

Swaziland Sugar Association



Integrated Annual Report 2012/13



MISSION STATEMENT

The Swaziland Sugar Association (SSA) is committed to consistently meet the requirements and expectations of sugar industry principals, customers and other stakeholders by providing quality products and services in an efficient, cost-effective and sustainable manner.

QUALITY POLICY STATEMENT

SSA is committed to the implementation and continual improvement of its Quality Management System as a useful instrument for enhancing operational efficiencies. This commitment underlies SSA's fundamental quality policy which is to meet consistently the requirements and expectations of its customers as well as other stakeholders. The adopted Quality Management System comprises documented policies, flowcharted processes, elaborated work instructions and associated quality records. It meets the requirements of the International Management Standard ISO 9001:2008.



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MEMBERS AND OFFICERS OF SWAZILAND SUGAR ASSOCIATION

MEMBERS	Swaziland Cane Growers' Association Swaziland Sugar Millers' Association
PRESIDENT	Richard Hulley
VICE PRESIDENT	Simon Cleasby (to 31 December 2012) John Hulley (from 1 January 2013)
CHAIRMAN	Tom Dlamini
CHIEF EXECUTIVE OFFICER	Dr Mike Matsebula
FINANCIAL DIRECTOR	Bimal de Silva
COMMERCIAL DIRECTOR	Sharon de Sousa
EXTENSION SLA MANAGER & HEAD OF TECHNICAL SERVICES	Jabulani Sifundza
CANE TESTING SLA & QUALITY MANAGER	Sipho R Dlamini
HR & ADMIN MANAGER	Vacant
YEAR UNDER REVIEW	1 April 2012 - 31 March 2013

PERFORMANCE HIGHLIGHTS

Sugar sales performance up 6%

Revenues up 28% to E4 billion

Sucrose price up over 20%

Sugar price up over 20%

Smut infections declined by over 4%

SSA has an A grade Customer Satisfaction Index

Fairtrade certification for 7% of smallholder growers

Re-certified under ISO 9001:2008

Revised Extension Strategy

Lobbied for maintenance of preferential market access

9% staff turnover

35% increase in financing costs

Sucrose yield down 1,3%



SCOPE AND BOUNDARY



Introduction

Following the coming into effect of the King III Code of Corporate Governance (King III) in March 2010, SSA has actively pursued compliance with it. The decision to embark on producing an integrated report in a structure and format consistent with King III commenced with the 2011/12 report. This demonstrated SSA's commitment to good corporate governance principles and approach to meeting stakeholder expectations. There was however recognition of the need and benefits of adopting integrated reporting <IR> to the entire business. To leverage on these, SSA enlisted the services of external consultants to assist in realising the full benefits of <IR>. It secured funds from the Centre for Development of Enterprise, which were utilised to hire consultants to facilitate a workshop in February 2013 aimed at equipping and soliciting inputs towards improving <IR> for the organisation. The

outcome from this workshop was utilised in compiling the current report.

Reporting boundary

The reporting entity covered is SSA and its subsidiaries (together referred to as the "Group") as well as the Group's interest in jointly controlled entities. This report covers the period from 1 April 2012 to 31 March 2013. It contains information on SSA's activities for value creation during the year, its prioritised material issues, disclosure on both financial and non-financial metrics as well as the governance structure supporting the business strategy in the short, medium and long term. There is other performance information relating to SSA's operations and activities that is not disclosed in this report which has been deemed not appropriate and relevant to the purpose of such a report which may

The table below shows the <IR> principles applied in compiling the 2013 integrated report.

Framework, codes, guidelines	Section of the report
IFRS	Financial statements
King III	Corporate governance
IIRC Prototype	All
IIRC Consultation draft 2013	All
Sugar Act, 1967	Financial statements



be disclosed upon request to specific users. In this report, only Abridged Financial Statements have been included. The full set of the Group's Financial Statements is available in the company website www.ssa.co.sz.

Whilst the reporting entity is defined as the Group, there are entities not within SSA's control whose activities impact its ability to create value. For these entities, SSA has identified risks, opportunities and outcomes that have a material effect on its ability to create value over time. These include issues such as the sustainability of sugarcane growers, volatility of exchange rates, preferential market access, capacity to provide adequate financial resources to meet SSA requirements and evolving customer requirements.

Forward looking statements

In certain sections of this report, some of the statements made are of a forward looking nature. SSA believes all such statements are reasonable and take into account information available at the time of reporting. SSA recognises though that results may materially and substantially deviate from expectations set out in the forward looking statements due to, amongst other factors, changes in economic and market conditions, regulatory environment, climatic conditions, and fluctuations in exchange rates.

These forward looking statements do not represent guarantees of future performance but represent

assumptions regarding SSA's future based on its business model, strategic thrust and the operating external environment. All subsequent oral or written forward looking statements attributable to SSA or any persons acting on SSA's behalf are expressly qualified in their entirety by this cautionary statement. SSA expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward looking statements contained herein or to reflect any change in their expectations with regard thereto or any change in events, conditions or circumstances on which any such forward looking statement is based.

Assurance

SSA has implemented various mechanisms to assure the integrity and completeness of the information contained in this report. At the first level, Management has reviewed all the information in the report to ensure that it is complete and reliable. The performance information is also presented to and approved by various technical committees of the SSA Council who are appropriately qualified to determine its reliability. The Audit Committee also reviews the financial statements as well as the non-financial information.

At this early stage of the <IR> journey, SSA has not yet implemented external independent assurance for the non-financial aspect of the report. The financial statements are independently assured by external auditors and their independent assurance statement is part of this report.



Responsibility and approval

The Council of SSA accepts responsibility and accountability for the integrity of this report. Having applied its collective mind to the report, Council is satisfied that the report is complete, accurate and reliable in conveying to stakeholders the material issues facing SSA, its performance, risks, opportunities, outcomes, and the future outlook, in a balanced manner.

Council has implemented various controls in order to provide reasonable assurance that all financial and non-financial information is reliable through management reviews and internal audits.

The SSA 2012/13 Integrated Report, including the Abridged Financial Statements for the year ended 31 March 2013 were approved by the Council of SSA on 4 July 2013 and signed on its behalf by:

.....
Richard J Hulley
President

.....
Mike Matsebula (Dr)
Chief Executive Officer



ORGANISATIONAL OVERVIEW AND BUSINESS MODEL

Value Chain

SSA Profile

Function and Services

Management Structure

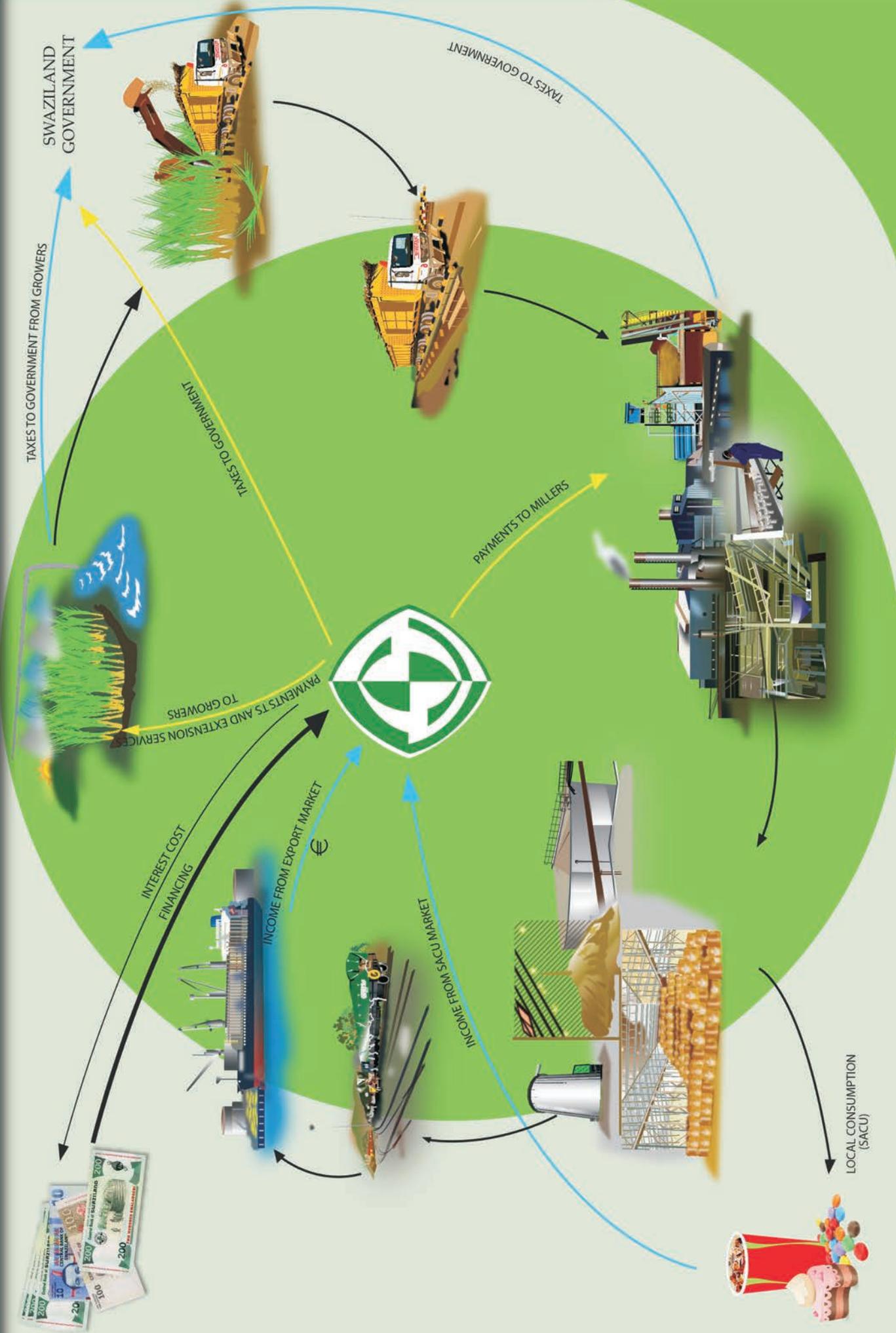
Key Operations and Value Addition Activities

Key Products

Availability, Utilisation and Impact of Capitals to Business Model

Operating Environment

SWAZILAND SUGAR ASSOCIATION VALUE CHAIN





SSA profile

SSA derives its structure from the Sugar Act of 1967. The Act establishes SSA as a private non-profit making association (a body corporate capable of suing and being sued) and is thus neither a parastatal nor a public company. The Act also creates the Quota Board, other industry bodies and legally empowers the Sugar Industry Agreement (SIA). The SIA is a negotiated instrument between growers and millers to regulate their affairs and to establish bodies to assist in this regard.

The SIA is binding on all millers, growers, miller-cum-planters, refiners and other persons engaged in any aspects of the sugar industry. In terms of the sugar industry arrangement, all cane delivered to the mill is crushed for the optimal production of sugar. It is recognised that in the process of optimal sugar production, molasses is produced. Both the sugar and molasses are owned by SSA. All proceeds from sales are shared by growers and millers on the basis of an agreed formula.

Function and services

The SSA purpose is to regulate, promote and foster the sugar industry in Swaziland and to purchase, sell or

otherwise deal in sugar and by-products. It is responsible for providing the services necessary for the general development of the industry and the marketing of SSA products with a view to ensuring optimum returns for producers.

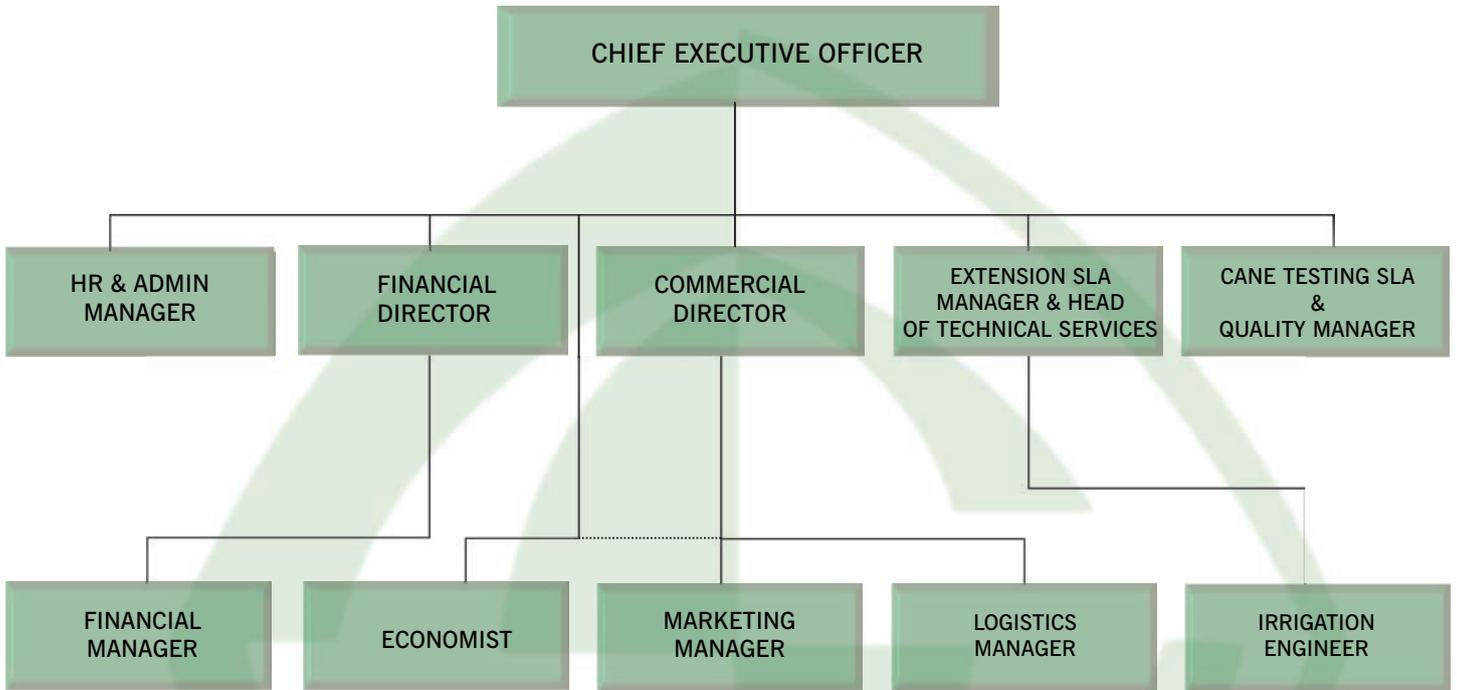
SSA is responsible for payments for all sugar produced. The payments are made to the three millers (Mhlume, Simunye and Ubombo). The millers then pay growers for sucrose delivered within their respective mill groups. The price paid to the grower is for the sucrose delivered with the cane and is measured in terms of the sucrose content of the cane delivered by each grower (as confirmed through the independent cane testing service) and the grower share of the net proceeds from the sugar and molasses sales.

SSA also provides technical services to assist the industry to produce good quality sugarcane. This includes assisting growers with capacity building and optimal sugarcane production techniques through training, extension services and irrigation advice. While overall responsibility and oversight remains with SSA, the service is now provided on an outsourced basis by the millers. SSA also provides cane testing services to give assurance on the determination of the sucrose content used for paying growers.



Management structure

The above services are undertaken by a secretariat headed by a Chief Executive Officer (CEO). The management structure is shown below.



Front (L-R): S Hlanze (Logistics Manager), B de Silva (Financial Director), Dr. M Matsebula (Chief Executive Officer), S S Dlamini (Economist), W Matsebula (Marketing Manager)
Back (L-R): N Dlamini (Irrigation Engineer), F Shabangu (Financial Manager), L Motsa (HR & Admin Manager-Designate), S de Sousa (Commercial Director), J Sifundza (Extension SLA Manager & Head of Technical Services), S R Dlamini (Cane Testing SLA & Quality Manager)



Management approach

The Quality Management System is pivotal towards directing the operations of SSA in fulfilling all stakeholders' legitimate and reasonable expectations. The quality management system is subject to independent audits by credible certification bodies to confirm compliance with the recognised ISO 9001:2008 international standard. The system has brought about meaningful improvements in managing all the business processes in order to achieve business objectives as well as guide future priorities and activities.

Key operations and value addition activities

Extension: The purpose is to ensure the long term viability and profitability of sugarcane growers by developing and promoting improved agricultural practices aimed at reducing production costs, increasing sugarcane yields and sustaining production in the long term. These are attained through conducting relevant research, providing an extension service (through an outsourcing agreement with the millers), providing crop protection services, controlling production and supply of healthy seedcane, and providing relevant agricultural services. In improving its service delivery on variety release and research, SSA partners with the South African Sugarcane Research Institute (SASRI).

Cane Testing: The purpose of cane testing is twofold, namely to determine: a) how much sucrose has been delivered to the mill by all growers on a weekly basis and b) how much is each grower's share of the total sucrose delivered at the close of the week and therefore how much is to be paid to each individual grower. This is done through sampling and analysis of individual cane



consignments. This service is provided by the mills (laboratories) on an outsourced basis. SSA provides an audit service on the processes, laboratory methods and procedures as well as related infrastructure to provide assurance to growers and millers that the sucrose payment process is accurate and reliable.

Marketing and Logistics: The overriding mandate is to obtain maximum, sustainable returns for the industry from the marketing and sale of industry products. In this context, the activities include the marketing, storage (at the mills and externally when necessary, including at the Mlawula siding and Maputo terminal) and movement of sugar and molasses. It further monitors and advises on developments in the domestic, regional and international trading agreements (e.g. Economic Partnership Agreements, Southern African Customs Union, Common Market for Eastern and Southern Africa, World Trade Organisation and Tripartite Free Trade Area) which are of interest to the successful marketing of Swazi sugar. In doing this, it also monitors market specific regulations (e.g. market access regulations, food safety regulations) and ensures that customer requirements (e.g. food safety, responsible sourcing programmes and product specifications) are met. The monitoring of the quality of products delivered for marketing by SSA and addressing any customer complaints are also key marketing functions. This is all aimed at ensuring that the competitiveness of Swazi sugar in the market-place is secured.

Financing: In terms of the SSA model, ownership of sugar passes to SSA upon production. In other words, SSA purchases the sugar as it crosses the production scale. SSA is required to pay the millers for the sugar produced on a weekly basis. The sugar purchased at this point would still be in the warehouse and not sold, thus not providing a natural self-financing mechanism. SSA is then required to source funding to meet these weekly payments in a cost effective manner. Since about half of the sugar available for sale is sold in international markets, the foreign proceeds are exposed to foreign currency movement. SSA mitigates the risk associated with trading in these markets by hedging the foreign exchange risk using suitable derivative instruments. SSA also determines the Estimate prices for sugar and sucrose to facilitate the weekly payments made to the millers and growers during the year.



Economics Unit: It has three main responsibility areas. The first is maintenance of the marketing information system which captures prices and other pertinent information in the different market segments for Swazi sugar. This information is used for, among other purposes, market research. The second area is the coordination of the sugar industry strategy under the National Adaptation Strategy compiled in the wake of the reform of the EU Sugar Regime. The third area is monitoring, analysis and advice on international developments which have implications for the sugar industry.

Internal Audit: Its key role is to ensure the existence of adequate and effective controls in the organisation. It provides for an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The intention is to improve the organisation's governance, risk management and systems controls.

HR & Admin: Its purpose is the management of talent within the organisation. The key responsibilities include the attraction and retention of appropriate skills for the organisation and ensuring that they deliver the organisation's goals by managing their performance and providing the necessary training and development. The function is also responsible for the monitoring of the industrial relations climate as well as employee relations and recommending appropriate action. Issues of compliance with Occupational Health and Safety (OSH) regulations also fall within this function.

Key products

In pursuit of its mandate and responsibility, SSA offers the following products to our customers:

Sugar: There are three types of sugar - raw, very high pol (VHP) and refined. The quantity and quality specifications of the types to be produced in any given period are determined in collaboration with the industry members. This is normally informed by customer requirements, industry production capacity and capabilities as well as the value which can be extracted in the market-place for each product.

Molasses: This is produced as a by-product of sugar production and, as such, there is no incentive to maximise its production.





Availability, utilisation and impact of capitals to business model

SSA recognises that in pursuit of value creation for its stakeholders, its sustainability is dependent on responsible and efficient utilisation of certain capitals. The approach adopted for the integrated report has given SSA the opportunity to assess this responsibility in the context of the inputs and outputs of its business model in the short, medium and long term.

Human capital

In order to be able to achieve its strategic objectives, SSA depends on the attraction and retention of well skilled and competent human capital. It has policies and strategies to recruit, develop, and retain healthy human capital.

SSA currently employs 101 employees spread across four geographic sites (Mbabane, Simunye, Mlawula and Big Bend). Of these, 76 are permanent and 25 are seasonal. The workforce comprises a range of professional and technical skills that are critical to delivering on the business objectives. There is an on-going exercise to assess the adequacy of SSA's human capital requirements.

Manufactured capital

This comprises the infrastructure (owned, leased or controlled), machinery and equipment, and IT Systems which contribute to the effective delivery of products and services. The main components of manufactured capital are sugar warehouses, refined sugar conditioning silos, bagging equipment, Mlawula sugar siding, Maputo bulk sugar terminal (owned jointly with the sugar industries of Mozambique, South Africa and Zimbabwe), molasses storage tanks and database systems.

An assessment has been undertaken to determine the adequacy of the organisation's manufactured capital in line with its current and future direction. The outcome of such an assessment informs the annual capital expenditure budget programme.

Financial capital

SSA pays for sugar that is delivered into the warehouses prior to sales into different markets. Weekly payments

made for delivered sugar are based on the current approved estimate price. This means that SSA will always be in a debt position since payments are made upfront and collections from customers are only received subsequently after the sale has occurred. SSA has seen the required stock of financial capital increase substantially. In the year under review, the financing requirement exceeded the E2 billion mark for the first time.

The increase in the financial capital requirement can no longer be satisfied by local financial institutions due to the constraints imposed on lenders by financial regulatory requirements. As such, a significant proportion of the financing is now sourced from South African parent financial institutions whose demands have prompted SSA to seek alternative financing models.

Social and relationship capital

SSA seeks to maintain good relationships with all its key stakeholders. Some of these relationships include those shared with growers, government, customers, suppliers, employees' families, sugarcane communities and society at large.

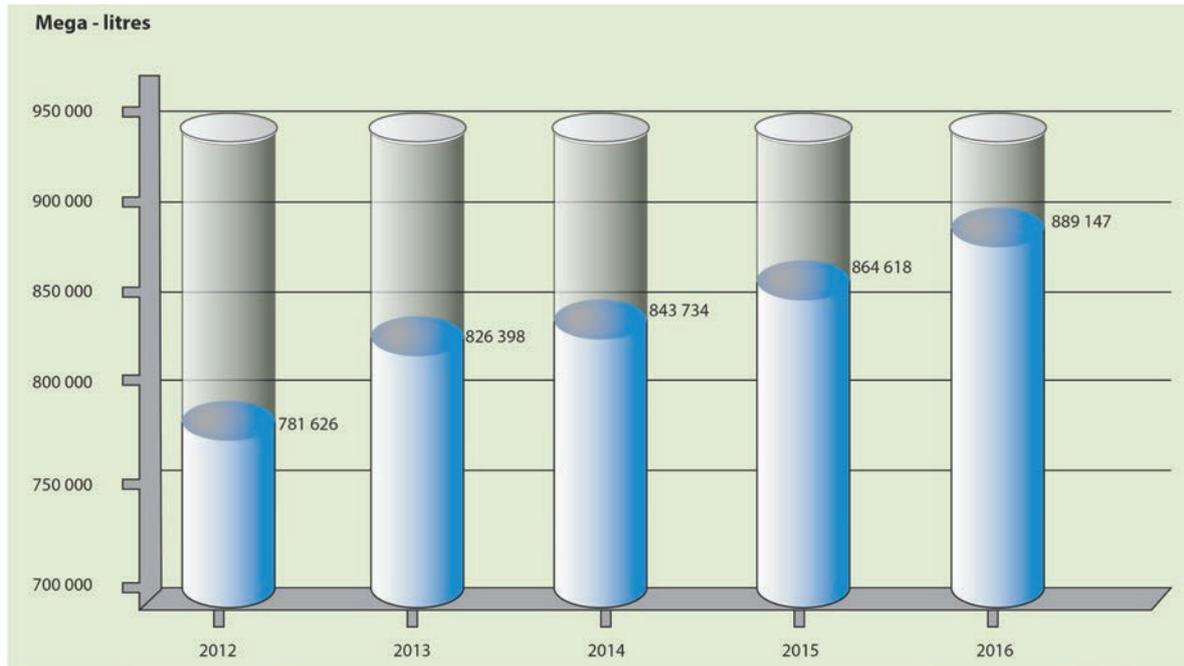
The organisation's public relations programme is used to maintain and improve these relationships.

Natural capital

Water: This is one of the most critical crop production capitals, more so in semi-arid and arid areas of the sugarcane belt. The sugarcane crop in Swaziland requires about 13,65 mega-litres (NB: 1 mega-litre is equal to 1 million litres) of water per hectare per annum (ML/ha/an). Water which is more or less than this benchmark will result in sugarcane yield loss. This water requirement is not met by rainfall alone but has to be supplemented by irrigation. The average amount of rainfall received in the last five years is about 600 millimetres (mm) which is 13% below the long term mean (LTM) of 687 mm and 54% below the total amount required. The 2012/13 season average rainfall was 15% higher than the previous season mainly due to substantial amounts received during the latter part of the season. However, distribution throughout the season was not uniform as the earlier part was drier and put pressure on water availability.



Figure 1: Swaziland Sugar Industry Projected Water Requirement

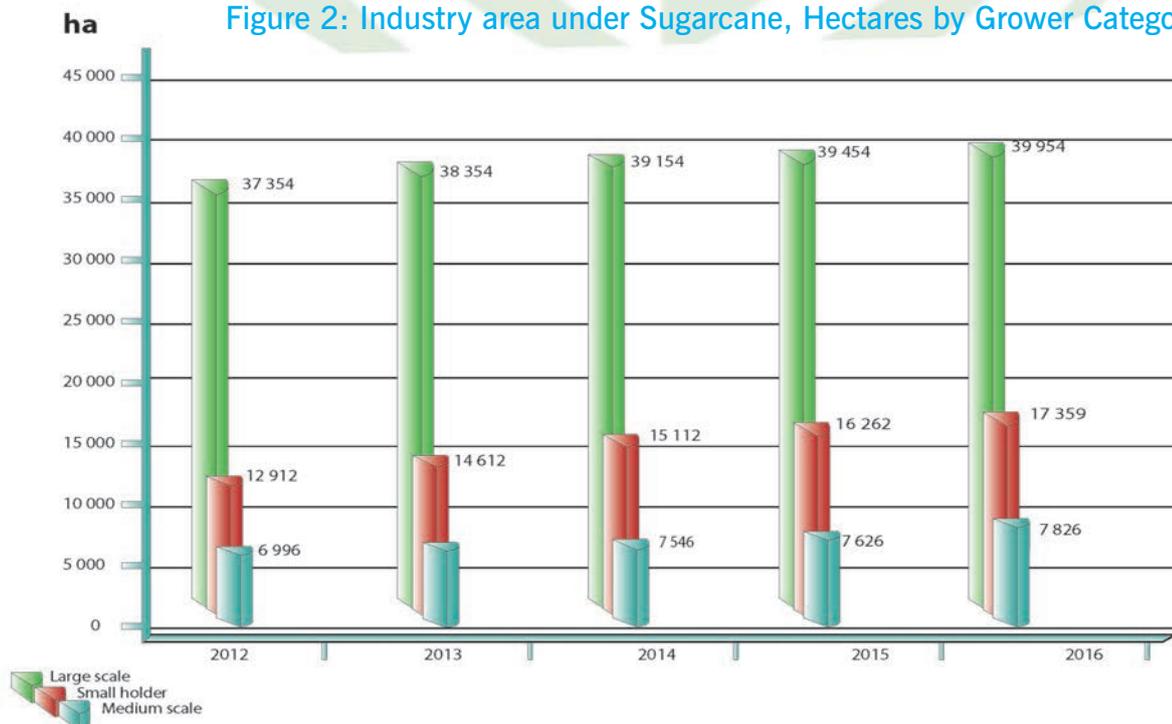


The 2013/14 season started with major dams at high capacities (over 90% full) indicating good water availability for the season for those areas with access to the water from the dams. Nonetheless, future water requirement is likely to increase from 781 626 ML in 2012 to 889 147 ML by 2016 (see Figure 1 above) due to the forecasted 7 877 ha expansion in area under sugarcane. This increase in water requirements will require building of additional dams. It will also require more efficient irrigation systems being installed in future projects or conversion of existing inefficient systems.

Improvements in water management practices e.g. accurate irrigation scheduling will also be encouraged for efficient use of this finite resource.

Land: The total area under sugarcane production is projected to increase from 57 262 ha in 2012 to 65 139 ha in 2016 (see Figure 2 below). The proportion of smallholder area to the total industry is projected to increase from 22% in 2012 to 27% in 2016. The increase in area will result in increases in irrigation water demand and technology transfer resources.

Figure 2: Industry area under Sugarcane, Hectares by Grower Category





Intellectual capital

Intellectual capital is the organisation's intangible asset. It includes a combination of knowledge, skills, experiences and abilities of the employees, research and development (R&D) activities, organisational routines as well as all of the resources linked to its external relationships (such as with customers, suppliers, R&D and technology transfer partners). Intellectual capital can be both the product of R&D activities and the enabler for creating greater value from R&D. Some of these include SSA's partnership agreements with the South African Sugar Association (SASA) in crop production research and service providers (Royal Swaziland Sugar Corporation and Ubombo Sugar) for the provision of extension, cane testing and warehousing services.

SSA undertakes periodic assessments to determine adequacy of intellectual capital. The recent assessment indicated that the current stock is satisfactory for delivering services for future growth.

Operating environment

While there have been improvements in sugar production and sales revenues in the recent past, there remain significant threats in the horizon. Thus going forward, the industry needs to enhance and sharpen its strategies to deal with the threats to its sustainability. This requires that the industry must link the main determinants of creating industry productivity and value to the exploitation and maximisation of opportunities. These issues are considered from both a sugarcane growing and sugar marketing (and trade) perspective, which are within the purview of the SSA mandate.

Sugarcane growing

The need to continually improve the productivity of sugarcane growing, especially among smallholder sugarcane growers, continues to drive the industry's

intervention strategy. This spans the whole value creation chain with respect to sugarcane growing from research on appropriate varieties through pest and disease controls to achieving higher yields and sugarcane quality testing.

At the field level, SSA continues to evaluate its training programmes provided through extension services with a view to continually improving its content and delivery for maximum impact. The capacity of smallholder sugarcane growers (SSGs) to run and manage their farms as commercial businesses remains a challenge. In recognition of this, especially as a threat to the industry's productive capacity, SSA has expanded the scope of the extension strategy from purely concentrating on sugarcane productivity to also address business management capabilities.

In cane testing, the use of efficient technologies in determining sugarcane quality is an area currently being considered for improvement. The industry is currently evaluating the use of Near-infrared spectroscopy (NIRS) technology for cane testing, in line with practices in other neighbouring sugar industries.

The rising cost of sugarcane production has driven existing growers to high indebtedness and rendered the viable entry of new growers highly dependent on donor funding. With the expected decline in European Union (EU) funding under the European Commission (EC) Accompanying Measures programme, the future of the industry's expansion will depend on its own resources. This will affect utilisation of installed capacity.

The availability and cost of water and implications of climate change on the future of sugarcane growing pose new threats. The main strategies to deal with these challenges are: securing current and future water resources; influencing policy on the setting of water tariffs; increasing efficiencies in water usage; and engaging in studies to generate the kind of information which can help in reacting appropriately to climatic changes.





Marketing and trade

Currently, the basic market mix is between the EU and Southern African Customs Union (SACU). The EU offers duty-free, quota-free access and higher prices whilst SACU offers stability with no foreign exchange exposure. If the markets were to continue exhibiting current conditions, it could be safely said that the current market mix may be the new standard for Swazi sugar marketing into the medium term. However, by their nature, markets are unpredictable and highly volatile. Any change in the market could render Swazi sugar uncompetitive, requiring a change in the market mix to create more value for stakeholders.

The influx of imported sugar has threatened Swazi sugar's market share and stability offered by the domestic market (i.e. SACU). The low world sugar prices coupled with zero tariff has resulted in high volumes of imported sugar displacing Swazi sugar in SACU, especially refined. The current level of the SACU import tariff (currently zero) does not offer the protection warranted. At the same time, distortions in the world sugar market continue to persist. An effective tariff protection mechanism is therefore required to sustain value creation from the SACU market. Without such protection, Swazi sugar's market share in SACU could reduce and, at worst, be lost to these 'dumped' imports. Diverting the sugar sales to other markets is not a viable option at this stage.

The expected increase in the demand for sugar (as a result of population and income growth) in the region (and the wider African continent) offers opportunities in the medium to long term. Sugar consumption in Africa is projected to grow faster than anywhere else in the world in the next 10-20 years. Through coordinated

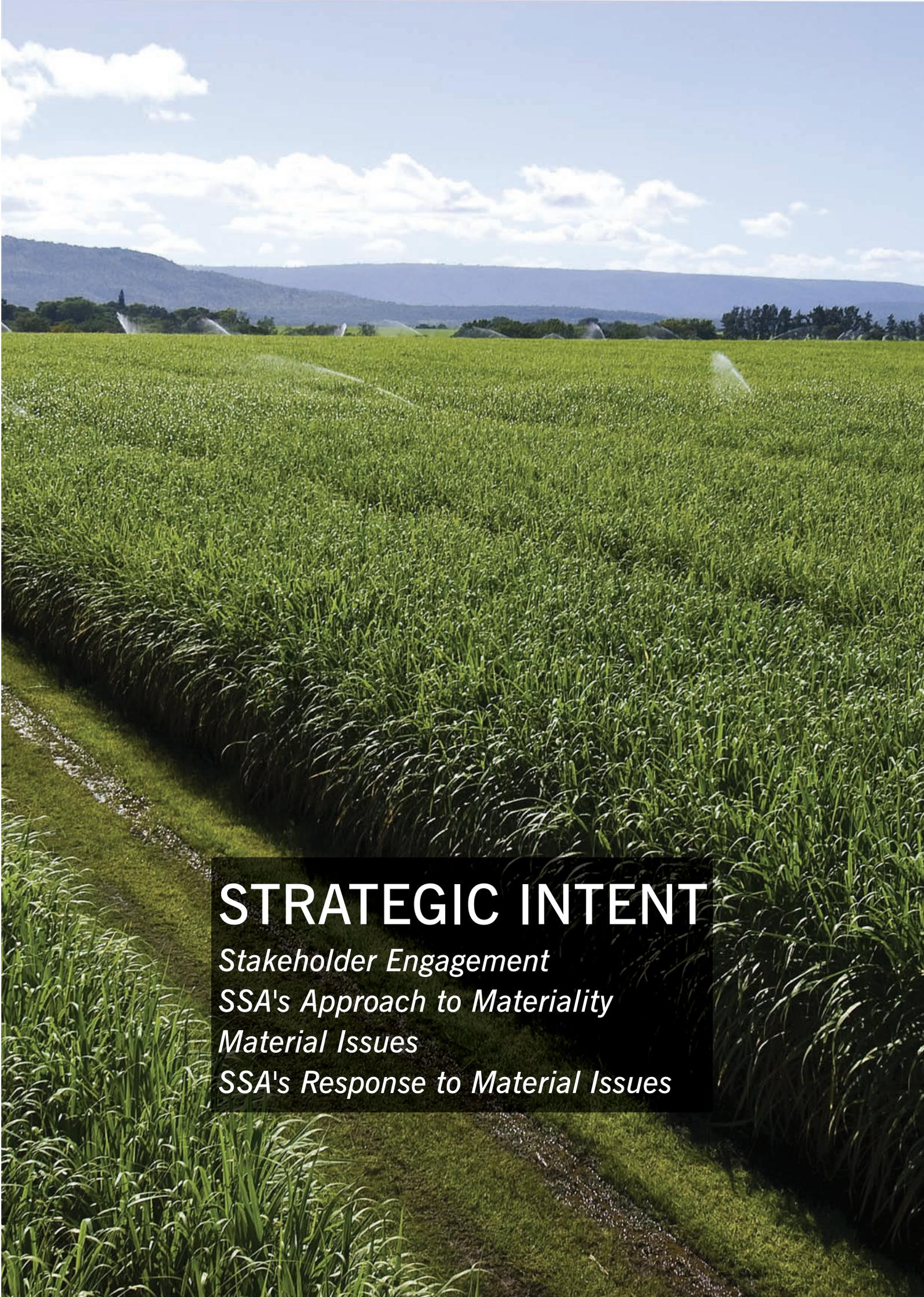
efforts, the establishment of the Tripartite Free Trade Area (TFTA) between the Southern African Development Community, Common Market for Eastern and Southern African and East African Community, would enable preferential access, especially where domestic consumption exceeds production. SSA is coordinating the sugar industry's efforts for a special sugar dispensation in the TFTA. Such an arrangement would not be disruptive to national (and regional) sugar industry strategic interests but will incentivise surplus sugar producing countries to sell to deficit sugar producing countries.

In the EU, the first round of the reform process is now complete. The last round of reforms has commenced with the EC proposing to lift the EU beet sugar production quotas in 2015 as well as reduce most favoured nation tariff levels. This proposal would erode the preferential status of Swazi sugar into the EU market. In that respect, SSA has, with the support of government and other ACP sugar exporting countries, lobbied the EU against the lifting of beet sugar production quotas and sought that such be delayed until at least 2020, a position supported by the EU Parliament. The EU Council of Ministers (the third arm in the EU decision-making process) has proposed 2017 for the lifting of the beet sugar production quotas. Under the coordination of the Irish Presidency, the EC, EU Council and EU Parliament are expected to reach a consensus on the lifting of the beet sugar production quotas by the end of June 2013.

Developments in the world sugar market are also likely to influence the relative preferences in the two main markets (SACU and EU). However, the extent to which such developments will influence the marketing of Swazi sugar is currently unclear. It is expected that

some critical information on World Trade Organisation agriculture negotiations, reform of the United States Farm Bill and reform of the EU sugar regime would be available for consideration under the next edition of the SSA Integrated Annual Report.





STRATEGIC INTENT

Stakeholder Engagement

SSA's Approach to Materiality

Material Issues

SSA's Response to Material Issues



Stakeholder engagement

SSA is cognizant of the fact that it has a wide range of stakeholders who can influence its business thereby impacting on its strategic objectives. It, therefore, recognises the need to have meaningful stakeholder

engagement, to ensure that they are well informed on issues which will impact on the business and them. The frequency and mode of engagement with the various stakeholder groups is influenced to some extent by their relative influences on the business.

SSA's key stakeholders and the engagement method with them are shown in the table below.

STAKEHOLDER	ENGAGEMENT METHOD & FREQUENCY	SIGNIFICANT ISSUES/EXPECTATIONS
Millers	Through meetings and written reports on monthly, quarterly and annual basis.	Sugar price: Will the financial estimates be realised? Developments in markets impacting on revenues.
Growers	Through meetings and written reports on monthly, quarterly and annual basis.	Sucrose price: Will the financial estimates be realised? Developments in markets impacting on revenues. Increased sucrose yields through access to new varieties. Effective pest & disease control.
Customers	Scheduled customer visits (at least quarterly depending on customer category); continuous dialogue either in writing or by telephone communication and annual customer survey.	Price, sugar quality, unfair competition in the market and service delivery.
Employees	Consultations with employee representatives; departmental meetings; quarterly information memoranda and bi-annual staff addresses by the CEO.	Remuneration; job security (or uncertainty); training & development; and occupational health & safety.
Service Providers	Quarterly and annual planning meetings; supplier audits; and continuous dialogue either written or by telephone communication.	Certainty of throughput; improvement in operational efficiencies.
Government	Continuous communication with relevant ministries and departments through meetings, briefing sessions, consultations and telephonic conversations. Whilst the interaction is whenever it is necessary, in general it occurs monthly.	Retention of preferential access to EU market; retention and increase of preferential access to regional markets; optimal legislation and regulation of water use and cost.
Communities in the sugarbelt area; society	Annual visits to communities in the sugar belt to assess their needs, focusing mainly on primary school education and water (which is part of SSA's CSI programme); interactions and visits to charities to assess their needs and visits to previously funded charities to assess effectiveness of previous funding; society at large, through media, and annual stakeholder functions (end-of-year cocktail and sugar conference).	Lack of resources in primary schools (buildings, furniture, equipment and water); needs of orphans and vulnerable children; prevalence of HIV/AIDS; youth development through sport.



SSA's approach to materiality

Material issues are those of such relevance and importance that they could substantively influence the assessment of the providers of financial capital with regard to value creation in the short, medium and long term. In past years, materiality at SSA has been largely determined on the basis of annual risk assessment. It has been decided to further refine the determination of materiality by adopting a framework whose main elements are long-term corporate strategy, value chain analysis and performance.

Material issues

Council considers matters with a potential effect beyond 2% of revenues to be material. In current terms, this translates to E80 million. Within the materiality framework outlined above, management has identified and prioritised the following issues which, if not properly managed, have the potential to affect SSA's ability to deliver on its strategy:

Capacity of growers to efficiently and productively manage their farms



Of the 658 137 metric tonnes (mt) of sugar produced in the year under review, about 20% was sourced from smallholder sugarcane growers (SSGs). This makes the industry vulnerable to SSG sustainability dynamics. A majority of the SSGs are on Swazi Nation Land (SNL) and are formed into farmers associations or companies. Most of these are plagued by conflicts, poor farm management, high indebtedness and poor ratoon management resulting in the harvest of poor quality sugarcane. The industry is working with the EU (and other development partners) to ensure viable entry of new growers. In addition, the sugar industry's Extension Strategy has been reviewed to include a component to support growers to adopt better farm management practices.

Preferential market access



SSA enjoys preferential access into the EU, US and regional markets. This enables it to extract higher value for the sugar sold. The reform of the EU Sugar Regime has the potential to erode the value of preferential access in the long term. The domestic market, SACU, has seen a rise in imported sugar. This has eroded the ability to extract maximum value and increase market share. There is a need for effective tariff protection against the imported sugar. The negotiations towards a Tripartite Free Trade Area between COMESA, SADC and EAC are intended to safeguard market access over the long term. In the US, the market is accessed through the US Farm Bill (2007) which is currently being reviewed.

Logistics infrastructure



The logistics infrastructure associated with the selling of sugar includes the warehouses, terminals in Mlawula and in Maputo, as well as the road and rail infrastructure. Availability and access to these facilities could have significant cost implications and impair SSA's reputation of being a reliable supplier. A contingency plan has been developed and relevant stakeholders are engaged on a regular basis to ensure no disruptions are encountered.

Foreign exchange risk



Over half of the sugar sales are made to markets outside the domestic SACU market and are denominated in foreign currency. This makes the management of the foreign exchange risk exposure a vital element in the creation of value for stakeholders. Unfavourable movements of the exchange rate would have a devastating impact on proceeds. In that respect a hedging policy has been developed and is implemented to safeguard against foreign exchange rate volatility.



Financing



To pay for sugar produced on a weekly basis before receipts from sales, SSA requires adequate financing facilities. As the sugar industry expands, so will the financing requirements. The ability to secure adequate facilities at competitive rates has been affected by lending restrictions imposed by the financial legislation of the country. Most of the funding is now sourced across the border at relatively higher cost. Various strategies are being considered to address this challenge over the long term.

Attraction and retention of appropriate skills



SSA recognises that one of its key stakeholders is its employees. In order to deliver on its strategic business goals, the attraction and retention of appropriate skills has been prioritised. The HR & Admin Department works closely with the CEO's office to develop and implement appropriate strategies and tools to attract, retain, manage and engage its talent. SSA policies and strategies are benchmarked on best practice in the local labour market and sugar industries in the region - where appropriate. As such the employees are competitively remunerated and recognised for their performance.

Customer requirements



SSA customers are the backbone of the business. They are the main means through which SSA creates its value. For SSA to successfully establish and maintain its commercial relationships, customer requirements (in terms of supply terms, quantity and quality of sugar) dictate the business compliance framework. They are therefore critical to the business. These requirements are not static. They evolve in line with customer tastes, increasing compliance requirements from legal and food safety perspectives and the broadening of corporate focus beyond the primary realm of production to now cover labour, governance and environmental issues. SSA has to keep up with these requirements and comply accordingly. It is in the context of addressing these issues that audits by customers are permitted. In addition, product specifications are reviewed on a periodic basis to address customer interests. All these instruments are continuously refined to capture the evolving requirements, thus helping the industry to keep abreast with market changes and keeping its products competitive.



MATERIAL ISSUE	STRATEGIC OBJECTIVE	RISK	STRATEGIC RESPONSE	OPPORTUNITY
Capacity of growers to efficiently and productively manage their farms.	Producing high quality sugarcane.	<ul style="list-style-type: none"> Failure to meet budgeted sucrose yields hence impacting on growers' viability. Poor irrigation practices. 	<ul style="list-style-type: none"> Extension services support. Promoting efficient water use among growers through irrigation scheduling techniques and systems. 	<ul style="list-style-type: none"> Raising capacity to continuously evaluate new irrigation systems and techniques and to advise growers accordingly.
Preferential market access.	Maximising value for stakeholders.	<ul style="list-style-type: none"> Loss of preferential market access to the EU resulting in reduced returns. Reduced value in the EU market. Lack of effective protection in the SACU market resulting in loss of market share and lower value. 	<ul style="list-style-type: none"> Liaising with government on SADC EPA negotiations. Liaising with government on lobby efforts to maintain value in the EU market. Seeking an effective SACU import tariff on sugar through submissions to ITAC. Exploring new markets. 	<ul style="list-style-type: none"> Developing an optimal market mix. Tripartite Free Trade Area
Logistics Infrastructure.	Optimising warehousing and transport.	<ul style="list-style-type: none"> Inability to provide conditioned sugar as a result of the buildings not being usable. Inability to move sugar to port and to load ships. 	<ul style="list-style-type: none"> Ensuring that preventative maintenance plan for all storage facilities is in place and implemented. Confirming with transporters the practicality of using alternative routes. 	<ul style="list-style-type: none"> Review current logistics model to ensure efficient service delivery.
Foreign exchange exposure.	Maximising value for stakeholders.	<ul style="list-style-type: none"> Failure to achieve budgeted exchange rates due to market fluctuations. 	<ul style="list-style-type: none"> Implementation of hedging policy. 	<ul style="list-style-type: none"> Optimising marketing mix.
Financing.	Cost of financing and ability to secure adequate financing facilities.	<ul style="list-style-type: none"> Inability to raise adequate financing. Higher cost of financing 	<ul style="list-style-type: none"> Continuously engage the providers of financial capital. 	<ul style="list-style-type: none"> Explore alternative funding models.
Attraction and retention of appropriate skills.	To have well-skilled and motivated employees.	<ul style="list-style-type: none"> Loss of skills and experience impacting on SSA's ability to deliver the required level and quality of service. 	<ul style="list-style-type: none"> Implementing a recruitment and retention strategy for key skills. 	<ul style="list-style-type: none"> Development of employees and talent management.
Customer requirements.	Optimising sales revenue.	<ul style="list-style-type: none"> Failure to meet customer requirements on product quality and food safety standards impacting on sales. 	<ul style="list-style-type: none"> Ensuring that facilities comply with standards required by customers. 	<ul style="list-style-type: none"> Continuously review customer requirements with the aim of ensuring SSA compliance.





AMAPOLA

PERFORMANCE REVIEW AND OUTLOOK

President's Statement
Chief Executive Officer's Review
Commentary on Financial Performance
SSA's Performance against Objectives
Future Outlook
Corporate Social Investment
Value Added Statement



President's Statement

“Government continues to play an important positive role in supporting SSA’s business objectives and, by extension, the sugar industry”

The 2012/13 year has seen SSA attain progress in several of its key business imperatives. There has been substantive progress made in respect of the <IR> framework as a result of which a much-improved report is being produced this year. Through improved understanding of the <IR> principles and using the Consultative Draft of the International <IR> Framework (April 2013) as a guide, this report - which is the second edition in the <IR> era - provides more comprehensive, structured and informative coverage of key issues affecting the organisation and the business. This approach, it is believed, will give stakeholders a better understanding of key aspects of the business while also permitting them to make better-informed investment decisions.

Government continues to play an important positive role in supporting SSA's business objectives and, by extension, the sugar industry. Reciprocally, the industry's contribution to economic development imperatives has continued to be significant. In this respect, the support in facilitating the flow of donor support, mainly from the EU, to improve the industry's competitiveness in light of the changing global sugar market environment dynamics, is noteworthy. This support has been channelled to supporting industry sugarcane area expansion and improving the road infrastructure used by the industry. These projects have seen over E140 million spent during the year under review. There is an additional commitment of over E200 million to be used for further cost-competitiveness improvement measures, which shall be deployed through grants. As a result of these projects, over 2 000 ha of land has been developed under EU support.

The sugar industry continuously seeks opportunities for improving the economic viability of the smallholder sugarcane growing sector, which is critical in the overall competitiveness agenda and in providing a link with important national development strategies (especially those for rural development and poverty reduction). In this regard, the certification of growers under the Fairtrade standard commenced successfully during the year. Four grower





groups (comprising thirty-four farmer associations) were certified to sell Fairtrade sugar, on which a premium is paid directly to the beneficiaries. However, due to the timing of the certification (when sugar was already committed for the year) and the slow start to Fairtrade sugar marketing initiatives, a limited tonnage was sold during the year. Efforts would be made to seek greater benefits under this programme in the coming year.

The risk management process, where significant risks that may affect the attainment of business objectives are identified and mitigation

strategies implemented, has served the business well during the year. Under the supervision of the Audit Committee, SSA has been able to head off major threats to its attainment of performance targets and objectives. In line with the

new <IR> approach, SSA has adopted a more disciplined approach to managing the business with a view to linking all activities directly to the imperatives informed by the strategic intent and material issues. The strategic objectives identified for the business were: production of high quality sugarcane and achieving higher yields; protection of current (and creation of future) preferential markets; extraction of maximum value for the products; adequacy and efficacy of storage facilities; mitigating foreign exchange risks; providing quality assurance systems which give confidence to stakeholders (especially customers); attraction and retention of appropriate skills; and cultivating positive relationships with all key stakeholders.

In the pursuit and protection of remunerative markets for the industry, SSA continues to support and act as technical advisors to government negotiating teams on markets of interest. Developments in both SACU and the EU (the two markets where all SSA sugar was sold during the year and expected to be the case in the foreseeable future) present a challenging environment which must be navigated carefully going forward and plans put in place to mitigate any emerging risks. The lack of a protective sugar import

tariff in SACU exposes the industry to unfair competition from sugar dumped from other world market origins. This is being addressed through submissions for a tariff adjustment to the International Trade Administration Commission. In the EU market, developments could have a devastating impact on the industry sustainability. On the advice of the industry, government responded swiftly to this threat. The Deputy Prime Minister led a lobby mission to make a case to targeted EU decision makers for the postponement of the lifting of the ceiling on EU beet sugar production from 2015 to at 2020 (a position adopted by the ACP and LDC

sugar suppliers. The lobby mission was considered successful in that the EU Parliament voted for the lifting to be postponed to 2020.

In terms of looking for new market opportunities, the major

activity was advancing the case for a special sugar dispensation within the framework of the Tripartite Free Trade Area encompassing COMESA, EAC and SADC. This is an on-going process expected to span the period up to at least June 2014.

The value of SSA to the industry continues to be immense. It has continued to deliver results for its members throughout the over 40 years of existence. As indicated in the previous edition of the SSA Integrated Report, members (namely, growers and millers) are currently reviewing its structure in light of changing business requirements in response to the need to improve competitiveness in the global arena. The process is still on-going.

The achievements of the past year are a result of positive contributions by stakeholders at different levels. Particular mention goes to the leadership provided by Council (and its subordinate structures) and the competent delivery of the operational imperatives by the management team and staff. The good results contained herein are a testimony to their competence and commitment.

"The achievements of the past year are a result of positive contributions by stakeholders at different levels. Particular mention goes to the leadership provided by Council and the competent delivery of the operational imperatives by the management team and staff."





Chief Executive Officer's Review

SSA continues to navigate a turbulent economic and market environment with the aim of delivering value improvement for its members and stakeholders. As such, despite sluggish economic growth in major sugar markets, SSA was able to deliver improved results for its members, as signified by the significant increase in sales revenues and prices payable for their produce.

The grower support-activities continued to be focused on improving grower yields with an emphasis towards securing the sustainability of smallholder growers. Sugarcane production increased by 3,5% from the previous year resulting in a corresponding increase of 1,8% of sugar production. The revised Extension Strategy is aimed at improving the effectiveness of the grower support initiative. This period also marked the first complete year under the new agreement with the South African Sugar Association which provides for cooperation on research and development.

Sales revenue increased by 28% while sugar and sucrose prices increased by more than 20%. The good performance was due to favourable pricing, exchange rates and supply terms in the markets where Swazi sugar was sold. Despite overachieving in terms of sales revenues, the targeted sales volume was not met. SACU sales volume declined by 2% from the previous year. The below targeted performance was due to an influx of cheap imported sugar.

In response to the influx of cheap imports into SACU, some of the Swazi sugar was diverted to the EU market where it realised better returns. In addition, through engaging in swaps, SSA took further advantage of the EU's duty-free quota-free market access. Revenue proceeds from the EU market improved markedly as they increased by 52% from the previous year. This positive performance was due to favourable market and price conditions and the depreciation of the Lilangeni against the Euro and US Dollar.

Despite a tightening of the interest rate environment, SSA was able to retain favourable financing terms for its financing facilities. The prudent application of the hedging strategy also allowed SSA to achieve forward foreign exchange rates which were better than the market rates.



“Sales revenue increased by 28% while sugar and sucrose prices increased by more than 20%. The good performance was due to favourable pricing, exchange rates and supply terms in the markets”



SSA continues to implement strategies that reflect continual improvement on the quality of products and services delivered.

This is pillared on the quality management system which demands that the management team, on a continuous basis and especially at the twice-yearly management

reviews, identify any weaknesses, address them effectively and look for opportunities to improve the business systems as well as processes.

Consequently, SSA was again re-certified under the ISO 9001:2008 standard.

The value of employees at SSA is immense. Through their dedication and excellence, SSA has been able to meet most of its objectives for the year. The development of their capacities and enhancement of their competencies to deliver on business objectives was ensured and would continue even in the coming

“The ethics and values on which SSA's business operations are pinned enhance ability to create sustainable value. This is driven by the Code of Ethics and Conduct to which all employees have committed.”

year. The recruitment and retention of skilled employees is a key area of the business strategy.

The ethics and values on which SSA's business operations are pinned enhance ability to create sustainable value. This is driven by the Code of Ethics and Conduct to which all employees have committed.

This demands a high level of professional, ethical and personal conduct in order to give comfort to stakeholders and to uphold a positive image of SSA.

The results of the customer survey, where SSA received a customer satisfaction index of 82%, provide testimony to the value of keeping this major stakeholder group firmly

in focus. It is pleasing to note that the

objective to meet customer requirements on a continuous basis is being achieved.

In conclusion, the support and guidance received from Council and its various committees during the year is greatly appreciated. It has been central to the favourable performance during the year under review. Going forward, such support is of fundamental importance in the implementation of plans for improving the business.





Commentary on financial performance

Revenues

SSA has had another great year financially with increased proceeds being available for distribution to millers and growers resulting in higher sugar and sucrose prices when compared to the previous year. The key drivers for these increases are:

- Sales revenues which increased from E3,1 to E4,0 billion.
- Sugar sales volume which increased by 40 298 mt.
- Better sugar prices in the EU.

- Depreciation of the local currency, Lilangeni, against the Euro and US Dollar by 15% and 19% respectively.

Costs

SSA managed to run its operations cost-effectively such that total costs remained well within budget.

Financing costs increased by 35% driven mainly by the higher price paid for the sugar as well as higher production volumes. SSA sourced over E2 billion in funding to meet the peak stockholding requirements, the biggest requirement so far.



SSA's performance against objectives

On the basis of the overall business objective to create sustainable value for stakeholders, the table below outlines performance on material issues.

MATERIAL ISSUE	TARGET	RESULTS
Capacity of growers to efficiently and productively manage their farms.	Improve growers' sucrose yields.	Grower yields (tonnes sucrose per hectare) decreased by 1,3%.
	Seek donor funding to support grower initiatives for enhanced competitiveness.	Over E140 million was spent on industry adaptation activities under the EU Accompanying Measures. About E600 million has been committed for the 2011-13 period.
Preferential market access.	Seek increase in SACU sugar import tariff.	SSA collaborated with the SASA on an application for the upward adjustment of the tariff.
	Support government lobby and negotiation initiatives.	SSA is continuously invited by government to either make technical inputs on sugar-related issues and/or form part of the national negotiation delegation. A successful lobbying mission was led by the Deputy Prime Minister to the EU on the lifting of sugar beet production quotas. SSA maintained representation to the EPA/EBA London Sugar Group which provides technical input to the Sugar Subcommittee in Brussels (a committee of ACP/LDC Ambassadors) and to ACP-EC committees dealing with sugar matters.
	Lobby for appropriately structured sugar regime in the Tripartite Free Trade Area (TFTA).	SSA coordinates efforts by regional sugar industries to have a special sugar dispensation in the TFTA negotiations.
Logistics infrastructure.	Review adequacy of warehouses to store product prior to supply to customers, and implement necessary capital programme.	Stock control systems were improved during the year, including a review of work instructions for relevant staff.
Foreign exchange exposure.	Achieve or exceed market exchange rates.	Exchange rates achieved: €1 = E10,75 (equivalent to the sales-weighted average market rate of E10,75). US\$1 = E8,71 (against the market rate of E8,46).
Financing.	Financing costs.	Increase of 35% on a per ton basis compared to previous year.
Attraction and retention of appropriate skills.	Reduce staff turnover.	Staff turnover was 9% (as against 4% in the previous year).
Customer requirements.	Customer satisfaction.	Achieved a customer satisfaction index of 82%, an 'A' grade.
	Ensure compliance with food safety, and related, standards at all industry supply facilities.	Mhlume maintained its ISO 22000 certification while Ubombo attained FSSC 22000 certification (both food safety standards). Simunye is ISO 9001:2008 certified.
		Pol Factor was within the acceptable range of 98,5% and 100,5%. Testing efficiency averaged 75% for the industry.



Future outlook

The outlook for the sugar industry is optimistic, with preferential access into the EU and US markets and effective protection in the domestic SACU market guaranteeing sustained value creation for SSA. The continued support by the EU towards viable entry of new smallholder sugarcane growers (SSGs) as well as support for existing growers to improve their efficiencies is expected to bolster growth prospects. The rise in costs of production is however expected to dampen growth prospects for SSG profitability.

NEW INITIATIVES MARKETING PRODUCTION

- Expansion in sugarcane growing as result of KDDP and LUSIP initiatives.
- 15% increase in sugar production (to 800 000 mt) forecasted in five years.
- Pace and extent of expansion to depend on flow of donor and/or government funding to subsidise SSGs with development costs.
- Increase in production costs (especially energy) to erode profitability and dampen sustainability of industry, especially SSGs.

- SACU market is expected to continue to be a major source of value creation for SSA.
- Value in SACU to be dependent on effective tariff protection.
- EU market to continue being a vital market for SSA due to continued preferential access.
- EU prices forecasted to come down from current levels, but expected to remain at a significant premium to the world market.
- Exchange rate volatility will remain a challenge, and can have a significant impact on export sales revenues.
- Access to other markets (US, COMESA, etc) will allow for flexibility in the event the EU market does not yield value for SSA.

- Fairtrade certification to be rolled out to more growers.
- Food safety compliance for facilities to be progressed.
- Organisational structure is still under review, which may result in a re-orientation of SSA's business model.





Corporate Social Investment (CSI)

SSA is committed to the implementation of a sustainable CSI programme and its continuous improvement. Through its CSI programme, SSA is committed to supporting human development of the communities in which it operates and the economy at large. The main areas of focus in the past year were support of primary education, health care and sports for youth.



SSA extended assistance to the communities in the sugar belt area through supporting primary school education initiatives and promoting good sugarcane farming practices through its annual sugarcane growers' competition. The provision of basic primary education in the sugar belt areas is important as it supports SSA's objective of developing the capacity of sugarcane growers in these communities. Not only will it impact on the capacity of the sugarcane growers, it will also result in capacity in other business skills related to sugarcane farming.

The primary schools which benefitted were:

- Kabhokweni Primary School in the South sugarbelt area.
- Sihlangwini Primary School in the South sugarbelt area.
- Enjakeni Primary School in the North sugarbelt area.

SSA also extended support through donations made to not-for-profit organisations and other non-governmental organisations or schemes whose activities are directly aimed at uplifting needy communities, members of society and the development of youth sports. In the past year the organisations and sporting associations which benefitted from such assistance were:

- Hope House (a charity organisation which cares for terminally ill people).
- New Hope Centre (an orphanage for destitute children).
- Swaziland Hospice at Home (which provides palliative and home-based care for the terminally ill).
- Athletics Association of Swaziland (which promotes athletics at grass root level).
- Swaziland National Tennis Association (which promotes tennis at grass root level).

SSA will engage in an exercise to improve the alignment of its CSI programme with its business objectives, which are being revised in line with the <IR> framework.





Value added statement

	2013 E	2012 E
<i>Wealth created</i>		
Revenue	4 020 171 682	3 141 642 115
Cost of sugar Purchased	(231 239 377)	(51 064 524)
Marketing and logistics costs	(444 538 265)	(310 988 596)
Technical services	(22 267 786)	(18 745 675)
Total wealth created	3 322 126 254	2 760 843 320
Wealth distributed as follows to stakeholders		
Paid to millers	1 026 371 362	855 469 613
Paid to growers	2 191 093 723	1 826 253 313
Paid to government	238 032	127 984
Paid to financial institutions	83 123 050	61 505 718
Paid for corporate social investment	954 903	957 819
Paid to employees	20 345 184	16 528 873
Total wealth distributed	3 322 126 254	2 760 843 320
Percentage distribution of wealth:		
To millers	31%	31%
To growers	66%	66%
To government	*	*
To financial institutions	2%	2%
To employees	1%	1%

★ Negligible since it is less than 0,02%.

NOTE: As an association, SSA is exempt from paying tax in terms of the Income Tax Order section 12 (1) (vi). The Order states that if an association derives benefits on behalf of its members and distributes such benefits to such members, then it is exempt from paying income tax. However, where the association has incurred expenditure that is disallowed, a tax liability then arises. The amount noted as paid to government above relates to such disallowable expenses. The millers and growers, who are SSA members, do pay tax to government.



CORPORATE GOVERNANCE AND REMUNERATION

Governance Structure

Commitment and Compliance to Corporate Governance

Audit Committee Report

Ethics and Fraud Management Processes

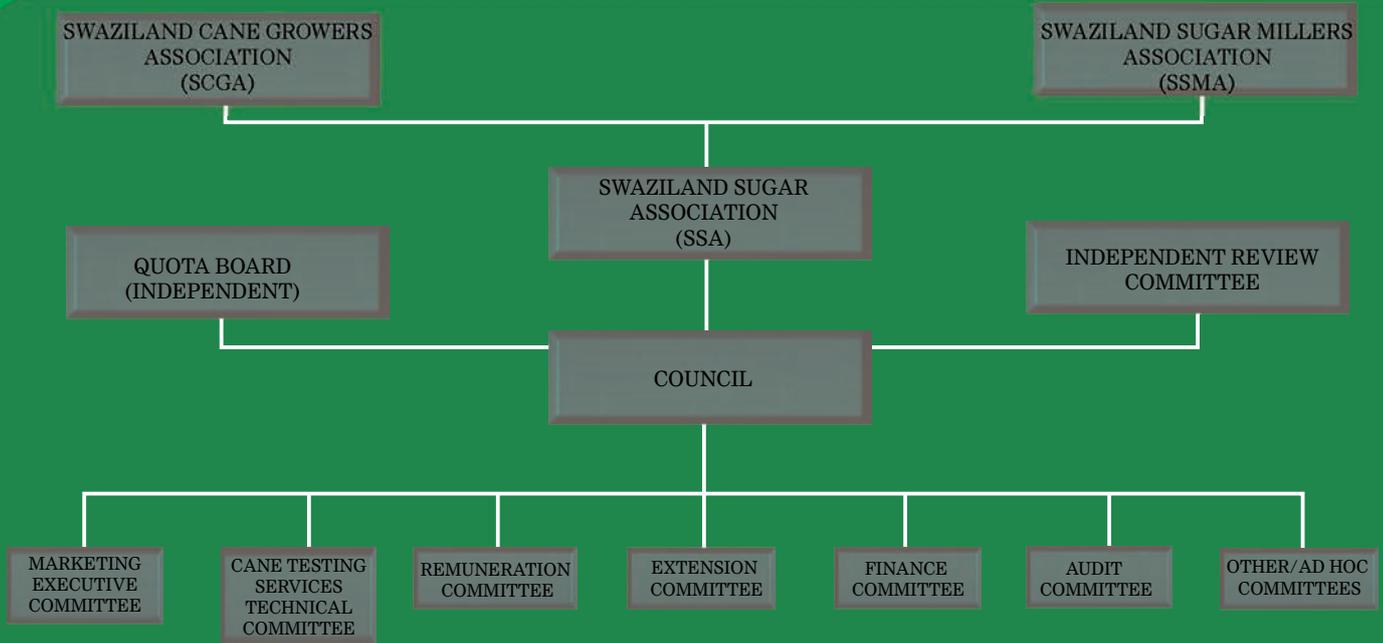
Risk Management Process

Key Governance Issues to be addressed by Council going forward

Remuneration Report



SSA governance structure



Council members



FRONT (L-R): A T Dlamini, J Hulley, Dr. M Matsebula (CEO), T Dlamini (Chairman), R Hulley.
BACK (L-R): B James, E Ndzimandze, M Mkhaliphi, J Khumalo, S Geldenhuys, M Mndzebele, S Magagula, G White, M Maziya,
 J Blumberg, G Williams, N Jackson.
NOT IN THE PICTURE: S Cleasby, E Nxumalo, S Potts, A Ngcobo, J Matimba, J M Sithebe, G Scheepers, P Myeni



SSA bodies

Sugarcane growers and millers belong respectively to the Swaziland Cane Growers Association (SCGA) and Swaziland Sugar Millers Association (SSMA). These two bodies form SSA. As such, they are equally represented on SSA structures including the Council, which is the highest policy-making body. Council is chaired by an independent person, who has no interest directly or indirectly in the growing or milling of sugarcane and neither in the disposal of sugar or its by-products (molasses). Council has a number of bodies supervising the SSA functions and reporting to it in order to facilitate or assist in the delivery of the SSA mandate.

Membership to these structures is normally equal between millers and growers and decisions are usually by consensus (unless determined otherwise in the terms of reference of the Committee).

- **Council:** Its main role is to conduct and direct the business of SSA by determining policy and ensuring its effective implementation through the supervision of specialised committees which report to it.
- **Marketing Executive Committee:** The main responsibility is to purchase, market and sell sugar and by-products produced by the sugar industry. It recommends to Council the marketing strategy and product disposal policy and plan to be followed in any given period.
- **Cane Testing Services Technical Committee:** Its main function is the supervision of the cane testing service at the mills (to ensure its independence and credibility), deals with issues of mass determination or computation and advises SSA on all matters relating to cane testing in the industry.
- **Remuneration Committee:** It deals with staff remuneration, recruitment of senior executives and succession planning.
- **Extension Committee:** It supervises the provision of extension services in the industry, including pest and disease control.
- **Finance Committee:** Its role is to oversee the financial affairs of SSA, including scrutinising

estimates, budgets and all other issues of a financial nature impacting on payments to producers (growers and millers).

- **Audit Committee:** It oversees the efficacy and effectiveness of internal controls and the risk management function. It also fulfils the functions required of it in the King III Code.
- **Other/ Ad Hoc Committees:**
 - Technical Committee (for assessing capital projects).
 - IT Policy Committee (for determining policy on industry IT strategy, systems and projects).
 - National Adaptation Strategy (NAS) Committee (for discussing all issues related to the NAS programme).





Independent industry committees

The Quota Board is an independent body whose main purpose is to allocate sugarcane growing quotas to potential farmers and make adjustments in cases of non-performance. It comprises three independent members (one of whom is the chairman) appointed by government as well as existing growers and millers who are equally represented and nominated by their respective constituencies. The voting balance is in favour of the independent members.

The Independent Review Committee is formed outside the industry, even though it receives its instructions from SSA. It comprises experts who are independent and have no interest in the industry. Its role is to investigate matters mandated by SSA. It deals with the determination of allowances payable to millers for refining sugar beyond the raw state. It has the power to require millers and growers, in confidence, to provide information to enable it to undertake appropriate analysis on matters so mandated and making appropriate recommendations to the SSA Council.

Commitment and compliance to corporate governance

SSA is committed to the highest standards of corporate governance as a guiding principle for its business management. Good corporate governance is critical to sustainable and successful business management and to facilitate positive business performance in the short, medium and long term. This commitment is applicable to all SSA structures, including Council and its subordinate structures, management and all employees. As an extension, SSA also promotes dealing with business partners who exhibit good corporate practice in order to create sustainable business partnerships.

Council adopted the King III Code on Corporate Governance as the standard to be used by SSA in managing its business affairs. Subsequent to the assessment of compliance reported in the last integrated report, SSA has made further progress in improving compliance by implementing the programme agreed to move SSA towards full compliance on all applicable requirements of the code.





The progress made in the closure of the gaps on King III compliance is reflected in the table below:

King III Principle	Progress
The Board and its directors should act in the best interests of the company (including managing conflict of interests).	Council has agreed to the applicability of this principle in the conduct of SSA's business. However, the mechanism through which it would be applied in practice (given the inherent interests of members permitted by the SSA structure) is subject to on-going discussions at the Miller-Grower Forum.
The induction and on-going training and development of directors should be conducted through formal processes.	Induction and training was provided to Council members during the year. All new members will thenceforth undergo induction.
The audit committee should oversee <IR>.	With respect to <IR>, this principle was fully implemented with effect from the compilation and production of the 2011/12 integrated report. The terms of reference of the committee were also reviewed during the year to address all other requirements of the code.
The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process.	This was fully implemented with effect from this reporting year.
The audit committee should report to the Board and shareholders on how it has discharged its duties.	This principle has been fully implemented and the audit committee report is now tabled during the SSA AGM.
The Board should ensure that there are processes in place enabling complete, timely, accurate and accessible risk disclosure to stakeholders.	This has been fully implemented. Council, through the audit committee and in its own work, ensures that the integrated report provides complete, timely, accurate risk information. The integrated report is being improved to enhance disclosures to all key stakeholders.
The Board and each individual director should have a working understanding of the effect of applicable laws, rules, codes and standards on the company and its business.	This principle is being addressed through induction, where applicable, and training of Council members on an annual basis.
The Board should delegate to management the implementation of an effective compliance framework and processes.	This has been fully implemented.
The Board should ensure the integrity of the company's integrated report.	This has been fully implemented. This included the use of <IR> consultants in seeking to make improvements on the 2011/12 report.



Council acknowledges that full implementation of all the King III principles is a process which requires in-depth understanding and interpretation of the principles into contextual circumstances. For that reason, Council is satisfied that SSA has applied all the

King III principles except the following, which were found to be not relevant due to the nature and structure of SSA, as provided for in the Sugar Act of 1967 and the Sugar Industry Agreement:

King III Principle	Reason for inapplicability
The Board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent.	<i>To the extent that the Council composition is defined in existing statutes, there is no need to define or assess its composition.</i>
Directors should be appointed through a formal process.	<i>The appointment of Council members is defined by existing statutes, and is done independently by its shareholders (SSMA and SCGA).</i>
The evaluation of the Board, its committees and the individual directors should be performed every year.	<i>There exists no need for such, given the way they are appointed, and appointments are valid for one year in any case.</i>





Audit Committee Report

The Audit Committee (hereafter referred to as "Committee") is pleased to present its report for the financial year ended 31 March 2013 to the Members of the SSA Council. This report is in compliance with the requirements of King III.

Mandate

The Committee is governed by a formal audit charter which provides a guide in terms of objectives, authority and responsibilities. The Committee recognises its important role as part of the risk management and corporate governance processes and procedures of SSA.

Role of the Committee

General

- To ensure that the respective roles and functions of external and internal audits are sufficiently clarified and coordinated and that the combined assurance received is appropriate to address all significant risks.
- To assist Council to carry out its fiduciary responsibilities by overseeing the integrity of SSA's financial statements, financial reporting processes, internal accounting and financial controls, the annual independent audit of the organisation's financial statements, and other aspects of the financial management of SSA (including overseeing the establishment and maintenance processes to assure compliance by SSA with all applicable laws, regulations and policies).

External audit

- To evaluate the independence, effective roles and functions of the external audit and obtain assurance from the auditors that adequate accounting records are being maintained and appropriate accounting principles are in place and have been consistently applied.
- To evaluate and recommend the appointment of external auditors on an annual basis.
- To approve the audit and non-audit services fees.
- To consider and respond to any question from

Council regarding the resignation or dismissal of external auditors, if necessary.

- To review and approve the external audit plan.
- To ensure that the scope of the external audit has no limitations imposed by management and that there is no impairment on independence.

Internal control and internal audit

- To review the effectiveness of the group's system of internal controls, including internal financial control and risk management and to ensure that effective internal control systems are maintained.
- To monitor and supervise the effective functioning and performance of internal audit.
- To review and approve the annual audit plan and internal audit charter.
- To ensure that the internal audit function has no limitations imposed by management and that there is no impairment on its independence.

Financial statements and Integrated Report

- To consider any accounting treatment, significant unusual transactions or judgments that could be contentious.
- To review the integrated report, as well as annual financial statements.
- To provide as part of the integrated report, a report by the Committee.

Opinion on internal financial controls

Based on the review of internal control systems conducted by the internal audit, as well as information and explanations given by management and discussions held with the external auditors on the results of the audit, the Committee is of the opinion that SSA's system of internal controls is effective and forms a basis for the preparation of reliable financial statements in respect of the year under review. In addition, the Committee was not made aware of any:

- Material breaches of any laws or legislation or,
- Material breaches of internal controls of procedures.

To the extent that it is practical, the Committee has ensured that the external auditors leverage on the work performed by the Internal Auditor.



Committee activities

The Committee held four meetings during the financial year. It considered the draft annual financial reports prepared by management and recommended their adoption to Council. The Chairman provided written reports to Council summarising the Committee's findings and recommendations. The Chief Executive Officer, Financial Director, Commercial Director, Finance Manager, Internal Auditor and external auditor partner/staff attend the quarterly meetings.

Independently of management, members of the Committee met separately with the Internal Auditor and the external auditors. Meeting dates and topics were agreed well in advance. The attendance by members during the course of the financial year was 100%.

Risk management

Whilst Council is ultimately responsible for the maintenance of an effective risk management process, the Audit Committee, together with management, assists Council in assessing the adequacy of the risk management process. The Committee fulfils an oversight role regarding financial and operational risks. During the year under review, the Committee considered the risk management approach as well as key risks and believes that the approach is appropriate and that all key risks are being adequately addressed by management.

External auditors

The Group's external auditors are KPMG (Swaziland) Chartered Accountants. They were afforded unrestricted access to the Group's records and management; and presented any significant issues arising from the annual audit to the Audit Committee. The Committee gave due consideration to the independence of the external auditors and is satisfied that KPMG is independent of the group and management and therefore able to express an independent opinion on the group's annual financial statements.

Financial statements

The Committee has reviewed the financial statements of the Group and is satisfied that they comply with International Financial Reporting Standards. In addition, the Committee has reviewed management's assessment of the going concern and has recommended to Council that the going concern concept be adopted by SSA.

Integrated Report

The Committee fulfils an oversight role in respect of SSA's Integrated Annual Report. In this regard the Committee gave due consideration to the need for assurance on sustainability of the information contained in this report and concluded that the obtaining of independent assurance is a necessary process that will be considered for the next integrated report. The Committee has however considered the sustainability information as disclosed in the annual integrated report and has assessed its consideration to the need for assurance on financial statements. The Committee is satisfied that the sustainability information is in no way contradictory to that disclosed in the annual financial statements.

Expertise, resources and experience of the finance function

The Committee considered the appropriateness of the expertise and experience of the finance function. In this respect, the Committee believes that the finance department possesses the appropriate expertise and experience to meet its responsibilities. The Committee further considers that the expertise, resources and experience of the finance function are appropriate based on the nature, complexity and size of the operations.

Approval

The Committee recommends to Council the approval of the SSA Integrated Annual Report for 2012/13.



Ethics and fraud management processes

SSA subscribes to good business and professional ethics as fundamental principles for conducting its business. These principles permeate the whole organisation. In this connection, employees are reminded of the contents and significance of the Policy on Ethics and Code of Conduct. SSA has a zero tolerance for unethical conduct (including fraud, corruption, etc.) that may tarnish its reputation.

Risk management process

SSA is committed to continuously review the risk management process to ensure that it is effective and enables the achievement of the SSA strategic objectives. The commitment to risk management is also evident in the approach used in the Internal Audit function, which is a risk-based audit approach.

SSA's risk management process involves assessing each operational area of the business to identify all risks; determining the potential impact of each risk on the business, investigating the current controls on each risk; and determining the residual risk (i.e. how much of the risk remains after taking into account control effectiveness). It is on the basis of the residual risk that they are then classified as high, medium and low. Measures to mitigate the residual risk are then listed, given to responsible officers for implementation within agreed timelines. All of this is published in the Risk Register which is then used by the Internal Auditor to follow up the implementation and to submit monthly reports at management meetings. Quarterly reports are submitted by the Internal Auditor to the Audit Committee which, in turn, submits quarterly reports of high risks to Council. The Register is updated during the year for any emerging risks which are identified as a threat to the business. These are subjected to the full risk assessment procedure before they are entered into the Register.

Key governance issues to be addressed by Council going forward

Compliance with sucrose quota requirements: In 2012/13 the industry has seen a number of farmers growing sugarcane on land for which they do not have a valid quota permit issued by the Quota Board. Council considers this issue as a major risk to the industry from both regulatory and pest/disease viewpoints. It reflects a weakness in the quota system which needs to be

addressed going forward. It is a governance issue to the extent that its solution will require a review of the oversight and enforcement responsibilities of pertinent sugar industry structures to enable an assurance that the conditions governing the issuance of a sucrose quota permit are strictly adhered to. In the case of farmers on Swazi Nation Land this would require that Council triggers the response of the appropriate authorities dealing with land boundaries and land use.

Compliance with King III: Council will be reviewing and taking appropriate action to continuously improve compliance with the King III Code on Corporate Governance. This will include two particular aspects. The first is instituting measures to incorporate the <IR> framework in SSA processes, including ensuring that developments on all material issues form part of the agenda for regular meetings. The second is providing for internal and external assurance (through appropriate service providers) on <IR> under the oversight of the Audit Committee.

Remuneration report

SSA's remuneration philosophy is aimed at attracting and retaining appropriately-skilled employees at all levels, so as to positively influence performance and enable the achievement of SSA objectives. To ensure that SSA remains competitive in the market and is able to attract as well as retain employees, it strives to provide competitive remuneration. This is achieved by participating in external remuneration surveys for confirmation this at least once in five years. Whilst seeking to ensure competitiveness of its remuneration, SSA also seeks to maintain equity and harmonisation of remuneration among its employees.

For permanent employees, remuneration comprises wages plus benefits. The latter includes contribution to provident fund, access to health care facilities or contribution to medical aid, housing or housing allowance and other incentives. As a further incentive, SSA offers an incentive bonus which is directly linked to the financial performance of the organisation and is fully at the discretion of Council (on recommendation from the Remuneration Committee).

In terms of annual salary increments for its unionised and non-unionised employees, these are arrived at through a collective bargaining process with the respective representatives of the groups.