

# CORPORATE GOVERNANCE

22

The Directors of AFGRI are unreservedly committed to applying the principles of discipline, independence, responsibility, fairness, social responsibility, transparency and accountability to all stakeholders.

The Board is of the opinion that the Group currently complies with all the significant requirements in the Code of Corporate Practices and Conduct, as advocated in the King II Report on Corporate Governance for South Africa 2002 and the JSE Limited ("JSE") Listings Requirements.

## DIRECTORS AND EXECUTIVE MANAGEMENT

The Board is a unitary Board whose primary responsibilities include: giving strategic direction to AFGRI, identifying key risk areas and key performance indicators for the Group's business, monitoring investment decisions, considering significant financial matters, reviewing performance of executive management against business plans, budgets and industry standards. The Board retains full and effective control over the Group and has unrestricted access to all Company records.

Managerial levels of authority have been established for capital expenditure projects and the acquisition and disposal of assets. However, decisions of a material nature are taken by the Board.

The Board is chaired by a Non-executive Director, Mr PF Erasmus and consists of three Executive Directors and ten Non-executive Directors. Details of the Directors in office on 16 May 2006, and their attendance at Board and Committee meetings are detailed on pages 6 and 26 respectively.

Board meetings are held at least quarterly, with additional meetings called where circumstances necessitate. Non-executive Directors do not meet without the Chairman and Executive Directors present. Effective chairmanship and a formal agenda, ensures that all issues requiring attention are raised, proceedings are conducted efficiently and all appropriate matters are addressed. All relevant information is supplied to Directors timeously.

Directors have unlimited access to the Group Company Secretary, who acts as an advisor to the Board and its sub-committees on issues including compliance with Group rules and procedures, statutory regulations, the JSE Listings Requirements and with the King II Code of Corporate Governance.

Furthermore, the advice of independent professionals may be obtained by any Board member in appropriate circumstances, at the expense of the Company. The name and address of the Secretary is on page 118.

## BOARD SUB-COMMITTEES

Specific responsibilities have been delegated to Board Committees with defined terms of reference. The current Board Committees are:

### REMUNERATION COMMITTEE

Members:	PF Erasmus (Chairman)
	NO Davies
	GAL Ebedes
	MM Moloele
	FJ van der Merwe

The Remuneration Committee consists of five Non-executive Directors and is chaired by a Non-executive Director of the Group. The Committee met six times during the financial year.

The function of the Committee is to approve a broad remuneration strategy for the Group and to ensure that Directors and senior executives are adequately remunerated for their contribution to AFGRI's operating and financial performance. The three major elements of the remuneration structure are guaranteed package, short-term incentive schemes and long-term awards (share options). At all times, due attention is paid to succession planning and the retention of key executives.

The Committee also reviews the recommendations for Non-executive Directors' fees and Committee fee structures against market data before submission to the Board.



No Director has service contracts in excess of three years. Details of service contracts, restraint of trade and Directors' interests in issued shares of the Company is provided on page 37 of this annual report.

The remuneration paid to Executive and Non-executive Directors of AFGRI, as well as details of share options are disclosed on pages 108 to 110, Note 8.

### **AUDIT AND RISK MANAGEMENT COMMITTEE**

Members:	NO Davies (Chairman)
	JJ Claassen
	I De W Goosen
	KL Thoka
	FJ van der Merwe
	JD Wright

This Committee consists of four Non-executive and two Executive Directors with a Non-executive chairman and meets at least twice a year with management and the external and internal auditors.

#### **Audit**

The Audit Committee reviews the effectiveness of the risk management process and internal control in the Group with reference to the findings of both the internal and external auditors and the external and internal risk management audits. Other areas covered include the review of important accounting issues, including specific disclosures in the financial statements and a review of the major audit recommendations.

The internal and external auditors have direct access to the Audit Committee.

#### **Risk management**

##### ***Risk management policy***

Risk management is an integral part of management's functions within the Group and includes the management of operational and business risks. The establishment of a more formalised enterprise-wide risk management process was initiated during the 2005 financial year with the following principal objectives:

- providing the Board of Directors with assurance that significant business risks are systematically identified, assessed and reduced to acceptable levels in order to yield a return equal to the risk; and
- making risk identification and risk management an integral part of the daily activities of everyone in the organisation.

##### ***Implementation of the risk management policy***

Executive management is accountable for the process of risk management and for establishing appropriate risk and control policies. The implementation of the risk management framework is the responsibility of everyone in the Group.

##### ***Risk management process***

Supporting the risk management policy is the Enterprise-wide Risk Management ("ERM") strategy. This strategy embeds risk management processes into all the critical business systems, allowing the Group to adopt a precautionary approach to business management. When critical decisions are being made, managers are required to look beyond the obvious risks and recognise all sources of uncertainty, including issues related to health, safety, environment and community.

ERM requires management to understand the risks associated with the activities under their control and manage them accordingly, and this acts to stimulate and reinforce accountability. The context of all the risk management activities is always the achievement of the business plan and strategic objectives.

Each division and subsidiary has gone through an objective process of business risk assessment during the year under review, facilitated by Group risk management and external consultants. The risk assessments have highlighted where further control action is required, and this is now being taken.

The Board of Directors has appointed internal and external consultants to audit compliance with regard to security, health and safety, risk control organisation, emergency planning, vehicle fleet, fire and loss controls. This provides an ongoing process for identifying, evaluating and managing the significant operational risks faced by the Group.

# CORPORATE GOVERNANCE (continued)

The most significant business risks identified, through a top-down process performed on an annual basis, are:

- Grain stock
- Commodity trading
- Debtors
- Information and network technology
- Self-insurance
- Debtors and stock structures
- Electronic funds transfers
- Specific stock items
- Foreign investments
- Weather

These risks are controlled and managed by external and internal insurance programmes, Group policies limiting exposure in specific areas, Group treasury, specific management focus and structures such as the marketing, procurement, hedging and credit policies developed at Group level.

#### **Reporting on the effectiveness of risk management**

During the year under review a risk management system was implemented to capture risk information, assign risks, controls and actions to accountable managers and enables management to track and report progress on all risk control activity more effectively.

All divisions and subsidiaries report on the effectiveness of their risk management processes, in a generic dashboard format, to Group Risk management, the divisional ERM Committees and the divisional Audit and Risk Committees that in turn report to the Board of Directors via a bottom-up process.

#### **Responsibility of the Board**

The Board of Directors is responsible for governing risk management processes and the quality of internal control systems in the Group in accordance with corporate governance best practice. The Board is supported in these tasks by the Committees of the Board and their sub-committees and risk management functions. Levels of the risk management governance structures for the Group:

- Audit and Risk Committee of AFGRI and specific sub-committees
- Audit and Risk Committees of each division
- Enterprise-wide Risk Management Committee for each division
- Risk Management Committees of divisions and subsidiaries

Having evaluated the process of risk management, the Board is of the opinion that an adequate and effective system of internal control is in place to provide reasonable assurance that significant risks have been mitigated to an acceptable level.

#### **ACQUISITIONS COMMITTEE**

Members:	PF Erasmus (Chairman)
	CA Apsey
	JJ Claassen
	MM Moloele
	FJ van der Merwe

The Committee comprises five Non-executive Directors, with the Chairman being Non-executive. The purpose of this Committee is to support the Board in their responsibilities on acquisitions and capital expenditure.

#### **DIRECTORS' NOMINATION COMMITTEE**

Members:	PF Erasmus (Chairman)
	GAL Ebedes
	NO Davies
	MM Moloele
	FJ van der Merwe

The main responsibilities of the Committee are to review the membership of the Board and the performance of Executive Directors on an annual basis, having regard to the current and future needs of the Company, and to make recommendations on Board composition and appointments. Such appointments are formal and transparent and a matter for the Board as a whole.

#### **SHARE DEALING COMMITTEE**

Members:	PF Erasmus (Chairman)
	JD Wright
	I De W Goosen

In terms of the JSE Listings Requirements, a Share Dealing Committee was constituted to approve share dealings and trades undertaken by the Company Directors and officers. Records of the requests and approvals are held with the Company Secretary.

## MANAGEMENT REPORTING

There are comprehensive management reporting disciplines in place, which include the preparation of annual budgets by all operating units. The EXCO (Executive Directors) approves individual operational budgets, while the Group budget is reviewed by the Board of Directors of the Company. Monthly results and the financial status of operating units are reported against approved budgets and compared to the prior year results.

Profit projections and cash flow forecasts are updated monthly, while working capital and borrowing levels are monitored on an ongoing basis.

## 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 are based on established policies and procedures and are implemented by trained personnel with an appropriate segregation of duties. The Group has outsourced its internal audit function. This internal audit function operates under the direction of the Group Audit Committee, which approves the scope of the work to be performed. Significant findings are reported to both executive management and the Audit Committee. Corrective action is taken to address internal control deficiencies identified in the execution of the work.

PricewaterhouseCoopers Inc. acts as external auditors and KPMG as internal auditors.

Nothing has come to the attention of the Directors, or the auditors that indicated material breakdowns in the functioning of the Group's key internal controls and systems during the year under review.

The Group has comprehensive risk and loss control procedures in place, which form an integral part of a sophisticated self-insurance programme. The layered structure of the programme allows the Group to obtain highly competitive rates while protecting other companies from major losses through appropriate local and offshore insurance.

## GOING CONCERN

The annual financial statements set out in this annual report have been prepared in accordance with International Financial Reporting Standards. They are based on appropriate accounting policies that have been consistently applied.

Having reviewed AFGRI's financial projections, the Directors believe that the Group will continue as a going concern in the year ahead.

## COMMUNICATION TO STAKEHOLDERS

AFGRI is committed to a process of continuing dialogue with its investors. AFGRI is proactive in the distribution of information to relevant parties through the JSE SENS communications system, printed and electronic media releases and the statutory publication of its financial results. All stakeholders are communicated with on a regular basis.

The Board would like to encourage all shareholders to attend the shareholders' meetings as this is the ideal opportunity to voice their opinions.

The Group is committed to transparency.

## EMPLOYEE PARTICIPATION

AFGRI employs a variety of participative structures to deal with issues that affect employees directly and materially. These include structures to drive productivity improvements, safety committees and other participative forums.

The Group is committed to creating a working environment in which employees are encouraged to become involved in its affairs and to obtain a sound understanding of its activities. This is achieved through employee forums operating throughout the Group, and the regular publication of internal communiqués.

# CORPORATE GOVERNANCE (continued)

## CODE OF ETHICS

A code of ethics has been adopted which requires all employees to participate in the Group's commitment to high moral, ethical and legal standards.

This code controls the Group's responsibilities towards shareholders, customers, suppliers and the broad community, as well as the personal actions of Directors, management and other employees.

The Group maintains a closed period of one month prior to the financial year and or half year until the public release of these results, during which period no Executive Director or employee may, directly or indirectly, trade in the shares of AFGRI Limited. However, employees with contracts awarded in terms of the

AFGRI Share Incentive Scheme, may trade these shares during the closed period, if authorised to this effect by the Managing Director. Additional periods may be declared "closed" from time to time if circumstances warrant this action.

## DISCLOSURE

The annual report deals adequately with disclosures pertaining to the annual financial statements, auditors' responsibilities, accounting records, internal control, risk management, accounting policies, adherence to accounting standards, going concern issues and adherence to codes of governance and the JSE Listings Requirements.

## ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

Board member	Board meetings	Audit and Risk Committee	Acquisition Committee	Credit Committee	Remuneration Committee	Nomination Committee
	6	3	1	4	4	2
CA Apsey	6	n/a	1	n/a	n/a	n/a
JJ Claassen	6	3	1	n/a	n/a	n/a
NO Davies	6	3	n/a	4	4	2
GAL Ebedes	6	n/a	n/a	1	4	2
PF Erasmus	6	n/a	1	4	4	2
JJ Ferreira	6	n/a	n/a	n/a	n/a	n/a
I De W Goosen	6	3	n/a	4	n/a	n/a
MM Moloele	6	n/a	1	n/a	4	2
DM Sewela	1	n/a	n/a	n/a	n/a	n/a
KL Thoka	5	3	n/a	n/a	n/a	n/a
FJ van der Merwe	6	3	1	n/a	3	2
JTJ van Rensburg	5	n/a	n/a	n/a	n/a	n/a
JD Wright	5	3	n/a	4	1	n/a
<b>Total membership</b>	<b>13</b>	<b>6</b>	<b>5</b>	<b>4</b>	<b>5</b>	<b>5</b>

**Note:** DM Sewela was only appointed as a full Director with effect from 7 April 2006.

In July 2005 the membership of the Remuneration, Nomination and Credit Committees were reconstituted.

# GROUP REVIEW

## Ordinary share performance (cents per share)

	2006	2005	2004	2003	2002
Earnings	<b>39,0</b>	32,6*	62,9	65,8	67,9
Headline earnings	<b>37,2</b>	34,2*	73,3	66,1	68,9
Cash flow	<b>41,7</b>	62,0	120,3	150,3	111,5
Dividend and capital distribution	<b>30,3</b>	140,2	41,3	37,8	268,0
– Interim	<b>9,1</b>	18,3	15,2	15,2	9,9
– Final proposed	–	8,0	26,1	22,6	13,1
– Special distribution	–	113,9	–	–	245,0
– Capital distribution	<b>21,2</b>	–	–	–	–
Net tangible asset value	<b>307,5</b>	294,8	268,0	354,6	387,9
<b>Returns</b>					
Return on average equity (%)	<b>11,7</b>	12,5	21,7	17,0	17,7
Operating profit to revenue from continuing operations (%)	<b>4,1</b>	2,4	6,6	4,6	7,5
Effective tax rate (%)	<b>10,1</b>	31,6	31,8	22,5	29,3
<b>Productivity</b>					
Value added (Rm)	<b>921,6</b>	981,0	1 059,0	966,8	785,5
Net asset sales (times)	<b>3,4</b>	4,0	6,2	5,1	3,6
Net assets per employee (R000)	<b>388,1</b>	339,3	188,3	244,8	328,2
Sales per employee (R000)	<b>1 318,4</b>	1 361,9	1 163,9	1 239,4	1 098,4
<b>Solvency and liquidity</b>					
Finance cost cover (times)	<b>2,8</b>	3,5	3,0	4,1	8,9
Dividend cover compared to applicable year (times)	<b>1,3</b>	1,2	1,5	1,7	3,0
Cash realisation rate	<b>0,7</b>	0,8	1,4	1,8	1,3
Interest free liabilities/total assets	<b>38,0</b>	46,1	36,1	42,7	36,5
Current ratio	<b>1,3</b>	1,3	1,5	1,3	1,6
Acid test ratio	<b>0,8</b>	0,8	1,1	1,0	1,3

\* These figures are based on pro forma results which include an adjustment to profit in respect of the BEE transaction.

As the Group's financial statements for the year ended 28 February 2006 are the first financial statements that comply with International Financial Reporting Standards ("IFRS") and the Group has applied IFRS 1 in preparation thereof, AFGRI's transition date is 1 March 2004. As such, only the 2006 and 2005 information have been presented in accordance with IFRS.

# GROUP REVIEW (continued)

28

	2006	2005	2004	2003	2002
<b>JSE performance</b>					
Traded prices (cents per share)					
– last sale in year	<b>640</b>	480	630	420	451
– high	<b>700</b>	780	630	620	570
– low	<b>450</b>	480	410	420	302
– weighted average price per share traded	<b>533</b>	652	470	530	471
Price earnings ratio	<b>16,4</b>	14,7*	10,0	6,4	6,6
Price earnings ratio (based on headline earnings)	<b>17,2</b>	14,0*	8,6	6,4	6,5
Year-end market price/net interest per share	<b>1,8</b>	1,5	2,2	1,1	1,2
Number of shares in issue at year-end (m)	<b>341,2</b>	326,9	333,1	327,8	334,4
Volume of shares traded (m)	<b>103,5</b>	119,9	151,1	69,5	91,5
Number of transactions	<b>6 536</b>	8 870	4 883	3 413	3 534
Volume traded as % of number in issue	<b>30,3</b>	36,7	42,1	19,7	26,4
Value of shares traded (Rm)	<b>545,9</b>	782,1	710,6	369,0	431,5
Market capitalisation (Rm)	<b>2 183,6</b>	1 569,2	2 098,5	1 376,6	1 508,0
Number of shareholders	<b>5 409</b>	6 032	5 308	5 213	4 719
Earnings yield (%)	<b>6,1</b>	6,8	10,0	15,7	15,1
Dividend yield (%)	<b>4,7</b>	5,5	6,6	9,0	5,1

	<b>2006</b>	2005	2004	2003	2002
	<b>Rm</b>	Rm	Rm	Rm	Rm
<b>Cash flow information</b>					
Net cash generated from operating activities	<b>17,9</b>	25,4	103,1	271,0	951,6
Net cash (utilised in)/generated from investing activities	<b>(217,0)</b>	18,7	(98,6)	(216,5)	36,9
Net cash generated from/(utilised in) financing activities	<b>55,3</b>	(133,5)	(15,8)	(56,7)	(763,3)
(Decrease)/increase	<b>(143,8)</b>	(89,4)	(11,3)	(2,2)	225,2
<b>Movements in cash and cash equivalents</b>					
Beginning of year	<b>(153,9)</b>	(64,5)	246,0	248,2	23,0
(Decrease)/increase	<b>(143,8)</b>	(89,4)	(11,3)	(2,2)	225,2
End of year	<b>(297,7)</b>	(153,9)	234,7	246,0	248,2
<b>Income statement information</b>					
Sales	<b>5 788,0</b>	6 246,9	5 913,9	6 041,3	4 472,8
Profit before income tax	<b>186,3</b>	230,7*	370,0	278,3	324,4
Income tax expense	<b>(14,4)</b>	(66,2)*	(96,1)	(62,2)	(95,1)
Profit after tax	<b>171,9</b>	164,5	273,9	216,1	229,3

# GROUP REVIEW (continued)

30

	2006	2005	2004	2003	2002
	Rm	Rm	Rm	Rm	Rm
<b>Balance sheet information</b>					
Assets					
Non-current assets	1 255,9	1 096,6	706,9	679,1	634,1
Current assets	2 571,4	2 790,7	2 125,6	2 695,5	1 826,7
Non-current assets held for sale	86,4	–	–	–	–
<b>Total assets</b>	<b>3 913,7</b>	<b>3 887,3</b>	<b>2 832,5</b>	<b>3 374,6</b>	<b>2 460,8</b>
<b>Equity and liabilities</b>					
Capital and reserves	1 172,6	1 042,1	1 379,4	1 210,9	1 336,3
Minority interest	531,1	514,4	–	–	–
Non-current liabilities	232,9	130,6	64,3	79,6	81,8
Current liabilities	1 974,2	2 200,2	1 388,8	2 084,1	1 042,7
Liabilities associated with non-current assets held for sale	2,9	–	–	–	–
<b>Total equity and liabilities</b>	<b>3 913,7</b>	<b>3 887,3</b>	<b>2 832,5</b>	<b>3 374,6</b>	<b>2 460,8</b>

# DEFINITIONS

## ACID TEST RATIO

Current assets less inventories divided by current liabilities.

## CASH FLOW PER SHARE

The attributable cash flow from operations divided by the weighted average number of shares in issue during the year.

## CASH REALISATION RATE

The percentage of cash earnings realised, derived by dividing cash flow per share by cash equivalent earnings per share.

## CURRENT RATIO

Current assets divided by current liabilities.

## DIVIDEND COVER

Earnings per share divided by dividend per share.

## DIVIDEND YIELD

Dividend per share divided by the closing price of AFGRI on the JSE Limited ("JSE") at 28 February 2006.

## EARNINGS PER SHARE

### • *Attributable earnings basis*

Earnings attributable to equity holders divided by the weighted average number of shares in issue during the year.

### • *Cash equivalent basis*

Earnings attributable to equity holders adjusted for non-cash items in attributable earnings, divided by the weighted average number of shares in issue during the year.

## EARNINGS YIELD

Earnings per share divided by the closing price on the JSE at 28 February 2006.

## FINANCE COST COVER

Operating profit divided by finance costs.

## NET ASSETS

The sum of fixed and current assets less current liabilities, borrowings and deferred income tax.

## NET ASSETS PER EMPLOYEE

Net assets divided by the number of permanent employees in service at year end.

## NET ASSET SALES

Sales divided by closing net assets.

## NET TANGIBLE ASSET VALUE

Capital and reserves less intangible assets divided by the number of shares with voting rights at year end.

## OPERATING PROFIT TO SALES FROM CONTINUING OPERATIONS

Operating profit as a percentage of sales.

## PRICE EARNINGS RATIO

The closing share price on the JSE at 28 February 2006 divided by earnings per share.

## RETURN ON AVERAGE EQUITY

Earnings attributable to equity holders as a percentage of average shareholders' equity.

## SALES PER EMPLOYEE

Sales divided by the number of permanent employees in service.

# VALUE ADDED STATEMENT

32

	2006		2005	
	R000	%	R000	%
Sales of goods and services	5 787 981		6 246 885	
Investment income	57 284		32 213	
Cost of goods and services	(4 923 664)		(5 298 080)	
<b>Value added</b>	<b>921 601</b>	<b>100</b>	981 018	100
Utilised to:				
Remunerate employees for their services	593 651	64	570 737	58
Provide lenders and shareholders with a return on capital	161 659	18	229 856	23
Finance costs	102 752	11	92 953	9
Dividend and distributions	58 907	7	136 903	14
Pay taxes to the Government	31 068	3	44 592	5
Retain funds in the business	135 223	15	135 833	14
Depreciation and amortisation	65 057	7	89 104	9
Retained earnings	70 166	8	46 729	5
<b>Total utilisation of value added</b>	<b>921 601</b>	<b>100</b>	981 018	100