	01.06.2014
	3 600				3 600	
Stuart B M	17 900	805	17 900	3 270	–	20.05.2012
	45 700	680	–	–	45 700	20.05.2013
	46 000	770	–	–	46 000	01.06.2014
	109 600				91 700	
	440 798		182 174		258 624	

* Options granted to Mr MacLeod whilst an executive director.

Illovo Sugar Phantom Share Scheme

This share scheme is covered under Statutory Information on pages 68 and 69 of this report.

Given that options in terms of this scheme are “cash settled” rather than “equity settled”, the scheme does not fall to be classified as a share incentive scheme in terms of the JSE’s Listings Requirements.



The table below reflects options previously granted to directors, options granted during the year under review, any options exercised during the year under review, and options unexpired and unexercised as at 31 March 2010.

	Options as at 31 March 2009	Option price (cents)	Options granted during the year	Options exercised during the year	Exercise price (cents)	Options as at 31 March 2010	Expiry date
Clark G J	92 500	829	–	–		92 500	12.07.2015
	50 000	1 634	–	–		50 000	29.10.2016
	90 000	2 364	–	–		90 000	23.07.2017
	70 000	2 867	–	–		70 000	09.07.2018
	–	2 808	240 000	–		240 000	13.07.2019
	302 500					542 500	
Haworth D L	45 000	829	–	–		45 000	12.07.2015
	26 000	1 634	–	–		26 000	29.10.2016
	12 000	2 364	–	–		12 000	23.07.2017
	30 000	2 867	–	–		30 000	09.07.2018
	–	2 808	60 000	–		60 000	13.07.2019
	113 000					173 000	
* MacLeod D G	225 000	829	–	225 000	2 849	–	12.07.2015
	115 000	1 634	–	115 000	2 849	–	29.10.2016
	100 000	2 364	–	–		100 000	23.07.2017
	140 000	2 867	–	–		140 000	09.07.2018
	580 000					240 000	
Riddle L W	58 000	829	–	31 200	2 950	26 800	12.07.2015
	20 000	1 634	–	–		20 000	29.10.2016
	33 500	2 364	–	–		33 500	23.07.2017
	25 000	2 867	–	–		25 000	09.07.2018
	–	2 808	60 000	–		60 000	13.07.2019
	136 500					165 300	
Stuart B M	92 500	829	–	–		92 500	12.07.2015
	45 000	1 634	–	–		45 000	29.10.2016
	42 500	2 364	–	–		42 500	23.07.2017
	51 500	2 867	–	–		51 500	09.07.2018
	–	2 808	92 000	–		92 000	13.07.2019
	231 500					323 500	
Zarnack K	125 000	829	–	40 000	3 000	85 000	12.07.2015
	70 000	1 634	–	–		70 000	29.10.2016
	80 000	2 364	–	–		80 000	23.07.2017
	34 500	2 867	–	–		34 500	09.07.2018
	–	2 808	60 000	–		60 000	13.07.2019
	309 500					329 500	
	1 673 000		512 000	411 200		1 773 800	

* Options granted to Mr MacLeod whilst an executive director.