



Corporate governance report



The Board of Clover Industries Limited recognises that good corporate governance is essential to protect the interests of all its stakeholders. The Group is committed to the principles of transparency, fairness, integrity and accountability in its dealings with all its stakeholders, and supports the code of corporate practices and conduct as recommended by the King III Report on Corporate Governance for South Africa (2009) ("King III").

In addition to King III, the Group is committed to complying with all legislation, regulations and best practices relevant to our business, in every country and jurisdiction where we conduct business.

Statement of compliance

The JSE listings requirements require all JSE listed companies to report on the extent to which they comply with the principles set out in King III. During the year under review, the Group has applied the recommendations of the King III report, except for the following instances:

King III principle: Gap identified Our response

2.16 The Board should elect a chairman of the Board who is an independent non-executive Director. The CE of the Company should also not fulfil the role of chairman of the Board	The Chairman of the Board, Mr JAH Bredin, is a Non-executive Director who is not independent insofar as he is a milk producer and supplier of raw milk to the Group. In the opinion of the Board, it is in the interests of the Group to maintain a close relationship with its raw milk suppliers and his appointment serves the long-term interests of the Group. As recommended by King III, TA Wixley has been appointed as Lead Independent Director to fulfill the functions of the Chairman whenever a conflict arises and in the other circumstances envisaged in King III.
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King III principle: Gap identified Our response

2.18 The Board should comprise a balance of power, with a majority of non-executive Directors. The majority of non-executive Directors should be independent.	Although the majority of Directors are Non-executives, the Independent Directors do not comprise a majority of the Non-executive Directors. The Non-executive Directors who are not independent are milk producers who supply raw milk to the Group. In the opinion of the Board, the present composition of the Board is in the interests of the Group for reasons of continuity, maintaining a close relationship and an effective channel of communication with its raw milk suppliers. With effect from the next Annual General Meeting the Board proposes that the number of producer Directors should reduce to four.
2.21 The Board should be assisted by a competent, suitably qualified and experienced Company Secretary.	The Company Secretary is an Executive Director and the Deputy Chief Executive. To comply with King III and the amendments to the JSE Listing Requirements that provide that a Director of the Company may not also be appointed as the Company Secretary, the Company Secretary will be replaced before 1 October 2012 (not 31 December 2012 as previously advised) by a person who is not a Director.
9.3 Sustainability reporting and disclosure should be independently assured.	Until the Group's sustainability reporting systems have matured sufficiently, it is the opinion of the Board that no purpose will be served by having its Social and Ethics report (which includes the sustainability review) independently assured.

Ethics

The Group is committed to achieving its goals with integrity, high ethical standards and in compliance with all applicable laws. The Board has adopted a Code of Ethics which has been recently revised. The Directors are fully committed to these principles, which ensure that the business is managed according to the highest standards within the branded consumer goods industry in South Africa, as well as the social, political and physical environment within which the Group operates.

Directorate

The Board of Directors ("Board") currently consists of four Executive Directors and ten Non-executive Directors, four of whom are independent. Details of the Directors appear on pages 13 to 15.

Members of the Board are appointed by the Group's shareholders, provided that the Board also has the authority to appoint Directors to fill any vacancy which may arise from time to time. Directors are appointed on the basis of skill, experience and their level of contribution to, and impact on, the activities of the Group following recommendations received from the Nomination Committee. Therefore, the process relating to the appointment of Directors is formal and transparent, and a matter for the Board as a whole. New appointees to the Board are appropriately familiarised with the Group's business through an induction programme. It should be noted that there have been no changes to the Board during year under review.

The Board is governed by a charter that sets out the responsibilities of the Board and is reviewed annually.

The Board is ultimately responsible for the management of the Group's business and determining the Group's strategy and policies. In addition, the Board is responsible for approving the Group's financial objectives and targets. The Group's Executive Directors, who are members of the Executive Committee, are involved in the day-to-day business activities of the Group and are responsible for ensuring that the decisions of the Board are implemented in accordance with the mandates given to it by the Board. There exists a balance of power and authority at Board level, such that no individual Director has unfettered powers of decision making.

The authority to indemnify Directors is provided for in the Articles of Association (also known as the Memorandum of Incorporation) of the Group and deeds of indemnification have been issued to all Directors and prescribed officers of the Group, to the extent permitted by the Companies Act. Appropriate Directors and officers liability insurance was in place the Group's Directors and officers throughout the 2012 financial year.

The Directors of the Group have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that procedures and regulations are complied with, and that the Directors are conversant with their duties and responsibilities. The certificate of the Company Secretary appears on page 92. Directors may seek independent professional advice on the affairs of the Group in appropriate circumstances if they believe that such action would be in the best interests of the Group.

The Board meets four times per financial year, excluding any ad hoc meetings held to consider special business.

Board committees



A number of committees have been established to assist the Board in fulfilling its responsibilities. The nature and scope of authority of each committee is detailed in its terms of reference which is approved by the Board. Copies of the respective terms of reference may be obtained from the Company Secretary. The Board monitors these responsibilities to ensure effective coverage of, and control over, the operations of the Group.

For further information:
Please visit our website
www.clover.co.za/content/3175/board-charter/



to view the Board Charter,
the Code of Ethics and committee
terms of references

Board and committee attendance

Director	Board		Audit and Risk Committee		Remuneration Committee		Nomination Committee		Social and Ethics Committee		Investment Committee	
	A	B	A	B	A	B	A	B	A	B	A	B
JAH Bredin*	4	4			3	3	2	2			4	4
HPF du Preez	4	4										
SF Booysen	4	4	4	4	3	3					4	4
LJ Botha	4	4									4	4
WI Büchner	4	4					2	2	4	4	4	4
JNS Du Plessis	4	4	4	4	3	3			2	1	4	2
MG Elliott	4	4										
JC Hendriks (Dr)	4	4					2	2	4	4		
CP Lerm (Dr)	4	4										
NP Mageza	4	4	4	3							4	4
NA Smith	4	4										
HB Roode	4	4							4	4	4	4
JH Vorster	4	4									4	3
TA Wixley	4	4	4	4	3	3	2	2	4	4	4	4

A = Number of meetings held during the period the Directors was a member of the Board/Committee.

B = Number of meetings attended during the period the Directors was a member of the Board/Committee.

* The Chairman attends all sub-committee meetings by invitation.

1. Executive Committee

Mr JH Vorster – Chairman

Mr HB Roode

Mr LJ Botha

Dr CP Lerm

Dr JHF Botes

Mr H Lubbe

Mr ER Bosch (appointed with effect from 1 June 2012)

The Executive Committee meets regularly to review current operations, identify risks and the management thereof, develop strategies and policies for consideration by the Board and to implement the directives and decisions of the Board.

2. Audit and Risk Committee

Mr TA Wixley (Independent Non-executive Director and Lead Independent Director) – Chairman

Dr SF Booysen

Mr NP Mageza

Adv JNS du Plessis

The Audit and Risk Committee is comprised of only Independent Non-executive Directors. The Chief Financial Officer and other Executives attend meetings of the Audit and Risk Committee by invitation and actively engage in these meetings.

The report of the Audit and Risk Committee sets out its responsibilities and describes how they have been fulfilled. A full report appears on pages 86 to 91.

3. Remuneration Committee

Dr SF Booysen (Independent Non-executive Director) – Chairman

Mr JAH Bredin

Mr TA Wixley

Adv JNS du Plessis

The Chief Executive and other Executives attend meetings of the Committee by invitation but do not participate in discussions regarding their own remuneration and benefits.

The report of the Remuneration Committee set out its responsibilities and describes how they have been fulfilled. A full report appears on pages 73 to 83.

4. Social and Ethics Committee (previously the Sustainability Committee)

The Sustainability Committee has been renamed and now includes in its terms of reference the requirements of regulation 43 of the Companies Act, 2008.

Mr TA Wixley (Independent Non-executive Director and also Lead Independent Director) – Chairman

Mr WI Büchner

Dr JC Hendriks

Mr HB Roode

Other management members attend the meetings of this Committee by invitation.

The report of the Social and Ethics Committee set out its responsibilities and describes how they have been fulfilled. A full report appears on pages 43 to 63.

5. Nomination Committee

Mr JAH Bredin – Chairman
Mr TW Wixley
Mr JC Hendriks
Mr WI Büchner

The Nomination Committee is responsible for regularly reviewing the Group's board structure and the size and composition of the various boards within the Group and making recommendations in respect of these matters, as well as an appropriate split between Executive, Non-executive Directors and Independent Directors. The Nomination Committee assists in the identification and nomination of new Directors for appointment by the Board and/or shareholders. It considers and approves the classification of Directors as independent, oversees induction and training of Directors.

In respect of the annual performance reviews of the Board and its committees, the Nomination Committee assists the Chairman of the Board. It also assists the Chairman in ensuring the proper and effective functioning of the Board, and ensures that succession plans are established and maintained throughout the Group.

The Nomination Committee composition was not in compliance with Listings Requirements 3.84(a) during the year under review, as the majority of the Non-executive Directors appointed were not independent. However, subsequent to the year-end, the Board approved a revised composition of the Nomination Committee which complies in full with King III and the JSE Listings Requirements.

The Nomination Committee meets as and when required during every financial year.

6. Investment Committee

Mr TA Wixley (Lead Independent Director) – Chairman
Mr JAH Bredin
Mr WI Büchner
Dr SF Booysen
Mr JNS Du Plessis
Mr NP Mageza
Mr JH Vorster
Mr H B Roode
Mr LJ Botha

The Group established the Investment Committee during the 2012 financial year. The purpose of the Investment Committee is to provide guidance and to act as a strategic sounding board for Management when considering growth plans with particular focus on merger/s and/or acquisitions. The Investment Committee has the delegated authority to approve transactions between the value of R50 million and R350 million. The Investment Committee meets as and when required during every financial year.

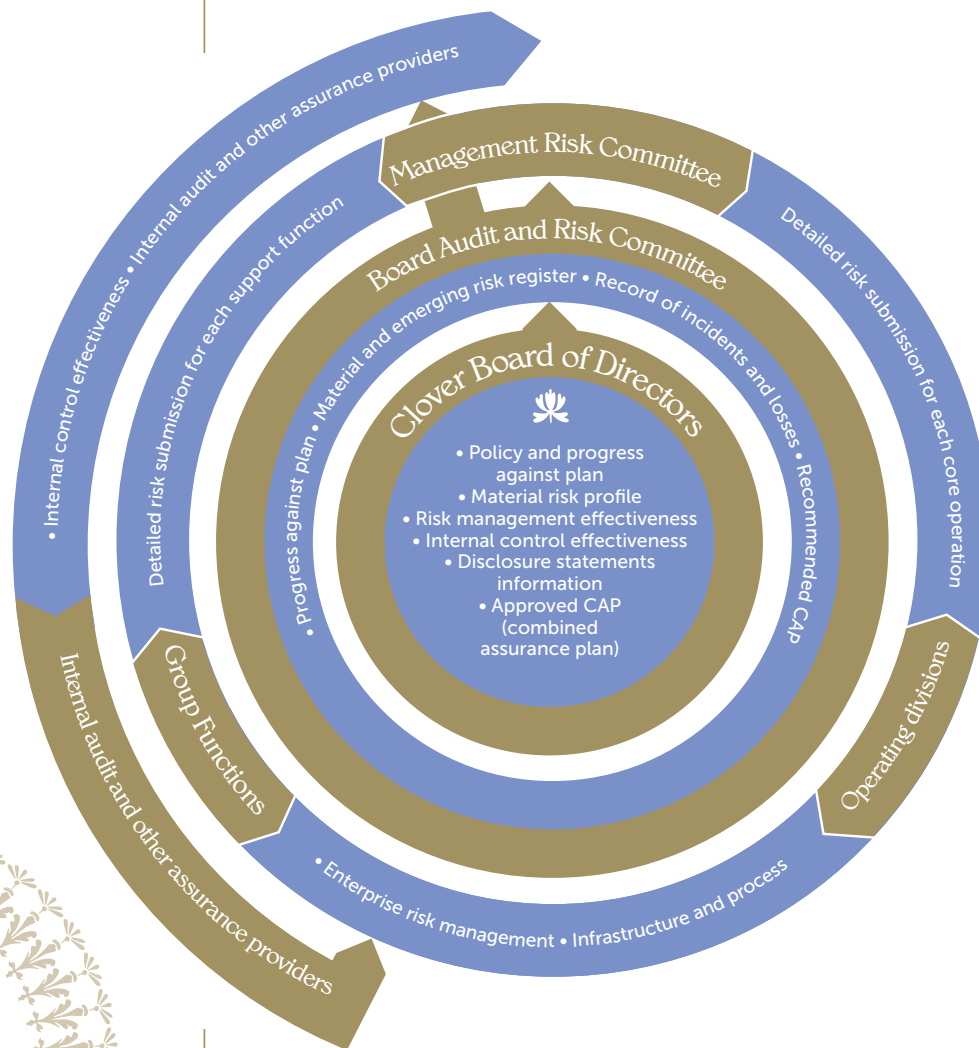
Internal control

The Group maintains internal controls and systems designed to provide reasonable assurance regarding the reliability of the financial statements and to adequately protect, verify and maintain accountability for its assets. Such controls are based on established policies and procedures and are implemented by trained personnel with segregated duties and responsibilities.

The Group has outsourced its internal audit function to KPMG Services Proprietary Limited ("KPMG Services"), a professional service provider, which is responsible for implementing the annual internal audit plan approved by the Audit and Risk Committee. This internal audit function operates under the direction of the Audit and Risk Committee, which approves the scope of the work to be performed.

The internal control systems include a documented organisational structure and division of responsibility, established policies and procedures which are communicated throughout the Group, and the careful selection, training and development of people. Significant findings are reported to both the Executive Committee and the Audit and Risk Committee. Corrective action is taken to address internal control deficiencies identified in the execution of work.





A risk-based internal audit plan was developed during the 2011 financial year, which has been expanded to provide assurance over non-financial matters. The results of the risk-based audits were reported to the Audit and Risk Committee. No material breakdowns in internal controls were noted within the key areas reviewed. Follow-up audits were also conducted to ensure that corrective actions were implemented and the results were reported to the Audit and Risk Committee.

In addition to the internal audit conducted by KPMG Services, Ernst & Young performed a limited assurance review of management's assessment with respect to internal controls over financial reporting. No material findings were reported to the Audit and Risk Committee.

There are inherent limitations on the effectiveness of any system of internal control including the possibility of human error and the circumvention or overriding of controls. Accordingly, an effective internal control system can provide only reasonable assurance with respect to financial statement preparation and the safeguarding of assets.

Nothing has come to the attention of the Directors or the auditors that indicates any material breakdown in the effectiveness of the internal controls and systems during the year under review.

Risk control

Effective risk management is imperative to Clover. The realisation of our strategy depends on us being able to take calculated risks in a manner that does not jeopardise the direct interests of stakeholders. The nature of our risk profile demands that we adopt a prudent approach to corporate risk and our decisions regarding risk tolerance, as well as risk mitigation, will reflect this.

Consequently the Board assumes full responsibility for governance of risk through formal risk management processes. The Board is assisted in the execution of this duty by the Audit and Risk Committee, which is a subcommittee of the Board, and appropriately constituted.

In order to ensure a consistent approach to the management of risk within the Group, management has implemented a risk management policy and framework, which is reviewed annually and approved by the Audit and Risk Committee. This policy and framework incorporates the COSO Enterprise Risk Management – Integrated Framework, generally accepted risk management practices as well as King III. All service organisations, supporting functions, processes, projects and Clover-controlled entities will be subject to this policy and framework.

During the year under review, the Board defined Clover's risk appetite, being the amount of risk that an organisation is willing to accept in pursuit of its objectives. The defined risk appetite is used in setting impact value categories required in rating material risks, which are included in the current year's risk management policy and framework.

Management has further developed a risk management plan that takes cognisance of the current level of risk management maturity and is aimed at maturing both the risk management process as well as the quality of the output thereof. The plan is approved annually by the Audit and Risk Committee, which regularly reviews the progress against the risk management plan.

Management has been charged with the design, implementation and monitoring of the risk management arrangements within the Group. Consequently a methodology was developed and implemented across the Group to ensure that risk assessments are conducted on a quarterly basis within each business unit. A formal Management Risk Committee has been established and meets on a quarterly basis to discuss key risks facing the Group as well as the status of mitigating action plans. Key risks facing the Group and mitigating actions taken are reported to the Audit and Risk Committee on a quarterly basis.

Key risks currently facing the Group are industry related and are set out below:

Risk	Risk mitigation
Non-compliance to Competition legislation	Continuous monitoring for the Group was formalised by establishing a Competition Law Centre of Excellence.
Non-compliance to Consumer Protection legislation	Post-implementation audit was performed by independent auditors. Ongoing training programs to ensure future compliance. A Centre of Excellence on the Consumer Protection legislation is being established.
ERP upgrade project-inherent risk that data is lost or corrupt with implementation	Full time dedicated project team. Ernst & Young Information Technology division monitors implementation process.
Uncompetitive cost structure due to inappropriate location of production facilities in relation to the milk source	Project Cielo Blu is in progress moving facilities to appropriate locations, which would render significant cost savings to the Group.

The Board assisted by the Audit and Risk Committee in evaluating the performance of the Group in relation to risk management and concluded that it was performing effectively.

The Management Risk Committee has not reported any material losses related to the period under review. Furthermore, no losses have been incurred with respect to unpredictable events occurring during the period under review.

As recommended by King III, management has conducted a self-assessment over the maturity level of the risk management function, to highlight the areas where the focus should be to develop a mature risk management function. Based on the current risk maturity profile, management will engage in a formal independent review for the forthcoming financial year. The services of professional services advisors are being used to assist in developing the risk management function.

The Board, assisted by the Audit and Risk Committee, is satisfied with the effectiveness of the risk management process.

IT governance

During the financial year KPMG conducted an IT governance review with the intention of providing input to the development of an IT governance framework for Clover. KPMG assessed the control environment and Clover's general IT risk with a view of understanding the risks facing the organisation and the current controls in place to mitigate these risks. This report highlighted areas where risk management practices and the controls over IT could be improved, and the results were incorporated into the IT governance roadmap for the Group.

A formal IT strategy was aligned with the approved business strategy in order to enhance the control environment. KPIs to monitor the IT strategy have been implemented and are currently being reported on.

Management implemented a number of the recommendations from the IT governance roadmap in the current financial year, with the remainder to be implemented by the second quarter of the 2012/13 financial year. The implementation will result in an improved IT governance maturity profile. Clover's compliance to the IT governance framework will be assured independently from time to time.

A formal project process and/or change control policy and disaster recovery plan is currently in place, which is guided by the IT and business systems strategy. The IT infrastructure and applications which provide support for the financial system, is audited on an annual basis by the external auditors. An IT internal control framework forms part of the general internal control framework. The Audit and Risk Committee are supported by business systems managers, while

the IT management team are responsible for evaluating the security of computer systems and applications, and for devising the contingency plans for processing financial information in the event of a systems breakdown.

Litigation and Legal

The Group established a Competition Law Centre of Excellence ("CLCE") in conjunction with the KPMG Competition Law Advisory Practice early in 2012. In general, the CLCE is a critical management tool developed by the Group to ensure a high standard of ongoing competition law compliance within the Group. The CLCE allows for a seamless interaction between the members of the Group's legal department the members of the KPMG Competition Law Advisory Practice which offer both competition law and competition economics support and advice.

Success factors

- The foundation for competition law compliance within the Group was established early on by way of the adoption by the Group of a progressive and customised Competition Law Compliance Policy. This policy was made available to staff and management of the Group and customised electronic competition law training was rolled out. These measures paved the way for the successful establishment of the CLCE.
- The seamless interaction between the Group's legal department and the KPMG Competition Law Advisory Practice (within the CLCE) meant that queries channelled through the CLCE were addressed on an urgent basis and appropriate steps were taken timeously.
- KPMG Competition Law Advisory Practice established protocols for the prioritisation of queries and instructions received through the CLCE, which contributed to the quick response time of the CLCE.
- KPMG Competition Law Advisory Practice indicated that competition law compliance input generated by the CLCE was taken seriously by the Group and was often followed by the adoption of appropriate measures by the Group.

The Group is in the process of extending the CLCE to also include the Consumer Protection Act, 68 of 2008.

The Group is subjected to various legal proceedings, actions and claims from time to time, however the Board does not believe that there are any material pending or threatened legal actions.

Insider trading

No employee of the Group may deal directly or indirectly in ordinary shares or preference shares of the Group on the basis of unpublished price-sensitive information regarding its business. No Director or officer of the Group may trade in the ordinary shares or preference shares of the Group during a closed period or prohibited period determined by the Board. In terms of the interim and year-end financial results a closed period will be imposed from:

- The date of expiration of the first six-month period, to the date that the interim financial results are published on Securities Exchange News Service ("SENS").
- The date of expiration of the year-end to the date that the final financial results are published on SENS.

In the event that a Director wants to trade in ordinary shares or preference shares of the Group, such Director should obtain clearance from the Chairman of the Board or the Company Secretary prior to trading in any ordinary shares or preference shares of the Group. The Board has also adopted the Clover Group Price-Sensitive Information Policy and the Clover Group Insider Trading Policy. Compliance with the aforementioned policies, provides reasonable assurance that Directors, officers and relevant employees of the Group and its subsidiaries comply with insider trading and price-sensitive information requirements.



Hermanus Roode
Secretary