

## Corporate governance

The Board is of the opinion that the Group complies with all significant requirements of 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 the 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. Decisions of a material nature are taken by the Board.

The Board is chaired by an independent, non-executive director, Mr DD de Beer and consists of three executive directors and eight non-executive directors (three of whom are independent). The performance of the Chairman is evaluated regularly. Considerable thought is given to the Board balance and composition and the Board believes that the current size, demographics and diversity is appropriate for the Company. Details of the directors in office on 30 June 2009, and their attendance at Board and Committee meetings are detailed on pages 10 to 12 and 46 respectively.

Board meetings are held at least quarterly, with additional meetings called where circumstances necessitate. Non-executive directors do not meet without the Chairman. Effective chairmanship and a formal agenda ensure 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. Board Committees are subject to regular evaluation to ascertain levels of performance as well as effectiveness.

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

The Group has a formal Board member induction programme that is followed when new directors are appointed to the Board and a training programme is also in place for new directors with limited board experience.

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 Company Secretary are on the inside back cover.

### Board sub-Committees

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

#### Remuneration Committee

##### Members:

FJ van der Merwe (Chairman)  
JJ Ferreira  
MM Moloele  
KL Thoka

The Remuneration Committee consists of four non-executive directors. The Committee met five times during the period of this report. Refer to pages 50 to 52 for further details.

#### Audit and Risk Management Committee

##### Members:

DD de Beer (Chairman)  
JJ Claassen  
JPR Mbau  
FJ van der Merwe

This Committee consists of four non-executive directors, two of which are independent, and meets at least four times a year with management and the external and internal auditors. The Board is of the view that all members of this Committee are able to act independently as required by the Corporate Laws Amendment Act, No 24 of 2006 (CLAA).

### Audit

The Audit and Risk Management 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. Other areas covered include the review of important accounting issues, including specific disclosures in the financial statements, a review of the major audit recommendations, the independence of the external auditor and all matters required in terms of the CLAA.

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

The Audit and Risk Management Committee considers, on an annual basis, the appropriateness of the expertise and experience of the Group Financial Director.

**Risk management**

**Risk management policy**

In terms of the risk management philosophy statement issued by the Chief Executive Officer and Financial Director and endorsed by the Board of Directors, the Company is committed to managing its risks and opportunities in the interest of all stakeholders. Every employee has a responsibility to act in this manner.

Risk management continues to be a dynamic, evolving and integral part of management’s functions within the Group and includes the management of operational, insurable and business risks. The primary objectives of the enterprise-wide risk management policy are to:

- provide the Board of Directors with assurance that significant business risks are systematically identified, assessed and reduced to acceptable levels and
- make 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**

AFGRI’s enterprise-wide risk management process is guided by the following key principles:

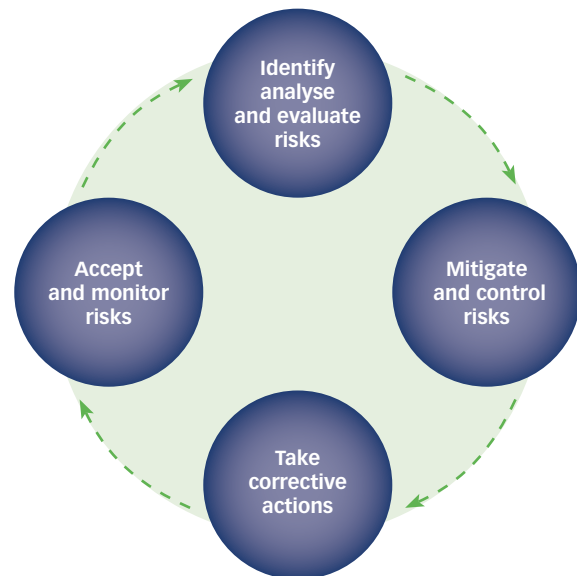
- a clear assignment of responsibilities and accountability
- a common enterprise-wide risk management methodology and process
- the identification of uncertain future events that may influence the achievement of business plans and strategic objectives and
- integration of risk management activities within the Group and across its value chain.

Supporting the risk management policy is the enterprise-wide risk management (ERM) methodology. This methodology introduces risk management processes into all critical business systems, allowing the Group to adopt a precautionary approach to

business management. When critical decisions are 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 activities under their control and manage them accordingly. 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.

All the Group’s activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks:



Each business unit and subsidiary has undergone an objective process of business risk assessment during the period under review, facilitated by Group Risk Management and external consultants. These risk assessments highlighted areas where further control action is required and which is now being undertaken.

The management of operational and insurable risks covers many diverse dimensions such as security, health and safety, risk control organisation, emergency planning, vehicle fleet, fire and loss controls. Comprehensive programmes are in place to identify and evaluate operational risks, implement process improvements and monitor the status of key risks. The Board of Directors has appointed internal and external consultants to audit these programmes.

## Corporate governance continued

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 cost effectively protect itself from major losses through local insurance.

The risk management framework has identified material financial and non-financial risks. The most significant financial risks include:

- market risk (which includes foreign exchange, interest rate, equity and commodity price risk)
- credit risk
- liquidity risk and
- capital risk.

More details on the management of these financial risks are given in the accounting policies under "Financial risk management". Refer to note 25 on pages 64 to 69.

Other significant non-financial risks faced by the Group include:

### Operational risk which relates to disruptions and losses emanating from a failure in systems, people and processes

A suite of initiatives is underway to mitigate and improve on the management of these risks throughout the Group on an ongoing basis.

### Global economic slowdown/credit crisis

AFGRI has been proactively managing its ability to access funding through the:

- establishment of an Asset and Liability Committee (refer Accounting Policy note 25.1(a) on page 64)
- increasing the tenure of facilities
- securing of committed short-term funding and working capital requirements
- diversification of the funding base and funding instruments both locally and internationally
- matching of sufficient debtor-finance term facilities to the existing debtors book and its anticipated growth and
- introduction of contingent liquidity facilities.

### Regulatory environment

Many of AFGRI's activities are governed by regulations. The Group has continued with anti-money laundering, National Credit Act (NCA) policies and procedures, and Competition Act training for affected employees. Ongoing initiatives will continue for changes arising from the Consumer Protection and Companies Acts and the pending King III Code on Corporate Governance.

### Weather

AFGRI is exposed to material losses due to adverse weather conditions. It is not possible to control weather, but AFGRI

manages the risk by increasing its client base to diverse geographic locations throughout Africa and product innovation to meet varying climatic conditions.

### Reputation risk

Reputation risk is the risk that negative publicity regarding AFGRI's business practices will lead to a loss of revenue or litigation. This risk can arise from product non-performance, poor press communication, inadequate reporting, poor internal communication and incorrect advice to farmers. Reputation, particularly the trust afforded by customers and counterparties, can be irrevocably tarnished due to perceived or real breaches in the ability to conduct business securely and responsibly. AFGRI manages this through regular analyst, media and general communication management according to a media policy, an anonymous fraud hotline, support functions, regular management meetings and product testing.

### Changes in the agricultural environment

Consistent with developments in the socio-political environment in South Africa the agricultural sector is experiencing change and this impacts AFGRI's customer base. AFGRI is meeting the opportunities that arise and is cognisant of the risks that need to be mitigated by working very closely with its partner, Agri Sizwe, and leveraging on their social capital. In addition, AFGRI engages with government at various forums directly and indirectly through industry business associations. AFGRI's strategy and business plans are aligned with these socio-economic changes.

### Reporting of the effectiveness of risk management

The Group's risk management policies are designed to identify and analyse risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date administrative and information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. Individual responsibility and accountability, instilled through training, are designed to deliver a disciplined, conservative and constructive culture of risk management and control.

All business units 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 Group Audit and Risk Management Committee that in turn reports to the Board of Directors.

### Board responsibility

The Board of Directors is responsible for governing the 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 that monitor risk and receive reports, which allow it to review the effectiveness of the Group's risk management policies. Levels of the risk management governance structures for the Group are:

- Audit and Risk Management Committee of AFGRI and specific sub-Committees
- The Group Enterprise-wide Risk Management Committee
- Enterprise-wide Risk Management Committee for each Division
- Risk Management Committees of business units and subsidiaries, where deemed necessary.

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

#### **Credit Committee**

##### **Members:**

JPR Mbau (Chairman)  
DD de Beer  
JJ Claassen  
JA van der Schyff  
CP Venter

The Committee consists of three non-executive directors (two being independent) and two executive directors. The Credit Committee is responsible for the development and implementation of credit policy and procedures throughout the Group.

Together with executive management, this Committee meets at least quarterly to review the Group's credit exposure and to ensure that the necessary procedures are in place to limit credit risk to both existing and prospective customers. More detail regarding the management of credit risk is provided in the Accounting policies under "Financial risk management". Refer to pages 64 to 69.

#### **Directors' Nomination Committee**

##### **Members:**

FJ van der Merwe (Chairman)  
DD de Beer  
KL Thoka  
JJ Ferreira  
MM Moloele

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:**

DD de Beer (Chairman)  
JPR Mbau

In terms of the JSE Listings Requirements, a Share Dealing Committee was constituted to approve share dealings and trades undertaken by the Company's 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 Chief Executive Officer and Financial Director approve 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 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 internal audit function is performed by KPMG and internal resources. The internal audit function operates under the direction of the Group Audit and Risk Management 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.

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 period under review.

#### **Going concern**

The 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 applied consistently.

## Corporate governance continued

Having reviewed AFGRI's financial projections and details of its banking facilities, 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 pro-active 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 encourages 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.

### Code of ethics

AFGRI subscribes to an independently managed ethics and fraud hotline service to facilitate the reporting of possible fraudulent, corrupt and unethical behaviour in the Group. The hotline is

available 24 hours a day, seven days a week, 365 days a year, for the use by the Group's employees and third parties. All incidents involving potentially fraudulent activities are investigated and corrective action is taken. Procedures are adapted when deemed prudent to prevent further incidence of unethical behaviour.

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-end and interim period end 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. The closed period for non-executive directors runs from year-end and interim period end until the results have been released publicly. 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	Credit Committee	Remuneration Committee
<b>Number of meetings</b>	<b>5</b>	<b>4</b>	<b>5</b>	<b>5</b>
CA Apsey	4	–	–	–
JJ Claassen	5	4	5	–
DD de Beer	5	4	5	–
JJ Ferreira	5	–	–	5
JPR Mbau	3	4	5	–
MI Mogari	4	–	–	–
MM Moloele	2	–	–	3
KL Thoka	5	–	–	5
FJ van der Merwe	5	4	–	5
JA van der Schyff <sup>1,3</sup>	4	–	2	–
CP Venter <sup>2,3</sup>	3	–	2	–
<b>Total membership</b>	<b>11</b>	<b>4</b>	<b>5</b>	<b>4</b>

<sup>1</sup> Mr Van der Schyff was appointed to the Board with effect from 15 September 2008.

<sup>2</sup> Mr Venter was appointed to the Board with effect from 1 October 2008.

<sup>3</sup> Messrs Venter and Mr Van der Schyff were appointed to the Credit Committee with effect from 24 February 2009.