

GOVERNANCE, RISK AND COMPLIANCE

Clover appreciates that strategy, risk, performance and sustainability are inseparable.

Governance, risk and compliance considerations

COMPANIES ACT: REGULATION 43

*Social and Economic Development

Good corporate citizenship

*Environmental, Health and
Public Safety

*Consumer relationship

*Labour and employment

**Dealt with in the Report on
Sustainability.*

REPORT ON GOVERNANCE, RISK AND COMPLIANCE

Ethical leadership and
corporate citizenship

Board and Directors

Audit Committees

The governance of risk

Governance of Information
Technology (IT)

Compliance with laws, codes,
rules and standards

Internal audit

Reporting and disclosure

KING III

Ethical leadership and
corporate citizenship

Board and Directors

Audit Committees

The governance of risk

IT Governance

Compliance with laws, codes,
rules and standards

*Governing stakeholder relationships

Integrated reporting and disclosure

Approach to governance and statement of compliance

The Board of Clover Industries Limited ("Board") recognises that good corporate governance is essential to protect and balance the interests of all its stakeholders. The Group is committed to the principles of transparency, fairness, integrity and accountability in its dealings with all stakeholders. The Board endorses the King Code of Governance Principles for South Africa 2009 (the "Code") and has satisfied itself that Clover has conformed throughout the reporting period to all principles of the Code and the Listings Requirements of the JSE, except where it has applied the principle of "apply or explain" as indicated on page 52 of this report.

Ethical leadership and corporate citizenship

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 is continuously reviewed and updated as appropriate. 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.

The Group strives to conduct its business while taking cognisance of the following ethical principles:

- **RESPECT** requires acknowledging others' rights and treating others with dignity.
- **INTEGRITY** builds trust which is necessary for a business to form strong relationships with all stakeholders, enabling the Group to make better and more effective internal decisions.
- **FAIRNESS** requires the balancing of various stakeholder interests to ensure that everyone gets what is rightfully due to them.
- **RESPONSIBILITY** requires the Group to take ownership of, and being accountable for, our acts and omissions. It means that we take care of what is entrusted to us, recognising the economic, social and natural environments we operate in.

No material ethical leadership and corporate citizenship deficiencies were noted. The Board, through the Audit and Risk Committee, as well as the Social and Ethics Committee, monitors compliance with Clover's Code of Ethics through various reporting channels, including its internal audit department which is outsourced to KPMG, the whistle-blower hotline and its Competition Law Centre of Excellence.

Clover received no requests during the financial year in terms of the Promotion of Access to Information Act.

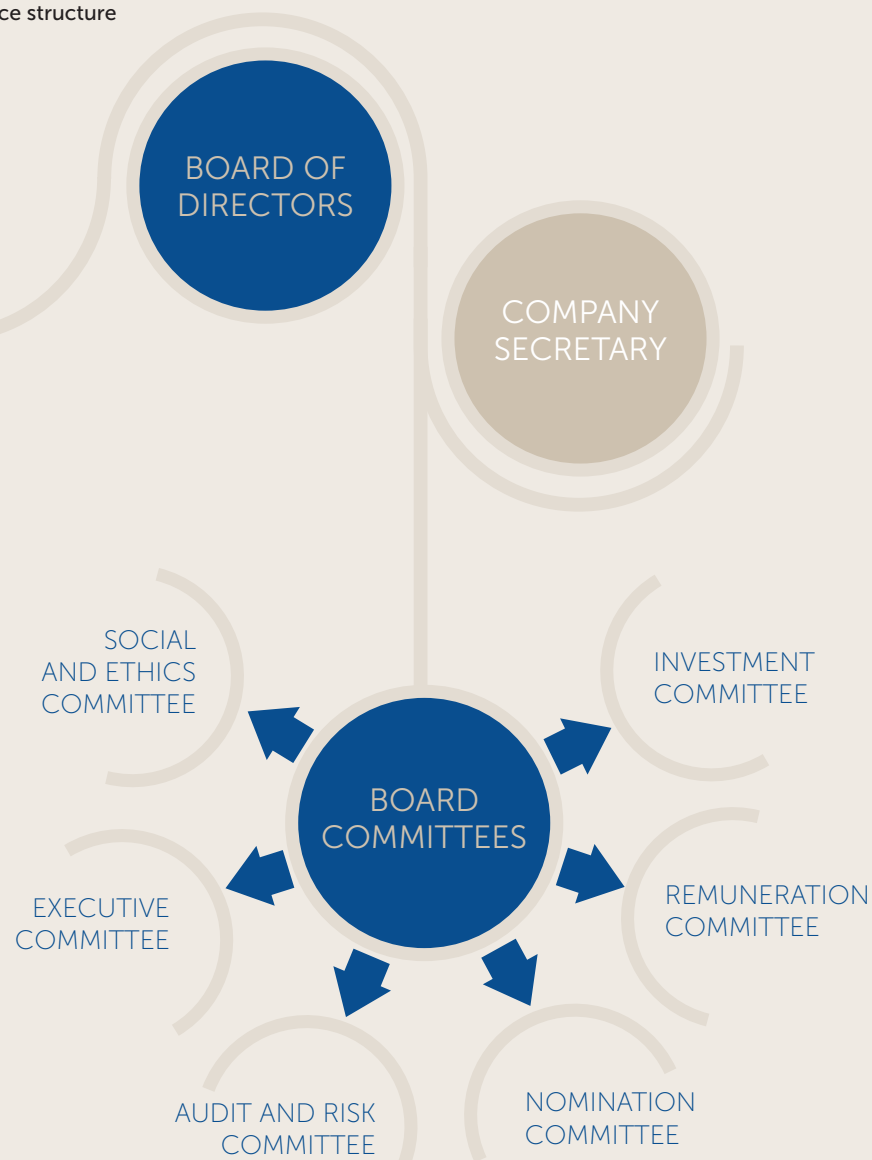
During the financial year, Clover complied in all material aspects with all relevant legislation and was not subject to any material penalties, fines or criminal procedures. Further, no material ethical leadership and good corporate citizenship deficiencies were noted.

Board and directors

The Board acts as the focal point and custodian of corporate governance. Substance above form is effective at all levels, and is an integral part of the Group's corporate culture. The Board's responsibilities are set out in a charter which is reviewed and adopted by the Board annually.

All Board sub-committees operate under Board approved mandates and terms of reference, and with the exception of the Executive and Nomination Committees, are chaired by Independent Non-executive Directors.

Governance structure



The Board

The Board is ultimately responsible for the management of the Group's business and determining its strategies and policies. In addition, the Board is responsible for approving the Group's financial objectives and targets.

Members of the Board are appointed by the Group's shareholders, although the Board also has the authority to appoint Directors to fill any vacancy that may arise from time to time. These appointments, which are a matter for the Board as a whole, are made in terms of formal and transparent procedures and subject to ratification by shareholders at the Annual General Meeting.

Directors are appointed on the basis of skills, experience and their level of contribution to the activities of the Group. The Nomination Committee, as sub-committee of the Board, is mandated to identify and recommend candidates for the Board's consideration through a formal and transparent process. New appointees are appropriately familiarised with the Group's business through an induction programme.

The Group's Executive Directors, who are members of the Executive Committee, are responsible for overseeing the day-to-day business activities of the Company and are responsible for ensuring that the decisions of the Board are implemented in accordance with its mandates.

The authority to indemnify Directors is provided for in the Group's Memorandum of Incorporation 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 throughout the reporting period.

Board composition

During the review period the Board consisted of four Executive Directors and eight Non-executive Directors, four of whom are independent. Details of the Directors are available on pages 17 to 19 of this report. Although the majority of Non-executive Directors are not independent, there exists a balance of power and authority at Board level, such that no individual director has unfettered powers of decision-making.



During the review period, the retirement of two Non-executive Directors with effect from 30 November 2012 and one Executive Director with effect from 30 June 2013, reduced the size of the Board.

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

Board and sub-committee attendance

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

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

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

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

** No meetings were held during the year under review.

Company Secretary

The Directors of the Group have unfettered 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 Directors are conversant with their duties and responsibilities.

The JSE Listings Requirements and the Code requires that the Company Secretary should not also be a Director and as a result Manie Roode retired as Company Secretary on 1 October 2012 and Jacques van Heerden was appointed as Company Secretary with effect from 1 October 2012.

The certificate of Jacques van Heerden, the Company Secretary, appears on page 92 of this integrated annual report.

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.

Having duly considered the above factors, the Board is comfortable that Jacques Van Heerden maintains an arm's length relationship with the Board and the individual Directors in terms of section 3.84(j) of the JSE Listings Requirements.

Board Committees

A number of Committees of the Board have been established to assist it in discharging its responsibilities. The nature and scope of authority of each Committee is detailed in its terms of reference which is approved by the Board. In addition, the Company's Audit and Risk Committee, and its Social and

Ethics Committee have certain specific responsibilities in terms of the Companies Act and its Regulations. Copies of the respective terms of reference are available on the Company's website www.clover.co.za.

The Board monitors these responsibilities to ensure effective coverage of, and control over, material issues as identified by the Group.

EXECUTIVE COMMITTEE

JH Vorster – Chairman

HB Roode (retired from the Executive Committee on 30 June 2013)

LJ Botha

Dr CP Lerm

Dr JHF Botes

H Lubbe

ER Bosch

MM Palmeiro (appointed to the Executive Committee on 1 October 2012)

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

Clover's Directors and Executive staff as well as operational management have clearly defined responsibilities and levels of authorisation for their respective area of the business. The delegation of these responsibilities is reviewed annually.

AUDIT AND RISK COMMITTEE

TA Wixley (Lead Independent Director) – Chairman

Dr SF Booysen

NP Mageza

Adv JNS du Plessis

The Audit and Risk Committee comprises only Independent non-executive Directors. The Chief Executive and Chief Financial Officer and other Executives attend meetings of the Audit and Risk Committee by invitation and actively engage in these meetings. Other Non-executive Directors also attend by invitation.

The report of the Audit and Risk Committee on pages 90 to 91 of this report sets out its responsibilities and describes how they have been fulfilled.

REMUNERATION COMMITTEE

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

WI Büchner (appointed to the Remuneration Committee on 30 November 2012)

JAH Bredin (retired from the Remuneration Committee on 30 November 2013)

TA Wixley

Adv JNS du Plessis

The Chief Executive and other Executives attend meetings of the Committee by invitation but recuse themselves from discussions regarding their own remuneration and benefits.

The report of the Remuneration Committee on pages 61 to 65 of this report sets out its responsibilities and describes how it has been fulfilled.

SOCIAL AND ETHICS COMMITTEE

TA Wixley (Lead Independent Director) – Chairman

WI Büchner

Dr JC Hendriks

ER Bosch (appointed to the Social and Ethics Committee on 6 September 2012)

HB Roode (retired from the Social and Ethics Committee on 30 June 2013)

The Social and Ethics Committee is a sub-committee of the Board and is chaired by the Lead Independent Director, TA Wixley. Other management members are invited to attend meetings as and when required to provide expert advice on each of the disciplines or areas within the mandate of the Committee specified in regulation 43(5) of the Companies Act.

Other management members attend the meetings of this Social and Ethics Committee by invitation as and when applicable.

The responsibilities and functioning of the Social and Ethics Committee is governed by a formal terms of reference approved by the Board and is subject to regular review. The main objective of the Committee is to assist the Board in ensuring that Clover remains a responsible corporate citizen with sustainable business practices by monitoring, developing, reviewing and improving the Group's social, ethical, environmental impact and governance policies against predetermined benchmarks.

The Social and Ethics Committee developed and adopted a formal work plan entailing the functions as set out in regulation 43 of the Companies Act. In terms of the work plan, the Social and Ethics Committee prioritised the implementation of certain actions to enable it to fully discharge its statutory functions over a period of three years.

The Social and Ethics Committee reports through one of its members to shareholders at the Company's Annual General Meeting on all sustainable matters within its mandate and its Report on Sustainability is available on www.clover.co.za as well as on page 68 of this integrated annual report.

The Social and Ethics Committee meets four times per year as set out in the attendance register above.

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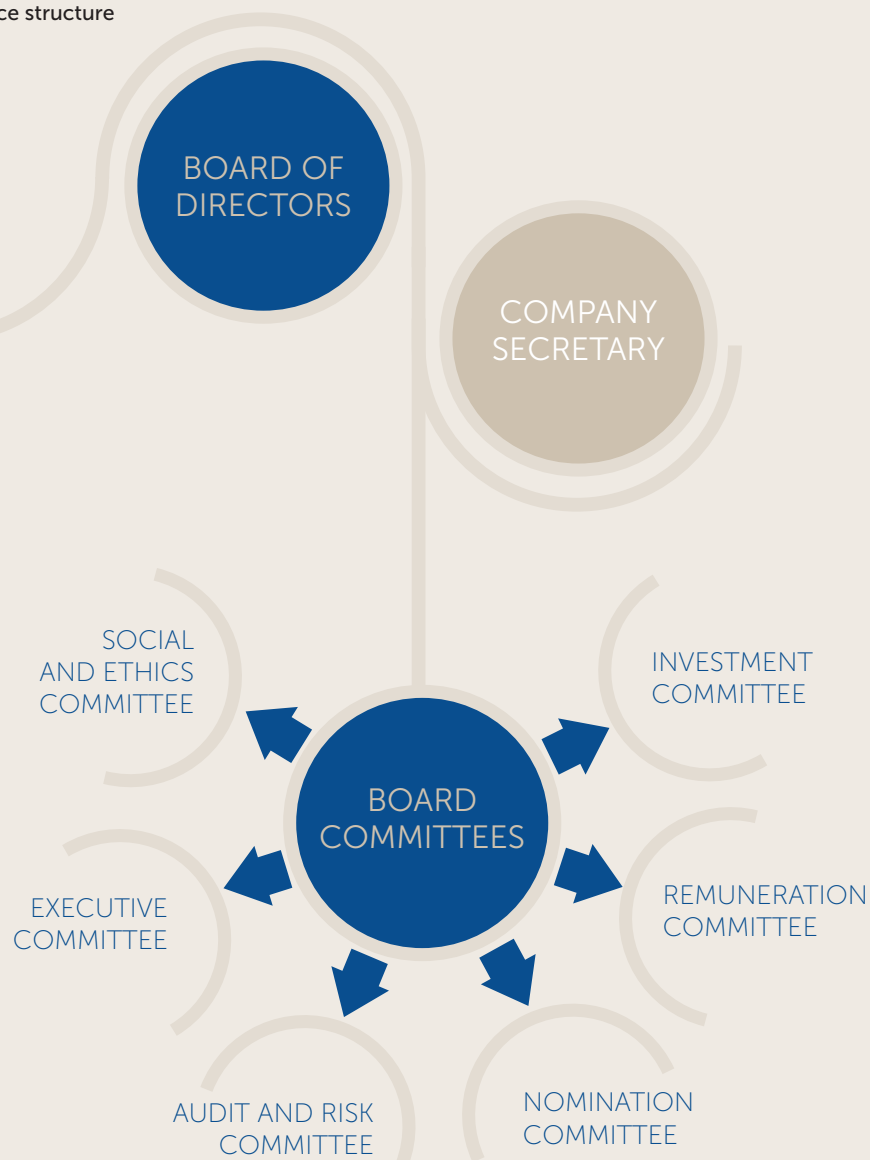
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The Group's Executive Directors, who are members of the Executive Committee, are responsible for overseeing the day-to-day business activities of the Company and are responsible for ensuring that the decisions of the Board are implemented in accordance with its mandates.

The authority to indemnify Directors is provided for in the Group's Memorandum of Incorporation 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 throughout the reporting period.

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

** No meetings were held during the year under review.

Company Secretary

The Directors of the Group have unfettered 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 Directors are conversant with their duties and responsibilities.

The JSE Listings Requirements and the Code requires that the Company Secretary should not also be a Director and as a result Manie Roode retired as Company Secretary on 1 October 2012 and Jacques van Heerden was appointed as Company Secretary with effect from 1 October 2012.

The certificate of Jacques van Heerden, the Company Secretary, appears on page 92 of this integrated annual report.

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.

Having duly considered the above factors, the Board is comfortable that Jacques Van Heerden maintains an arm's length relationship with the Board and the individual Directors in terms of section 3.84(j) of the JSE Listings Requirements.

Board Committees

A number of Committees of the Board have been established to assist it in discharging its responsibilities. The nature and scope of authority of each Committee is detailed in its terms of reference which is approved by the Board. In addition, the Company's Audit and Risk Committee, and its Social and

Ethics Committee have certain specific responsibilities in terms of the Companies Act and its Regulations. Copies of the respective terms of reference are available on the Company's website www.clover.co.za.

The Board monitors these responsibilities to ensure effective coverage of, and control over, material issues as identified by the Group.

EXECUTIVE COMMITTEE

JH Vorster – Chairman

HB Roode (retired from the Executive Committee on 30 June 2013)

LJ Botha

Dr CP Lerm

Dr JHF Botes

H Lubbe

ER Bosch

MM Palmeiro (appointed to the Executive Committee on 1 October 2012)

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

Clover's Directors and Executive staff as well as operational management have clearly defined responsibilities and levels of authorisation for their respective area of the business. The delegation of these responsibilities is reviewed annually.

AUDIT AND RISK COMMITTEE

TA Wixley (Lead Independent Director) – Chairman

Dr SF Booysen

NP Mageza

Adv JNS du Plessis

The Audit and Risk Committee comprises only Independent non-executive Directors. The Chief Executive and Chief Financial Officer and other Executives attend meetings of the Audit and Risk Committee by invitation and actively engage in these meetings. Other Non-executive Directors also attend by invitation.

The report of the Audit and Risk Committee on pages 90 to 91 of this report sets out its responsibilities and describes how they have been fulfilled.

REMUNERATION COMMITTEE

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

WI Büchner (appointed to the Remuneration Committee on 30 November 2012)

JAH Bredin (retired from the Remuneration Committee on 30 November 2013)

TA Wixley

Adv JNS du Plessis

The Chief Executive and other Executives attend meetings of the Committee by invitation but recuse themselves from discussions regarding their own remuneration and benefits.

The report of the Remuneration Committee on pages 61 to 65 of this report sets out its responsibilities and describes how it has been fulfilled.

SOCIAL AND ETHICS COMMITTEE

TA Wixley (Lead Independent Director) – Chairman

WI Büchner

Dr JC Hendriks

ER Bosch (appointed to the Social and Ethics Committee on 6 September 2012)

HB Roode (retired from the Social and Ethics Committee on 30 June 2013)

The Social and Ethics Committee is a sub-committee of the Board and is chaired by the Lead Independent Director, TA Wixley. Other management members are invited to attend meetings as and when required to provide expert advice on each of the disciplines or areas within the mandate of the Committee specified in regulation 43(5) of the Companies Act.

Other management members attend the meetings of this Social and Ethics Committee by invitation as and when applicable.

The responsibilities and functioning of the Social and Ethics Committee is governed by a formal terms of reference approved by the Board and is subject to regular review. The main objective of the Committee is to assist the Board in ensuring that Clover remains a responsible corporate citizen with sustainable business practices by monitoring, developing, reviewing and improving the Group's social, ethical, environmental impact and governance policies against predetermined benchmarks.

The Social and Ethics Committee developed and adopted a formal work plan entailing the functions as set out in regulation 43 of the Companies Act. In terms of the work plan, the Social and Ethics Committee prioritised the implementation of certain actions to enable it to fully discharge its statutory functions over a period of three years.

The Social and Ethics Committee reports through one of its members to shareholders at the Company's Annual General Meeting on all sustainable matters within its mandate and its Report on Sustainability is available on www.clover.co.za as well as on page 68 of this integrated annual report.

The Social and Ethics Committee meets four times per year as set out in the attendance register above.

NOMINATION COMMITTEE

WI Büchner – Chairman (appointed as Chairman of the Nomination Committee on 30 November 2012)

Dr SF Booysen – (appointed to the Nomination Committee on 6 September 2012)

TA Wixley

Dr JC Hendriks – (retired from the Nomination Committee on 6 September 2012)

JAH Bredin – Chairman (retired from the Nomination Committee on 30 November 2012)

The Nomination Committee is responsible for regularly reviewing and making recommendations on the Group's Board structure and the size and composition of the Board. The Nomination Committee furthermore ensures that an appropriate balance exists between Executive, Non-executive and Independent Directors, and considers and approves the classification of directors as being independent, in line with the Code. It assists with the identification and nomination of new Directors for appointment by the Board and/or shareholders and oversees induction and training of Directors.

The Nomination Committee assists the Chairman of the Board with annual performance reviews of the Board and its sub-committees and also assists the Chairman in ensuring the proper and effective functioning of the Board, including the establishment and maintenance of appropriate succession planning.

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

During the reporting period, the Nomination Committee composition was rectified to comply with the JSE Listings Requirements and the Code.

INVESTMENT COMMITTEE

TA Wixley (Lead Independent Director) – Chairman

JAH Bredin (retired from the Investment Committee on 30 November 2012)

WI Büchner

Dr SF Booysen

JNS du Plessis

NP Mageza

JH Vorster

HB Roode (retired from the Investment Committee on 30 June 2013)

LJ Botha

The purpose of the Investment Committee is to provide guidance and to act as a strategic sounding board for the Executive Committee when considering growth plans with particular focus on mergers 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.

Governance of risk

Effective risk management is imperative to Clover. The realisation of the Group's strategy depends on it being able to take calculated risks in a manner that does not jeopardise the direct interest of stakeholders, through the alignment of risk and opportunities to the Group's vision and mission. The nature of the Group's risk profile demands that it adopts a prudent approach to corporate risk and its decisions regarding risk tolerance, as well as risk mitigation, reflects this. The Board assumes full responsibility for the governance of risk through formal risk management processes. It effects some of these duties through the Audit and Risk Committee, which is a sub-committee of the Board, which has been appropriately constituted.

In order to ensure a consistent approach to the management of risk within the Group, the Board approved the Enterprise

Wide Risk Management Framework, which defines the Group's risk-bearing capacity, risk appetite and risk tolerance (collectively, referred to as risk limits), which has been implemented by management and is reviewed annually and approved by the Board. This policy and framework incorporates the COSO Enterprise Risk Management – Integrated Framework, generally accepted risk management practices as well as the Code. All service organisations, supporting functions, processes, projects and Clover-controlled entities are subject to this policy and framework.

These risk limits are used in setting the risk impact categorisation table for the purpose of measuring and prioritising risks according to materiality of impact values. Management will continue to extend the integration of risk limits throughout the business processes such as setting authorisation thresholds in pursuing strategies within the set risk appetite as well as setting tolerance levels for operational functions.

Management has further developed a risk management strategy that takes cognisance of the current level of sophistication of its risk management processes and is aimed at advancing both the risk management process and the quality of its output. The plan is approved annually by the Audit and Risk Committee, which regularly reviews the progress.

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 set out below:

NOMINATION COMMITTEE

WI Büchner – Chairman (appointed as Chairman of the Nomination Committee on 30 November 2012)

Dr SF Booysen – (appointed to the Nomination Committee on 6 September 2012)

TA Wixley

Dr JC Hendriks – (retired from the Nomination Committee on 6 September 2012)

JAH Bredin – Chairman (retired from the Nomination Committee on 30 November 2012)

The Nomination Committee is responsible for regularly reviewing and making recommendations on the Group's Board structure and the size and composition of the Board. The Nomination Committee furthermore ensures that an appropriate balance exists between Executive, Non-executive and Independent Directors, and considers and approves the classification of directors as being independent, in line with the Code. It assists with the identification and nomination of new Directors for appointment by the Board and/or shareholders and oversees induction and training of Directors.

The Nomination Committee assists the Chairman of the Board with annual performance reviews of the Board and its sub-committees and also assists the Chairman in ensuring the proper and effective functioning of the Board, including the establishment and maintenance of appropriate succession planning.

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

During the reporting period, the Nomination Committee composition was rectified to comply with the JSE Listings Requirements and the Code.

INVESTMENT COMMITTEE

TA Wixley (Lead Independent Director) – Chairman

JAH Bredin (retired from the Investment Committee on 30 November 2012)

WI Büchner

Dr SF Booysen

JNS du Plessis

NP Mageza

JH Vorster

HB Roode (retired from the Investment Committee on 30 June 2013)

LJ Botha

The purpose of the Investment Committee is to provide guidance and to act as a strategic sounding board for the Executive Committee when considering growth plans with particular focus on mergers 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.

Governance of risk

Effective risk management is imperative to Clover. The realisation of the Group's strategy depends on it being able to take calculated risks in a manner that does not jeopardise the direct interest of stakeholders, through the alignment of risk and opportunities to the Group's vision and mission. The nature of the Group's risk profile demands that it adopts a prudent approach to corporate risk and its decisions regarding risk tolerance, as well as risk mitigation, reflects this. The Board assumes full responsibility for the governance of risk through formal risk management processes. It effects some of these duties through the Audit and Risk Committee, which is a sub-committee of the Board, which has been appropriately constituted.

In order to ensure a consistent approach to the management of risk within the Group, the Board approved the Enterprise

Wide Risk Management Framework, which defines the Group's risk-bearing capacity, risk appetite and risk tolerance (collectively, referred to as risk limits), which has been implemented by management and is reviewed annually and approved by the Board. This policy and framework incorporates the COSO Enterprise Risk Management – Integrated Framework, generally accepted risk management practices as well as the Code. All service organisations, supporting functions, processes, projects and Clover-controlled entities are subject to this policy and framework.

These risk limits are used in setting the risk impact categorisation table for the purpose of measuring and prioritising risks according to materiality of impact values. Management will continue to extend the integration of risk limits throughout the business processes such as setting authorisation thresholds in pursuing strategies within the set risk appetite as well as setting tolerance levels for operational functions.

Management has further developed a risk management strategy that takes cognisance of the current level of sophistication of its risk management processes and is aimed at advancing both the risk management process and the quality of its output. The plan is approved annually by the Audit and Risk Committee, which regularly reviews the progress.

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 set out below:

Risk	Risk mitigation
Non-compliance with Competition Act and with Consumer Protection Act	Continuous monitoring and training within the Group through the establishment of the Competition Law Centre of Excellence which also monitors compliance with the Consumer Protection Act.
Maintaining service delivery to principals	Management reviews individual principal performance against pre-determined performance criteria. Any significant deviations in performance is brought to the attention of the Executive for the necessary corrective measures. Enhancing the service offering to principals, is a key focus area.
Lack of capacity at certain distribution facilities	Capacity analysis is performed over the whole Group on a continuous basis and the Executive Committee is committed to address the long-term capacity requirements of the Group. Significant capital projects are underway that will create long-term capacity at various facilities. A comprehensive network study has been completed to optimise the network.
Clover is currently a Level 6 B-BBEE contributor	The Group is currently in process of evaluating its options to migrate to at least level 4 over the next 2 – 4 years that would enable the Group to unlock various grants and incentives.
Uncompetitive cost structure due to inappropriate location of production facilities	Project Cielo Blu is being finalised, having relocated facilities to appropriate locations, rendering significant cost savings to the Group. These projects should be finalised at the end of October 2013.

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

The Board has approved and management has implemented the Business Continuity Management Policy to enable the Group to limit its losses caused to the occurrence of various unpredictable events through defining appropriate risk reporting and mitigation processes.

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.

Clover's Enterprise Wide Risk Management Framework was independently assessed by KPMG Internal Audit against the principles of the Code. The overall conclusion of the report

was that all essential processes of risk governance appear to be embedded in a credible manner. It was noted that the Group has implemented strong governance structures and have adopted and implemented various leading risk management practices, policies and processes. A mature risk management approach has been implemented with regards to the assessment, monitoring and reporting of strategic risks and opportunities which are aligned to the Group's vision and mission.

Ongoing fraud awareness campaigns are run at branch level across all levels of staff to raise awareness of Clover's Ethics Policy and how to use Clover's Ethics Hot-Line, being a confidential whistle-blowing service, independently run by Deloitte. All tip-offs are actively investigated, followed-up on and resolved.

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



Cielo Blu focus

Port Elizabeth production

- Installed 5 UHT filling lines, increasing the installed number to 8.
- Installed two sterilisers.
- Constructed new laboratory, staff canteen, production offices, engineering offices and engineering stores.
- Constructed new final product and raw material warehouse capable of 1 330 pallet spaces, increasing the current capacity by 100%.
- Installed a reverse osmosis water treatment plant capable of 108 000 litres/hour and water storage of 1.2m litres.
- Installed 2 inline milk standardisers thereby reducing utility consumption on the sterilisers by 38%.
- Installed a new mixing plant capable of producing Tropika, custard and artificial cream.
- Plant capacity increased by 140% from 250 000 litres/day (78m litres p.a.) to 600 000 litres/day (187m litres p.a.).
- Created 120 jobs.

Governance of information technology (IT)

The Board assumes full responsibility for governance of IT through formal risk management processes. It effects these duties through the Audit and Risk Committee and various IT Steering Committees.

During the current financial year, KPMG Internal Audit conducted a follow up on the IT governance review that was conducted the previous financial year with the intention of providing input into the development of an IT governance framework. KPMG Internal Audit 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 developed which is aligned with the approved business strategy of the Group 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 2011/2012 financial year. Management has now implemented all of the recommendations set out in the IT governance roadmap which has resulted in an improved IT governance maturity profile. Clover's compliance to the IT governance framework is assured independently from time to time by KPMG Internal Audit.

Management has developed a number of business continuity plans in accordance with the Business Continuity Management Policy approved by the Board which includes a formal project process and/or change control policy and disaster recovery plan for IT and business systems. 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 is 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.

Compliance with laws, codes, rules and standards

Clover recognises that it is accountable and responsible to all stakeholders under the legal, regulatory and supervisory requirements applicable to its business. Therefore the Company is in the process of approving the establishment of an independent compliance function as part of its draft compliance policy.

The responsibility to facilitate compliance throughout the Company has been delegated to the Company Secretary who heads the compliance function. The Company Secretary will be responsible for the effective implementation of the Company's compliance policy once it has been approved by the Board.

Clover regards compliance as a matter of high priority and it forms an important part of its risk management process. In order to ensure that all employees are inducted and consistently aware of Clover's compliance policies and procedures, a compliance manual has been drafted and reviewed by KPMG Internal Audit. The manual documents compliant conduct within the Company at the hand of the relevant compliance policy and standards. In addition, it documents how all the applicable laws, regulations and supervisory requirements are being managed and controlled. Non-adherence to the standards documented in the manual will lead to disciplinary action and could ultimately lead to dismissal.

To further enhance risk management, Clover has taken note of the importance of establishing a regulatory universe. During the year under review, steps were initiated to establish a documented process aimed at ensuring adequate and effective controls.

Compliance with provisions of the Consumer Protection Act and Competition Act

To reinforce a culture of compliance, the Group launched a series of educational online training campaigns to raise awareness and understanding of the requirements of and obligations imposed by the Competition Act and Consumer Protection Act.

These initiatives were extended to all employees in management roles and those who may be exposed to anti-competitive or collusive conduct by nature of their position within the Group. Over 600 individuals completed the online training for each assessment.

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 and the members of the KPMG Competition Law Advisory Practice which offer both competition law and competition economics support and advice.

KPMG Competition Law Advisory Practice indicated that competition law compliance input generated by the CLCE was taken seriously by the Group and was followed by the adoption of appropriate measures by the Group.

The Group has extending the CLCE to also include the Consumer Protection Act.

The Group is subjected to various legal proceedings, actions in the ordinary course of business; however the Board does not believe that there are any material pending or threatened legal actions.

During the review period, Clover complied in all material aspects with all relevant legislation.

Insider trading

No employee of the Group may deal, directly or indirectly, in the Company's shares on the basis of unpublished price-sensitive information regarding its business. No director or officer of the Group may disclose trade information regarding its business. Directors or officers of the Group are precluded from trading 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 end of the first six-month period, to the date that the interim financial results are published on the Securities Exchange News Services ("SENS").
- The financial year-end to the date that the final financial results are published on SENS.

Any Director wishing to trade in ordinary shares of the Group, obtains clearance from the Chairman of the Board or the Company Secretary prior to trading in any ordinary 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 are aware of, and comply with, insider trading and price-sensitive information requirements.

Internal audit

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 Internal Audit"), 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 2012 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 Internal Audit, Ernst & Young performed a limited assurance review of management's assessment of 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.

Disclosure of compliance with the Code

As required by the JSE Listings Requirements, the Board endorses the King Code of Governance Principles for South Africa 2009 and has satisfied itself that Clover has conformed throughout the reporting period to all material aspects, except where it has applied the principle of "apply or explain" as indicated below.



Jacques van Heerden
Company Secretary



Product focus

Danao has its own facebook page where relationships are built on a daily bases with moms where relevant content is posted and conversations are started. Danao will also be involved with Hdi Youth Marketing through the PnP School club campaign where Danao will supply educational material whilst creating awareness surrounding the goodness of the product and the brand.

For further information go to our facebook page



KING III INDEX

King III application

Ethical leadership and corporate citizenship

- ✓ Effective leadership based on an ethical foundation
- ✓ Responsible corporate citizen
- ✓ Effective management of Clover's ethics

Boards 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 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
- ✓ The board should ensure that the company has an effective and independent audit committee
- ✓ The board should be responsible for the governance of risk
- ✓ The board should be responsible for information technology (IT) governance
- ✓ The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards
- ✓ The board should ensure that there is an effective risk-based internal audit
- ✓ The board should appreciate that stakeholders' perceptions affect the company's reputation
- ✓ The board should ensure the integrity of the company's integrated report
- ✓ The board should report on the effectiveness of the company's system of internal controls
- ✓ 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 Act
- ✗ 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
- ✓ 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
- ✓ 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
- ✓ Companies should remunerate directors and executives fairly and responsibly
- ✓ Companies should disclose the remuneration of each individual director and prescribed officer
- ✓ Shareholders should approve the company's remuneration policy

Exceptions

① The Chairman of the Board, WI Büchner, 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 services the long-term interests of the Group. As recommended by the Code, TA Wixley has been appointed as Lead Independent Director to fulfil the functions of the Chairman whenever a conflict arises and in the other circumstances envisaged in the Code. The role of Chairman and Chief Executive vest in two separate individuals as required by the Code.

② Although the majority of directors are non-executives, the independent Non-executive Directors and Non-executive Directors are equal in number. 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.

③ 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 Report on Sustainability independently assured.

- ☒ Apply
- ☒ Under review/Do not apply

Audit Committee

- ☒ 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
- ☒ The audit committee should be chaired by an independent non-executive director
- ☒ The audit committee should oversee integrated reporting
- ☒ The audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities
- ☒ 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

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

- ☒ Apply
☒ Under review/Do not apply

The governance of information technology

- ☒ The board should be responsible for information technology (IT) governance
- ☒ IT should be aligned with the performance and sustainability objectives of the company
- ☒ The board should delegate to management the responsibility for the implementation of an IT governance framework
- ☒ 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
- ☒ A risk committee and audit committee should assist the board in carrying out its IT responsibilities

Compliance with laws, codes, rules and standards

- ☒ The board should ensure that the company complies with applicable laws and considers adherence to nonbinding 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

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
- ☒ 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 objective

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

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 disclosure should be independently assured ^③



Cielo Blu focus

Distribution

	Clayville		Queensburgh		Port Elizabeth	
	Before	After	Before	After	Before	After
Pallet Spaces (chilled)	2 190	5 340	3 177	6 196	1 211	2 781
Pallet Spaces (ambient) *	4 733	5 311	1 238	1 079	2 208	-
Primary Bays	5	9	4	8	2	4
Secondary Dispatch and Returns bays	12	18	10	13	7	9
Volume throughput average per day (lt/kg)	511 000	1 246 000	741 000	1 445 000	283 000	649 000

* Ambient space lost in PE initially outsourced but in the process of being replaced by new 10000 pallet space ambient warehouse not forming part of Cielo Blu