

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 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 eight 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 previously had five, but in future will have 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

For the year under review, the group Audit Committee comprised four non-executive independent directors, one of whom is the chairman of the Committee. The members of the Committee, appointed by the board for the year ending 31 March 2010, are indicated on pages 6 and 7 of this report. In addition, Messrs D R Langlands and D G MacLeod, being precluded from membership in terms of the Corporate Laws Amendment Act, 2006, attend the meetings of the Committee on a regular basis. 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 oversees the financial reporting process and is also concerned with the review of important accounting issues, pending litigation, specific disclosures in the financial statements and a review of the major audit recommendations.

For the year under review, the Committee confirmed the appointment of both Deloitte & Touche as the independent auditors and Mr C A Sagar as the registered auditor responsible for the audit, and further satisfied itself that the independent auditors were independent of the company. The Committee approves 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 satisfied itself of the appropriateness of the expertise and experience of the Financial Director, Ms K Zarnack.

The Committee has three regular meetings a year which are also attended by the independent and internal auditors, two non-executive directors, one of whom is nominated by the holding company, and appropriate members of executive and senior management. In the past year, three meetings were held, attendance at which is reflected in a table on page 32 of this report. For the year under review, the Committee satisfied its responsibilities in compliance with its terms of reference.

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 four non-executive directors, two 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.

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

Attendance at board and committee meetings during the year ended 31 March 2009

	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	4			5	3			1	0
Clark G J	6	6					2	2	1	1
Connellan B P	6	6							1	1
Hankinson M J	6	4	1	1			2	1	1	1
# Haworth D L	0	0							0	0
Konar D	6	5	3	3					1	1
Langlands D R	6	4					2	1	1	1
Lister P A	6	3							1	0
MacLeod D G	6	6					2	2	1	1
Madi P M	6	6			5	5			1	1
^ Mkhize I N	6	5					2	1	1	0
∅ Molope C W N	3	3							0	0
Norton R A	6	6	3	3	5	5			1	1
# Riddle L W	0	0							0	0
• Russell J T	6	6							1	1
Shaw M J	6	6	3	3	5	5	2	2	1	1
Stuart B M	6	5					2	1	1	1
Williams R A	6	6	3	3	5	5	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

- # Appointed with effect from 1 April 2009
- ^ Resigned with effect from 31 March 2009
- ∅ Appointed on 16 September 2008
- Retired with effect from 31 March 2009
- + 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 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 and functional executives ensures the interactive nature of the overall management reporting structure.

A Group Executive Committee, comprising the executive directors, one non-executive director, 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 five times a year.

A Corporate Executive Committee, comprising the executive directors and certain senior members of corporate management meets monthly to discuss and agree implementation processes in respect of corporate strategies and policies. The members of this Committee are indicated on pages 6 to 8 of this report.

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). 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 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 directors. 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

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.

Apart from fixed remuneration, and in line with the company's remuneration philosophy, both short and longer-term incentive schemes are used to reward employees for the achievement and out performance of specified targets and objectives, as well as being a means to attract and retain key personnel. A performance related bonus scheme is extended to all employees at every level across the group, and is designed and implemented on a financial year basis. 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. In respect of the latter, the targets are readily measured and progress towards achievement thereof is communicated on an ongoing basis.

Longer-term schemes include share purchase schemes and a performance-related phantom share scheme, the latter being extended to key senior staff members, which are aligned to the company's share performance. These schemes are more fully described under Statutory Information on pages 63 and 64 of this report.

REMUNERATION / NOMINATION COMMITTEE

For the year under review, the company's Remuneration/ Nomination Committee comprised five non-executive directors, four of whom are independent. Two additional non-executive directors, one of whom is independent, have recently been appointed as members of the Committee.

COMPENSATION OF DIRECTORS

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

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

The remuneration of executive directors for the year ended 31 March 2008 was as follows -

Name	Salary R000	Bonus R000	Retirement and medical contributions R000	Other benefits R000	Option gains R000	Total R000
G J Clark	1 887	1 764	232	123	-	4 006
D G MacLeod	3 383	3 214	390	183	-	7 170
J T Russell	1 687	1 518	205	156	-	3 566
B M Stuart	1 716	1 531	208	179	-	3 634
K Zarnack	1 460	1 307	172	176	-	3 115
Total	10 133	9 334	1 207	817	-	21 491

The members of the Committee are indicated on pages 6 and 7 of this report. The Committee is chaired by Mr R A Norton, 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. It is responsible for the assessment and approval of a broad remuneration strategy for the group, and 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. It 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 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.

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

	2009	2008
	Fees	Fees
	R'000	R'000
B P Connellan	150	135
M J Hankinson #	229	-
D Konar	268	242
P M Madi	220	199
I N Mkhize	210	189
C W N Molope *	84	-
R A Norton	314	286
M J Shaw	367	334
R A Williams	1 640	1 505
M I Carr +	-	-
D R Langlands +	-	-
P A Lister +	-	-
Total	3 482	2 890

Appointed 20 May 2008

* Appointed 16 September 2008. Fees due to 31 December 2008, amounting to R43 614, were paid to the Financial Services Board

+ 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

Benefits paid to past directors amounted to R40 794 for the year (2008: R36 133).

Remuneration report continued

SHARE OPTIONS

Illovo Sugar 1992 Share Option Scheme

This option scheme is covered under Statutory Information on page 63 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 2009.

	Options as at 31 March 2008	Option price (cents)	Options exercised during the year	Exercise price (cents)	Options as at 31 March 2009	Expiry date
Clark G J	13 100	443	13 100	2 400	–	
	44 100	650	44 100	2 400	–	
	53 800	805	3 102	2 400	50 698	20.05.2012
	68 500	680	–		68 500	20.05.2013
	46 000	770	–		46 000	01.06.2014
					<u>165 198</u>	
MacLeod D G *	40 800	805	40 800	2 515	–	
	114 300	680	57 200	2 515	57 100	20.05.2013
	105 300	770	–		105 300	01.06.2014
					<u>162 400</u>	
Riddle L W	5 700	680	5 700 #	3 120	–	
	10 700	770	7 100 #	3 010	3 600	01.06.2014
					<u>3 600</u>	
Stuart B M	17 900	805	–		17 900	20.05.2012
	45 700	680	–		45 700	20.05.2013
	46 000	770	–		46 000	01.06.2014
					<u>109 600</u>	
	<u>611 900</u>		<u>171 102</u>		<u>440 798</u>	

* Options granted to Mr MacLeod whilst an executive director.

Options exercised prior to Mr Riddle's appointment as a director.

Illovo Sugar Phantom Share Scheme

This share scheme is covered under Statutory Information on pages 63 and 64 of this report.

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 2009.

	Options as at 31 March 2008	Option price (cents)	Options granted during the year	Options exercised during the year	Exercise price (cents)	Options as at 31 March 2009	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
		2 867	70 000	–		70 000	09.07.2018
						302 500	
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
		2 867	30 000	–		30 000	09.07.2018
						113 000	
MacLeod D G *	225 000	829	–	–		225 000	12.07.2015
	115 000	1 634	–	–		115 000	29.10.2016
	100 000	2 364	–	–		100 000	23.07.2017
		2 867	140 000	–		140 000	09.07.2018
						580 000	
Riddle L W	80 000	829	–	22 000 #	2 595	58 000	12.07.2015
	20 000	1 634	–	–		20 000	29.10.2016
	33 500	2 364	–	–		33 500	23.07.2017
		2 867	25 000	–		25 000	09.07.2018
						136 500	
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
		2 867	51 500	–		51 500	09.07.2018
						231 500	
Zarnack K	125 000	829	–	–		125 000	12.07.2015
	70 000	1 634	–	–		70 000	29.10.2016
	80 000	2 364	–	–		80 000	23.07.2017
		2 867	34 500	–		34 500	09.07.2018
						309 500	
	1 344 000		351 000	22 000		1 673 000	

* Options granted to Mr MacLeod whilst an executive director.

Options exercised prior to Mr Riddle's appointment as a director.