

Sustainability

INTRODUCTION

Illovo subscribes to the principles of sustainable development and in this regard continues to build on the cane sugar sustainability model which is fully explained on pages 84 to 88 of this report. In particular, this model shows that presently, 89% of the group's energy requirements is produced from renewable energy sources.

Equally important, given the rural locations of its operations, the group provides much-needed employment and supply opportunities in regions of Africa which would otherwise be impoverished. By way of illustration, for the year under review, the group provided social benefits to its employees valued at R129 million, this being over and above the normal costs of production which would typically be found in the more developed sugar producing countries. In addition, from cane supplied to Illovo's factories, small-scale farmers across the group earned revenue aggregating R618 million, benefiting these growers directly and leading to significant multiplier effects within the associated communities.

This section of the Annual Report provides considerable information related to sustainability matters within Illovo. To enhance the group's commitment to and reporting on sustainability matters, during the year under review, the company commissioned external consultants to undertake a comprehensive investigation of all Illovo's sustainability practices and to report thereon to management. It is anticipated that this process will enable –

- management to better measure, monitor and manage key non-financial sustainability metrics;
- the company to further develop its sustainability reporting, it being the intention to report against the Global Reporting Initiative's (GRI) G3 Guidelines in the 2012 Annual Report;
- the use of the services of an independent verification agency to provide assurance in respect of the sustainability report.

Illovo qualified for inclusion in the JSE's Socially Responsible Investment (SRI) Index in 2010, for the fourth consecutive year.

Corporate Governance

Introduction

The directors and employees of Illovo strive to ensure that the company is managed in an efficient, accountable, responsible and moral manner. In this respect, the board of directors (the board) and executive management given ongoing consideration to developments in the field of corporate governance and ensure implementation within the group to the extent determined as appropriate.

The board subscribes to the principles comprising the King Code of Governance for South Africa 2009 (the King III Code) and the requisite apply or explain approach has been initiated in this report. A compliance assessment is included on pages 62 and 63 of this report, incorporating relevant explanations where applicable.

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

Whereas, for the financial year under review, ended 31 March 2011, the Companies Act, 1973, as amended, was applicable, this Act was replaced with the Companies

Act, 2008, as amended, with effect from 1 May 2011. Consequently, forward-looking matters, such as those to be submitted to the shareholders at the forthcoming annual general meeting, are considered in terms of the new Act.

The Board

The company has a unitary board of directors which comprises a majority of non-executive directors. Similarly, the majority of the non-executive directors are independent. The present composition of the board is shown in the table below:

Directors	
Non-executive, independent	7
Non-executive	4*
Executive	4
Total	15

* Three of the non-executive directors are appointed by the holding company

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 Report on Governance for South Africa 2009 (the King III Report). Brief curricula vitae of all the directors are included on pages 12 and 13 of this report.

The independence of the non-executive, independent directors is assessed on an annual basis by the Remuneration/Nomination Committee, which provides an appropriate report-back to the board.

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, in particular prescribes that the board takes responsibility for:

- exercising leadership, enterprise, integrity and judgement in directing the company so as to achieve its Strategic Intent, and goals and objectives;
- acting as a focal point for and custodian of corporate governance;
- approving the strategic direction, and the goals and objectives of the company; always appreciating that strategy, risk, performance and sustainability are inseparable;
- ensuring that the business is a going concern, and being involved in all discussions which are material for this purpose;
- considering and approving annually the company's strategic plan and its operating and capital budgets;
- considering and approving all material investments, and acquisitions and disposals of business activities;
- defining and monitoring levels of materiality, reserving specific powers to itself and delegating other appropriate matters to the relevant board committees and/or management;
- determining the terms of reference of the board committees, and appointing or recommending the appointment of, as the case may be, the members of such committees;
- being satisfied that appropriate policies, procedures and practices are in place and are duly observed;
- identifying and monitoring the non-financial sustainability issues relevant to the business of the company;
- ensuring that the company maintains and develops good corporate governance standards;
- the governance of risk; identifying and monitoring the company's key risks and key performance indicators;
- being satisfied that:
 - there is due compliance with all risk-related policies, procedures and standards; and
 - internal controls are effectively maintained and, where necessary, reviewed;
- ensuring that the company has an effective internal audit function;
- information technology governance; being satisfied that the technology and systems used in the company are appropriate to its business needs;
- ensuring that the evaluation of the board, its committees and individual directors is undertaken on an annual basis;
- endeavouring to ensure that the company complies with all relevant laws, regulations and codes of business practice;
- overseeing the preparation of and approving the company's annual financial statements, and ensuring that disclosures in the Annual Report, particularly those pertaining to sustainability matters, are adequate and meet regulatory requirements;
- approving the company's interim and final results announcements, and determining distributions to shareholders;
- ensuring that:
 - succession planning is undertaken;
 - the remuneration strategy of the company is appropriate to the business; and
 - remuneration levels of directors and senior management are appropriate;

- recommending to shareholders at the annual general meeting, the level of fees payable to the non-executive directors; and
- ensuring that there is effective communication with the company's shareholders and other key stakeholders.

For the period under review, the board satisfied its responsibilities in compliance with its Charter.

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. The chairman is elected/re-elected by the board on an annual basis, on recommendation by the Remuneration/Nomination Committee.

New appointments to the board are subject to the recommendation of the Remuneration/Nomination Committee and formal approval by the board. The appointments of new directors are subject to confirmation by shareholders at the next annual general meeting following their appointment.

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 Remuneration/Nomination Committee conducts an assessment of the performance of each of the retiring directors who make themselves available for re-election and submits its recommendations to the board. In turn, the board makes appropriate recommendations to the shareholders for the re-election of directors.

The members of the board undertake annual evaluations of the performance of the board and the chairman of the board.

The company provides insurance cover for directors' and officers' legal liabilities.

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 the table below.

Attendance at board and committee meetings during the year ended 31 March 2011

	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	6			4	4			1	1
Clark G J	6	6					2	2	1	1
Connellan B P#	2	2							1	1
Hankinson M J	6	6	3	3	4	4	2	2	1	1
Haworth D L*	1	0								
Konar D	6	6	3	3					1	1
Lister P A	6	5							1	0
MacLeod D G	6	6	3	x3	4	4	2	2	1	1
Madi P M	6	5			4	3			1	1
Molope C W N	6	4	3	2					1	0
Mpungwe A R	6	5					2	1	1	1
Munday T S	6	6					2	2	1	1
Pike R N	6	6	3	x3			2	2	1	1
Riddle L W	6	6							1	1
Shaw M J#	2	2	2	2	2	2			1	1
Stuart B M	6	6					2	2	1	1
Williams R A	6	6	3	3	4	4	2	+2	1	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.

Retired on 21 July 2010

* Retired on 31 May 2010

x 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

The relevant interests of directors are considered at each meeting of directors, and individual directors declare their specific interests in any discussions in respect of which the director concerned might have a conflict of interest.

In addition to having access to the advice of the company secretary, members of the board may, in appropriate circumstances, take independent professional advice at the company's expense.

Board committees

For logistical reasons, meetings of the various committees, as identified below, take place immediately prior to board meetings. Consequently, the chairmen of the committees provide verbal report-backs to the relevant following meetings of the board. The members of the committees undertake annual evaluations of the performance of the respective committees.

Audit Committee

The responsibilities and activities of the group Audit Committee are covered in the Audit Committee Report on pages 98 and 99 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 pages 64 and 65 of this report.

Risk Management Committee

The company's Risk Management Committee presently comprises five non-executive directors, three 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. The directors and Executive Committee members of the Committee are indicated on pages 12 to 15 of this report. The Committee is presently chaired by Mr D G MacLeod, and upon his appointment as chairman of the board in July 2011 will be chaired by Mr R N Pike.

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 and compliance with the legislative and regulatory requirements in each country of operation.

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 59 of this report. For the period under review, the Committee satisfied its responsibilities in compliance with its terms of reference.

Executive Committee

The executive directors along with the executives responsible for human resources, corporate affairs and continuous improvement 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 members of the Executive Committee with operational and functional executives ensures the interactive nature of the overall management reporting structure. The members of this Committee are indicated on pages 14 and 15 of this report.

Company secretary

The board considers the company secretary to be qualified to perform his duties in accordance with applicable legislation and to be fit and proper for the position. All directors have access to the advice and services of the company secretary.

JSE Sponsor

J P Morgan Equities Limited acts as the company's Sponsor in compliance with the JSE Listings Requirements.

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 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.

Going concern

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 functionally to the chairman of the Audit Committee and administratively to the corporate affairs director, and also 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 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.

Information Technology (IT)

The board has assigned the responsibility of monitoring IT governance to the Audit Committee.

The introduction of King III has a number of implications for the management of IT. Management has conducted an analysis of the implications of the relevant chapter of King III relative to its IT management philosophy, and is currently engaged in appropriately enhancing its governance framework and processes.

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 wrong-doings are operated by independent forensic accountants, and all matters arising are then appropriately investigated and reported upon.

Compliance

The board endeavours to ensure that the company and its subsidiaries comply with all relevant laws, regulations and codes of business practice. To this end, the heads of each operational subsidiary, in the six countries in which the group operates, are required to provide written confirmation on an annual basis to the Risk Management Committee, that such subsidiaries and their employees have complied with all relevant laws, regulations and codes of business practice during the period under review.

To further bolster this aspect of the business, a new position of Group Compliance Manager has recently been established to give specific focus to the various requirements across the group.

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 group chairman or chief executive before dealing in company shares.

ACCESS TO INFORMATION

The company has complied with the requirements of the Promotion of Access to Information Act, 2000. The relevant manual is available on the company's website: www.illovosugar.com.

No requests for access to records were received during the year under review.

KING III CODE COMPLIANCE ASSESSMENT

Key: ✓ Compliant # Partially compliant * Under review ø Not applicable

PRINCIPLES	
Chapter 1 – Ethical leadership and corporate citizenship	
The board should provide effective leadership based on an ethical foundation	✓
The board should ensure that the company is and is seen to be a responsible corporate citizen	✓
The board should ensure that the company's ethics are managed effectively	✓
Chapter 2 – Board and directors	
The board should act as the focal point for and custodian of corporate governance	✓
The board should appreciate that strategy, risk, performance and sustainability are inseparable	✓
The board and its directors should act in the best interests of the company	✓
The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Companies Act, 2008, as amended (note 1)	ø
The board should elect a chairman of the board who is an independent non-executive director. The CEO of the company should not also fulfil the role of chairman of the board (note 2)	✓
The board should appoint the chief executive officer and establish a framework for the delegation of authority	✓
The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent	✓
Directors should be appointed through a formal process	✓
The induction of and ongoing training and development of directors should be conducted through formal processes (note 3)	#
The board should be assisted by a competent, suitably qualified and experienced company secretary	✓
The evaluation of the board, its committees and the individual directors should be performed every year	✓
The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities	✓
A governance framework should be agreed between the group and its subsidiary boards (note 4)	#
Companies should remunerate directors and executives fairly and responsibly (note 5)	#
Companies should disclose the remuneration of each individual director and certain senior executives (Note 6)	#
Shareholders should approve the company's remuneration policy	✓
Chapter 3 – Audit Committees	
The board should ensure that the company has an effective and independent audit committee	✓
Audit committee members should be suitably skilled and experienced independent non-executive directors (note 7)	#
The audit committee should be chaired by an independent non-executive director	✓
The audit committee should oversee integrated reporting (note 8)	#
The audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities (note 8)	#
The audit committee should satisfy itself of the expertise, resources and experience of the company's finance function	✓
The audit committee should be responsible for overseeing of internal audit	✓
The audit committee should be an integral component of the risk management process	✓
The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process	✓
The audit committee should report to the board and shareholders on how it has discharged its duties	✓
Chapter 4 – The governance of risk	
The board should be responsible for the governance of risk	✓
The board should determine the levels of risk tolerance	✓
The risk committee or audit committee should assist the board in carrying out its risk responsibilities	✓
The board should delegate to management the responsibility to design, implement and monitor the risk management plan	✓
The board should ensure that risk assessments are performed on a continual basis	✓
The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	✓
The board should ensure that management considers and implements appropriate risk responses	✓
The board should ensure continual risk monitoring by management	✓
The board should receive assurance regarding the effectiveness of the risk management process	✓
The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders	✓
Chapter 5 – The governance of information technology	
The board should be responsible for information technology (IT) governance (note 9)	*
IT should be aligned with the performance and sustainability objectives of the company (note 9)	*
The board should delegate to management the responsibility for the implementation of an IT governance framework (note 9)	*
The board should monitor and evaluate significant IT investments and expenditure	✓
IT should form an integral part of the company's risk management	✓
The board should ensure that information assets are managed effectively (note 9)	*
A risk committee and audit committee should assist the board in carrying out its IT responsibilities (note 10)	#

PRINCIPLES

Chapter 6 – Compliance with laws, rules, codes and standards

The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	✓
The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business	✓
Compliance risk should form an integral part of the company's risk management process	✓
The board should delegate to management the implementation of an effective compliance framework and processes	✓

Chapter 7 – Internal Audit

The board should ensure that there is an effective risk based internal audit	✓
Internal audit should follow a risk based approach to its plan (note 11)	#
Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management	✓
The audit committee should be responsible for overseeing internal audit	✓
Internal audit should be strategically positioned to achieve its objectives	✓

Chapter 8 – Governing stakeholder relationships

The board should appreciate that stakeholders' perceptions affect a company's reputation	✓
The board should delegate to management to proactively deal with stakeholder relationships	✓
The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company	✓
Companies should ensure the equitable treatment of shareholders	✓
Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence	✓
The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible	✓

Chapter 9 – Integrated reporting and disclosure

The board should ensure the integrity of the company's integrated report	✓
Sustainability reporting and disclosure should be integrated with the company's financial reporting	✓
Sustainability reporting and disclosures should be independently assured (note 12)	#

Notes

1. It has not been necessary to consider business rescue proceedings.
2. Whilst the current chairman is independent, the next chairman, by definition, will not be independent at the time of his appointment and consequently a lead independent director will be appointed.
3. Given the experience of the members of the board, mentorship and professional development programmes have not been considered necessary.
4. As five of the company's six operating subsidiaries are registered in countries outside South Africa, these subsidiaries are guided by local reporting requirements, and the integrated reporting of subsidiary companies as contemplated by King III is not applicable.
5. Given the generally high-level of attendance at meetings, the board does not consider it appropriate for non-executive directors' fees to comprise a meeting attendance fee as well as a base fee. Fees are determined with due regard to relevant market surveys.
6. Whilst the remuneration of each individual director is disclosed, the board does not consider it appropriate to disclose the individual salaries of the three most highly-paid employees who are not directors. The aggregate salaries of these three individuals is disclosed in the Remuneration Report.
7. The current chairman of the board, who is an independent director, is a member but not the chairman of the Audit Committee. This is deemed to be appropriate so as to provide him with a full understanding of the matters considered by this Committee.
8. Whilst the Audit Committee reviews all disclosures in the annual report, responsibility for non-financial sustainability matters falls to the Risk Management Committee.
9. As one of the responsibilities of the Audit Committee, the present IT governance framework and processes are currently being enhanced to ensure further alignment with King III.
10. The Audit Committee, not the Risk Management Committee, has responsibility relative to IT risks.
11. Whilst the internal audit function does follow a risk-based approach to its plan, relative to the sub-principles dealing with the realisation of strategic goals, assurance in this regard is not included in the internal audit mandate. This is the responsibility of executive management.
12. The reporting on and the provision of assurance over non-financial sustainability issues is the responsibility of the Risk Management Committee. The independent assurance in respect of sustainability reporting and disclosures will be procured for the 2012 Annual Report.