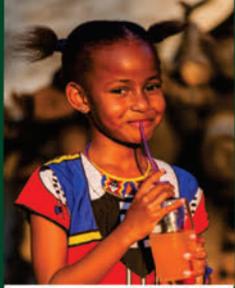
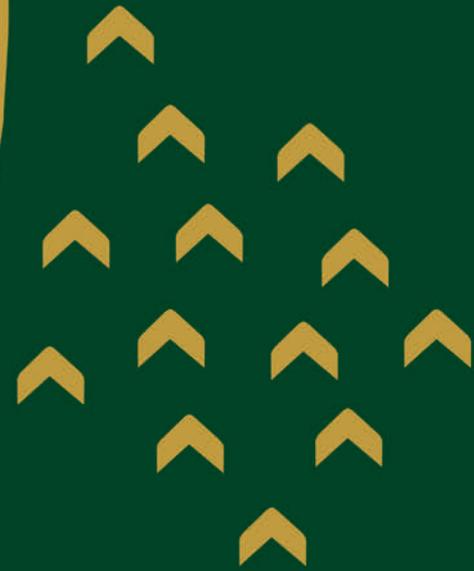


2018/19 Integrated Annual Report

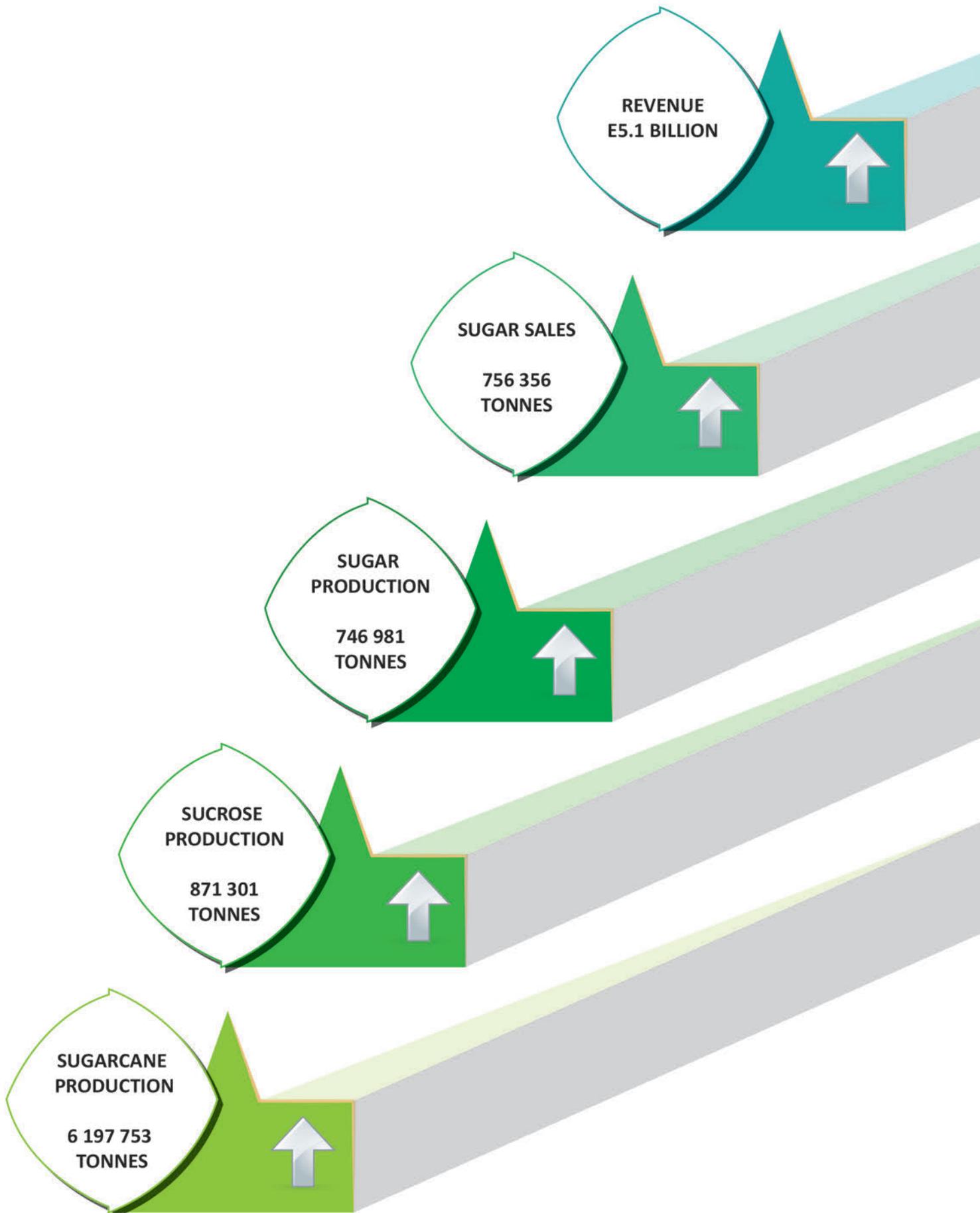


United for Growth. Creating more Value



**ESWATINI
SUGAR
ASSOCIATION**

HIGHLIGHTS 2018/19



HIGHLIGHTS - FIVE YEAR TRENDS

	2014/15	2015/16	2016/17	2017/18	2018/19	Units
Area harvested	56 438	57 685	56 420	57 776	57 420	Hectares
Cane production	5 639 193	5 836 553	4 973 571	5 405 151	6 197 753	Tonnes
Cane yield (productivity)	99.90	101.20	88.20	93.60	107.90	TCH
Sucrose yield (productivity)	14.99	15.02	13.23	14.01	14.94	TSH
Sucrose production	810,836	813,992	694,951	757,479	871,301	Tonnes
Sugar production	686 778	695 408	586 085	650 126	746 981	Tonnes
Sugar sales	690 278	700 017	621 164	552 136	756 356	Tonnes
Revenue	4.1	4.6	4.6	4.2	5.1	E 'Billion
Sugar price index*	0.91	0.92	1.16	1.09	0.96	Not applicable

*Sugar price index calculated using base year 2013/14

THE JOURNEY THROUGH THE REPORT		PAGES
 Basis of Preparation & Presentation	Highlights of the reporting boundary & summaries of materiality determination process & significant frameworks used	4
 Overview & External Environment	What ESA does as well as the circumstances under which it operates	6
 Business Model	How ESA's capital resources are increased, decreased or transformed in the value creation process	10
 Strategy & Resource Allocation	What ESA aimed to achieve & how to achieve it	13
 Performance Overview	How has ESA performed in as far as strategic objectives are concerned	15
 Materiality & Risk Management	The materiality determination process & how ESA deals with risks and opportunities	16
 Sustainability Programme	How ESA ensures that business activities are done in an environmental, social and economically sound manner	18
 Outlook	Moving forward, what challenges and uncertainties is ESA likely to face & how these shall be dealt with in the short, medium & long term	19
 Governance	ESA's governance structure that supports value creation in the short, medium & long term	22
 Audit & Risk Committee Report	What ESA has done to manage risks & prevent any material loss	26
 Summarised Audited Group Financial Statements	ESA's financial performance	29

ABBREVIATIONS

1

AGM	Annual General Meeting
AfCFTA	Africa Continental Free Trade Area
ARC	Audit & Risk Committee
COMESA	Common Market for Eastern and Southern Africa
DBRP	Dollar Based Reference Price
EAC	East African Community
ESGA	Eswatini Cane Growers Association
EPA	Economic Partnership Agreement
ESMA	Eswatini Sugar Millers Association
EU	European Union
<IR>	Integrated Reporting
ISO	International Sugar Organisation
MEC	Marketing Executive Committee
MTTQ	Metric Tonnes Tel Quel
REMCO	Remuneration Committee
SACU	Southern African Customs Union
SADC	Southern African Development Community
SASRI	South African Sugarcane Research Institute
SIA	Sugar Industry Agreement
SLA	Service Level Agreement
SSG	Smallholder Sugarcane Growers
TCH	Tonnes Cane per Hectare
TFTA	Tripartite Free Trade Area
TRQ	Tariff Rate Quota
TSH	Tonnes Sucrose per Hectare
USA	United States of America





CHAIRMAN'S STATEMENT

It is with great delight that I, on behalf of Council, present the Integrated Annual Report (herein called Report) of Eswatini Sugar Association for the year 2018/19. Contained in the Report are financial statements whose assurance is guaranteed by external auditors. The Report has been prepared in accordance with the guidelines and principles of the International <IR> Framework of the International Integrated Reporting Council.

While in 2017, the Association celebrated 50 years of existence, during this year (2018), it saw a name change from Swaziland Sugar Association (SSA) to Eswatini Sugar Association (ESA) to align with the renaming of the country from Swaziland to Eswatini. This change does not, in any way, alter the constitutional objective of the Association. Stakeholders are therefore entreated to note this change to maintain smooth dealings with ESA moving forward.

Furthermore, during the year, ESA noted the new disclosure requirements emanating from the introduction of the King IV Code of corporate governance. While fully embracing the principles enshrined in the code, Council was still considering these changes and how to monitor and disclose performance on governance using the King IV code as a criteria. In the meantime, Council assures readers that it has continued to perform its oversight governance role as guided by the Constitution, the Sugar Industry Agreement, as well as other relevant legislative and regulatory instruments.

The business environment in which the sugar industry operates continues to be challenging and highly competitive. World sugar production remains above consumption diminishing the value obtainable from sugar markets. However, due to its robustness and adaptability, the Eswatini sugar industry continued to stay afloat in spite of these challenges. The positive performance realised and shown in this Report is proof of that.

These results are attributed to the effective oversight of Council and the studious performance of ESA management and staff.

The sugar industry is indebted to the Government of Eswatini for the continued support in ensuring that access to both existing and potentially new markets is maintained. The unceasing participation and contribution in negotiations of Government in the African and international trade blocs mentioned in the Report speaks volumes. It is envisaged that this collaboration between the industry and Government shall continue yielding good results for both the industry and country at large. Council is satisfied that the Report discloses and addresses all material matters affecting ESA's ability to create value for stakeholders during the period of reporting. The Report is a product of rigorous processes of refinement and approval at various levels including the ESA Executive and the Audit & Risk Committee (ARC). Council takes full responsibility for the integrity of the content presented in the Report. On recommendation of the ARC, Council approved the ESA Integrated Annual Report of 2018/19 on 18 July 2019.

Mr T Dlamini
Chairman

CEO'S REMARKS

When called upon to speak to stakeholders during the course of the year about the performance of the industry and forecast, my storyline has been 'cloudy with a bit of sunshine'.

The year started off on a backfoot, having ended 2017 with a surplus in the global sugar market and low prices. This translated to lower than usual sales for the industry and high stock levels. However, our industry continued to prove its resilience, and through the

"In the end, all business operations can be reduced to three words: people, product and profits. Unless you've got a good team, you can't achieve much with the other two." - Lee Iacocca

commitment and hard work of industry players and the staff at ESA, we have managed to improve the performance for the year under review compared to the previous year.

Industry growers saw a bumper harvest of over 6 million tonnes of cane harvested from a similar area of land as over the past 5 years. This represented a 14.7% increase from the cane crushed in 2017/18. There was a significant improvement in the yields as sucrose produced from the cane crushed increased by 13.1% to 871 301 tonnes.

"Our business in life is not to get ahead of others, but to get ahead of ourselves - to break our own records, to outstrip our yesterday by our today." - Stewart B. Johnson

Despite the difficult market conditions, sales increased by 204 220 tonnes from those realised in the previous year. This translated to a 21.3% increase in revenues from SZL4.2 billion to SZL5.1 billion.

While the global market conditions were very subdued, the industry was able to see some sunshine through the dark clouds as demonstrated by the improvements in performance highlighted above and in the Report.

As Eswatini Sugar Association, we are committed to obtaining maximum value and returns from the products we sell for the benefit of our members. This comes with ensuring that we meet customer requirements and enhancing the competitiveness of Eswatini sugar in our chosen markets. One of the ways we intend to do this is to demonstrate sustainability throughout our value chain. Our sustainability journey has just begun. Working closely with industry players, we intend to demonstrate continuous improvement and stability in their development and sound governance practices. We are also committed to protecting the environment in the areas in which we operate, developing our human capital, and giving back to our neighbouring communities. More detail on this is found on page 18 of the Report.

Indications are suggesting a turnaround in the global market in the later months of the 2019/20 season. This turnaround is anticipated to be driven by a sugar supply deficit which could result in an uptick in global market prices, and this could translate to better returns for Eswatini sugar in the markets in which it is traded.

The essence of resilience is optimism and belief that no matter what happens, you will find a way to win. In the words of Bill Gates, 'As I look forward, I am very optimistic about the things I see ahead'. With the hard work and dedication of the team at ESA and industry at large, success can only be the constant and the reality we envisage.

Phil Mnisi (PhD)
Chief Executive Officer



BASIS OF PREPARATION AND PRESENTATION

Reporting Boundary

This integrated annual report covers the financial period 01 April 2018 to 31 March 2019. This report focuses on the reporting entity, ESA, as well as its subsidiaries and the Joint Venture Company as indicated in the audited financial statements. Occasionally, reference is made to other entities whose business activities have threats, opportunities and outcomes that may affect ESA's ability to create value. The report details how ESA interacts with the external environment and employs capitals to create value for the stakeholders in the short, medium and long-term. Stakeholders include millers, growers, financiers, investors, employees, customers, suppliers, government, non-governmental organisations and local communities. In line with the principle of consistency and comparability of integrated reporting, the manner in which information is presented in this report is consistent with previous reports.

Materiality determination

The materiality determination process of ESA is largely informed by stakeholder engagements, as well as perceived and realised changes in the external environment. This process involves the assessment of likely impact of identified material matters on ESA's ability to create value for its stakeholders. Appropriate mitigation measures are then put in place to prevent, reduce or redirect the effect of the associated risks to such an extent that capitals are preserved. According to the International Integrated Reporting Framework (International <IR> Framework), a matter is material provided it can substantively affect ESA's ability to create value in the short, medium and long-term. The section on Materiality and Risk Management (page 16) provides details on ESA's robust materiality determination process and its outcome in the reporting year (2018/2019).

Sustainability

Integrating sustainable practices into ESA's business activities as a strategic resolve received overwhelming support from stakeholders. This is in recognition of the fact that ESA's undertakings to create value have potential to affect, negatively or positively, the environment in which it operates. The ultimate goal is to eliminate any negative effect and enhance positive contribution - in a balanced manner - to the environmental, economic and social spheres. The sustainability journey began with a baseline study on identified focal areas. The output of the baseline study was aimed at informing the creation of an industry-wide shared value strategy. During the reporting year, the shared value strategy and an action plan were developed and approved by Council. More detail on the Sustainability Programme is given on page 18.

Significant Frameworks and Methods

The infographic below shows the frameworks, standards, guidelines and legislation considered in the preparation of the various sections of the report.



Responsibility, Limitations and Forward-Looking Statements

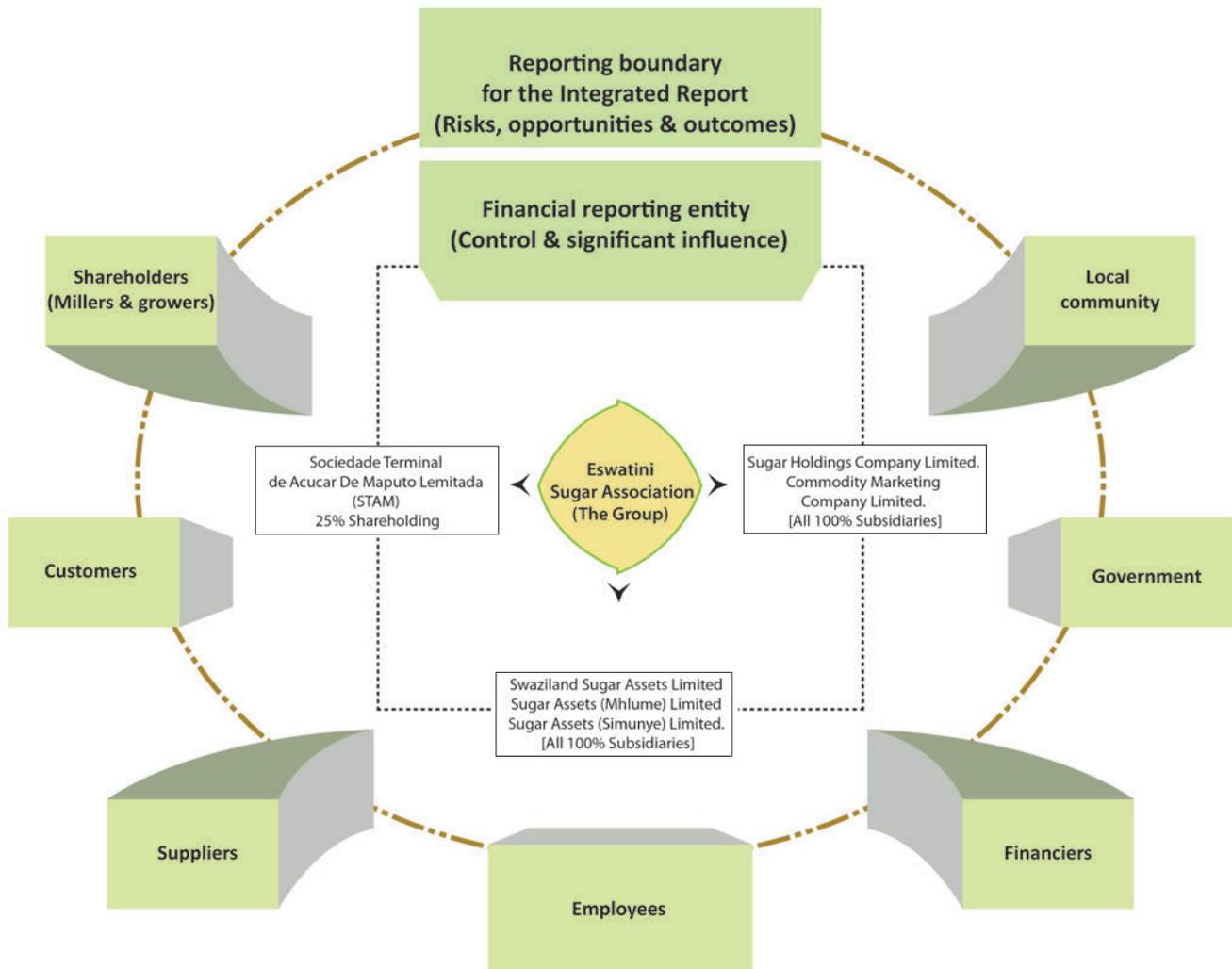
The Council of ESA acknowledges its responsibility in ensuring the integrity and completeness of this integrated annual report for the financial year 2018/19, and has applied its collective mind in the preparation and presentation of the entire report. It is the opinion of Council that the report was prepared and presented in accordance with the International <IR> Framework. Council confirms that the strategy presented herein is aimed at creating value by deploying available capitals, while addressing the aforesaid material matters.

While diligence and prudence were applied when identifying material matters that had significant effect on ESA's ability to create value for stakeholders, Council recognises that these may change in their relative impact and ranking. This may be so because the business climate is increasingly becoming uncertain and very difficult to predict especially in the medium to long term period. To identify and mitigate the consequences of these dynamics, ESA employs a live risk management process.

The report contains forward-looking statements that are based on information available at the time of reporting which are subject to risks and uncertainties that are beyond ESA's control. The impact of the risks, opportunities and outcomes identified and disclosed in this report might change in

response to changes in the business environment going forward. Council therefore makes no undertaking to issue any revisions in whatever way to reflect unexpected events or changes that may occur after the release of this report.

Therefore, readers are advised to exercise caution regarding the interpretation of any forward-looking statements contained in this report.



ORGANISATIONAL OVERVIEW AND EXTERNAL ENVIRONMENT

6

Ownership and Operating Structure

ESA is a member driven organisation formed by the collective units of millers (Eswatini Sugar Millers Association) and growers (Eswatini Cane Growers Association). The Sugar Act of 1967 establishes ESA as a corporate body capable of suing and being sued, and is a private non-profit making organisation. In carrying out its affairs, ESA is guided by a Constitution. Council - the supreme body in the sugar industry - working with its subcommittees, provides policy direction to ESA. The day to day operations of the Association are overseen by the Chief Executive Officer working in conjunction with an Executive Committee.

The Act also creates other industry bodies and legally empowers the Sugar Industry Agreement (SIA). The SIA is a negotiated instrument between millers and growers to regulate their affairs. This Agreement is binding on all millers, growers, miller-cum-planters, refiners, and other persons engaged in any aspects of the sugar industry.

Core Activities

Support to Sugarcane Production

ESA provides extension services to sugarcane growers through a Service Level Agreement (SLA) with the millers. The objective of the extension services is to improve yields and ensure profitability and sustainability of sugarcane growers through knowledge transfer and advice on all aspects of sugarcane production. This is attained through providing crop production research (offered in collaboration with the South African Sugarcane Research Institute, SASRI), agronomic advice, crop protection services, irrigation management, supply of healthy seed material and industry database (IDB) management. Research findings are shared with growers to facilitate adoption of improved agricultural practices aimed at enhancing productivity, profitability and sustainability of all growers. Council oversees the extension function through the Extension Committee.

Cane Testing

The responsibility of the cane testing service is to ensure reliable and accurate measurement of sucrose content of cane supplied by all growers (including miller-cum planter) for milling to facilitate payment. The service is provided by laboratories located at the mills under a Service Level Agreement with ESA. The Cane Testing Service Technical Committee, a subcommittee of Council, which has both miller and grower representatives, is responsible for establishing and maintaining the methods and standards applied. ESA verifies all cane testing operations at each mill to ensure that the cane payment process is equitable to both the millers and the growers.

During the year under review, the industry undertook a project to develop and implement an electronic cane delivery ticketing system. The project is a step towards technological advancement in the industry as it aims to eliminate cases of cane theft while improving traceability and efficiencies in information security and communication.

In addition, ESA commenced a process of exploring the feasibility of partnering with the University of Eswatini (UNESWA) in establishing an accredited sugar testing laboratory.

Quality Management System

ESA maintains a Quality Management System (QMS) which documents the organisation's processes, procedures and responsibilities. Periodic reviews of the system enables the organisation to improve its effectiveness and efficiencies on a continuous basis ensuring optimum use of capitals. The QMS demonstrates ESA's commitment to understanding and satisfying all requirements and expectations of key stakeholders as well as statutory and regulatory requirements. During the year under review, ESA successfully upgraded the QMS from ISO 9001:2008 to ISO 9001:2015 requirements. DQS, an international certification body, audited and certified ESA to the updated standard (ISO 9001:2015).

Marketing and Logistics

One of the major objectives of ESA is obtaining maximum and sustainable returns for the industry through the marketing and sale of industry products. All sugar and molasses produced in Eswatini is owned by ESA, for which it has the sole mandate to sell. In this context, ESA activities include the marketing, warehousing and movement of sugar, as well as molasses.

ESA further monitors and advocates for market access through key trade agreements in the domestic, regional and international markets where Eswatini sugar is sold. These include the Southern African Development Community (SADC); SADC-EU Economic Partnership Agreement (EPA); Southern African Customs Union (SACU); Common Market for Eastern and Southern Africa (COMESA) Free Trade Area; and the ongoing Tripartite Free Trade Area (TFTA) and the Africa Continental Free Trade Area (AfCFTA) negotiations. These are critical for the successful marketing of Eswatini sugar.

ESA monitors market-specific regulations and requirements (e.g. market access regulations, food safety standards and product specifications). ESA also administers a customer

complaints process which is used to address non-conformities as well as drive continuous improvement. This information is important not only to meet customer requirements, but also to enhance the competitiveness of Eswatini sugar.

Treasury and Financing

This function oversees the financial affairs of ESA. It involves payment of proceeds to millers (for onward payment to growers of their share), annual budgeting, financial reporting, compiling sugar and sucrose price estimates, sourcing working capital and implementing the Finance Risk Policy and Hedging Strategy. It also oversees the IT function, as well as the financing and implementation of capital projects.

Products and Markets

ESA has two primary products, namely sugar and molasses. Sugar, the main product, is sold into both the domestic and export markets, while all molasses (a by-product of sugar production) is sold domestically.

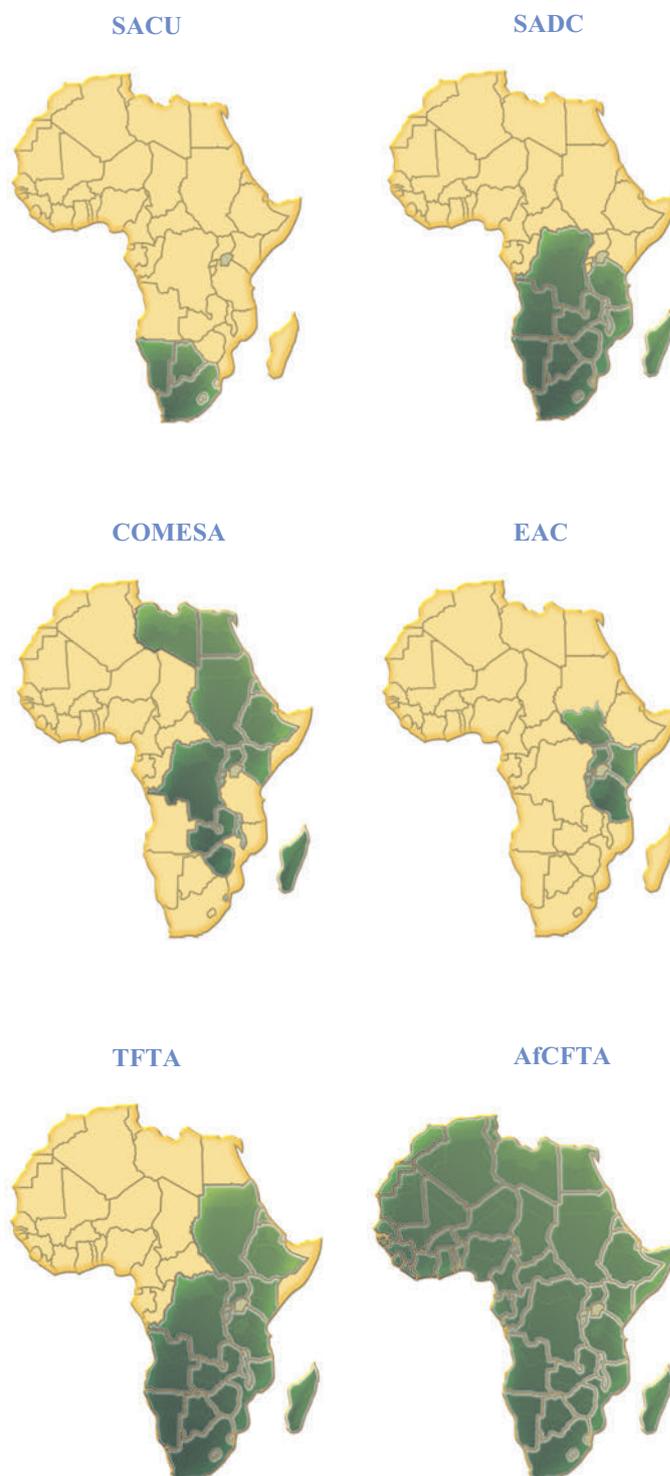
The sugar industry sells into five main markets namely: the European Union (EU), the United States of America (US), SACU, regional (COMESA and SADC) and the World market.

The SACU area (including the local Eswatini market) is considered as the domestic and primary market because of the free movement of goods within the Customs Union. An import tariff protects the SACU market by minimising the entry of foreign sugar. Sales into the SACU market are mainly through locally-based entities (including pre-packers, industrial users and manufacturers).

Sales to the EU market benefit from duty-free quota-free access under the terms of the Economic Partnership Agreement (EPA) with the EU and the SADC-EPA States (Botswana, Eswatini, Lesotho, Namibia, Mozambique and South Africa), and was the main destination for raw bulk sugar during the year under review. The US market is supplied through a Tariff Rate Quota (TRQ), which allows access on preferential terms for a limited volume (minimum of 16 500 tonnes) per annum.

Both SADC and COMESA form the regional market. While the SADC region is a surplus sugar producer, there are some countries in the region which are deficit producers. On the other hand, COMESA is a deficit producer. Opportunities exist for selling Eswatini sugar in both markets as some countries offer preferential access for regional sugar. The ongoing negotiations towards the Tripartite Free Trade Area (TFTA) are earmarked to provide a trade arrangement for access of Eswatini products, including sugar into the 26-country regional market. The TFTA area is made up of three regional blocs, namely, SADC, East African Community (EAC) and COMESA. The continent-wide AfCFTA widens the net to the

whole continent, presenting more market opportunities for Eswatini sugar. The maps below illustrate the different African trade blocs as discussed above.



Sales into the world market are largely representative of residual volumes, as this market is characterised by relatively low prices because of global market conditions and competition. The main sources of competition are the major producers like Brazil, Thailand and India.

Key Developments in the External Environment

The external environment in which ESA operates is greatly impacted by a number of factors. These factors, which are highlighted below, can impact the business environment either negatively or positively. The focus in this section is on those elements that significantly influence both sugarcane growing and the marketing of sugar.

Cost Pressures

The Eswatini sugar industry is amongst the most cost-efficient producers of high quality sugar, both regionally and globally. However, increases in production costs are negatively impacting the competitiveness of the industry. The sugarcane growing business remains exposed to above inflation increases in electricity and haulage costs. These increases pose a challenge to the viability of the sector. Profitability is expected to fall further with sugar prices having declined in premium markets. As electricity and minimum basic wages increased by rates above the annual average inflation rate, it is imperative for the industry to continuously find ways of reducing costs and improving on operational efficiencies.

Markets

ESA trades sugar (mainly raw bulk) to the EU market under the SADC-EU Economic Partnership Agreement which offers duty-free quota-free market access. The beet production quotas in the EU ended in October 2017, resulting in the erosion of value in that market which extended to the period under review due to the EU region becoming a net exporter. The latest official data from the EU show a considerable reduction in sugar output in the 2018/19 year, mainly as a result of beet producers reducing production due to the drop in returns.

The regional market opportunities lie within the SADC and COMESA markets, as some of the countries in these regions are deficit markets. As an example, Eswatini was allocated a quota to supply the Kenya market under the derogation to the COMESA FTA. However, protectionist measures in the form of non-tariff barriers (e.g. import licences, surcharges, etc.) and high tariffs in some countries seeking to protect and grow their domestic industries continue to be a deterrent to selling sugar into those markets. ESA's marketing strategy is to continue to explore and exploit opportunities in the regional markets.

The SACU market continues to be the key market for ESA sugar, absorbing a significant share of Eswatini sugar. In the year under review, this market saw an increase in imports, which displaced Eswatini sugar, and threatened the value attainable within it. The market is customarily protected by a variable formula tariff based on a Dollar-Based Reference Price (DBRP) mechanism. At the start of the year, the low world market prices rendered this mechanism ineffective,

resulting in a surge of imports into the region. The DBRP was reviewed in August 2018, and was increased from USD 566 to USD 680 per tonne, offering higher protection to the SACU sugar industries and improving the competitiveness of Eswatini sugar against world market sugar.

Compliance with Market Requirements and Food Safety Standards

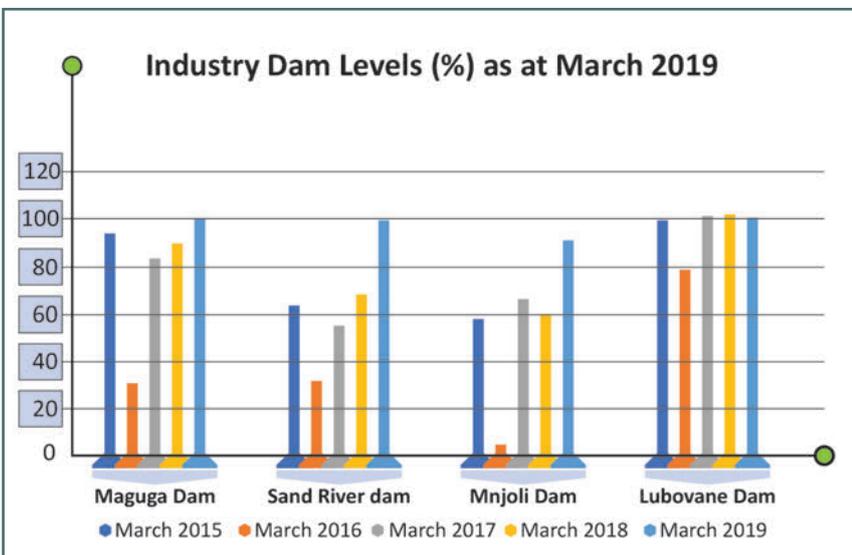
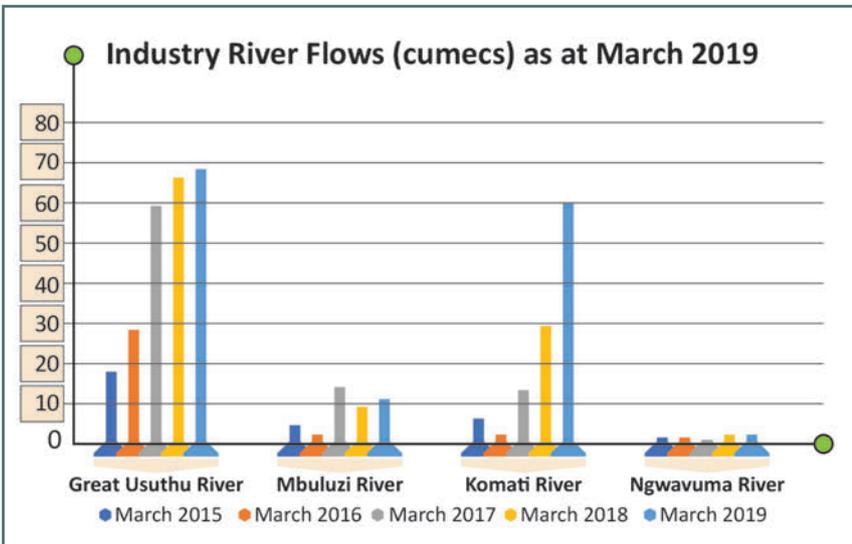
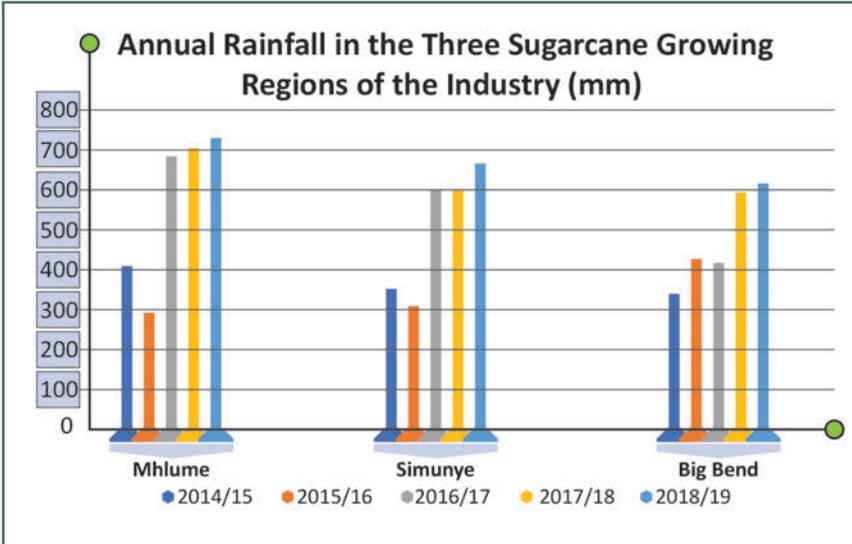
ESA is committed to supply sugar products that meet and exceed customer requirements. To keep abreast of changes in customer needs, ESA manages and implements a robust customer engagement programme aimed at ensuring that markets are served according to preference and need. One major requirement of the markets which ESA serves, is certification on food safety standards. The two sugar mills (Mhlume & Ubombo) already certified are committed in maintaining their FSSC (Food Safety System Certification) certifications. Preparations of getting the Simunye mill certified were ongoing at the time of reporting.

Foreign Exchange Exposure

As a significant proportion of the sugar sales are destined to markets outside the SACU and Common Monetary Area, the contracts entered into are denominated in foreign currency (Euro and US Dollar). As such, currency fluctuations have either positive or negative impact on ESA revenues. During the year under review, the exchange rate fluctuations worked in favour of ESA. To minimise any potential negative impact, ESA has a Finance Risk Policy and Hedging Strategy in place. This policy advocates for the use of forward exchange contracts in order to cushion against volatility in exchange rates.

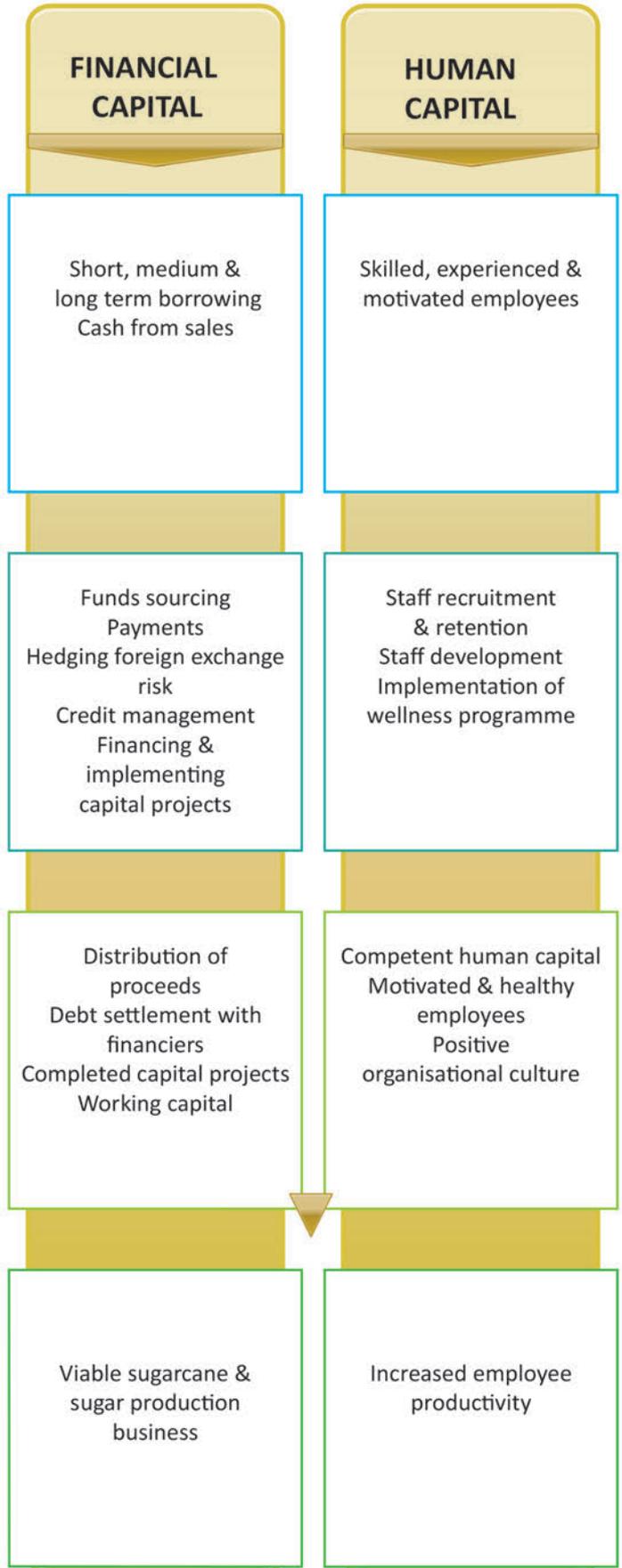
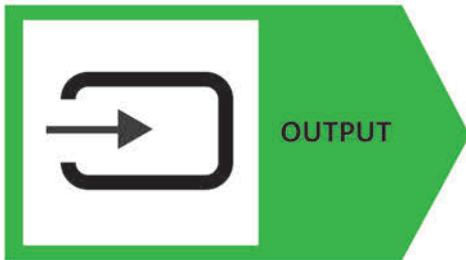
Climate Change and Water Availability

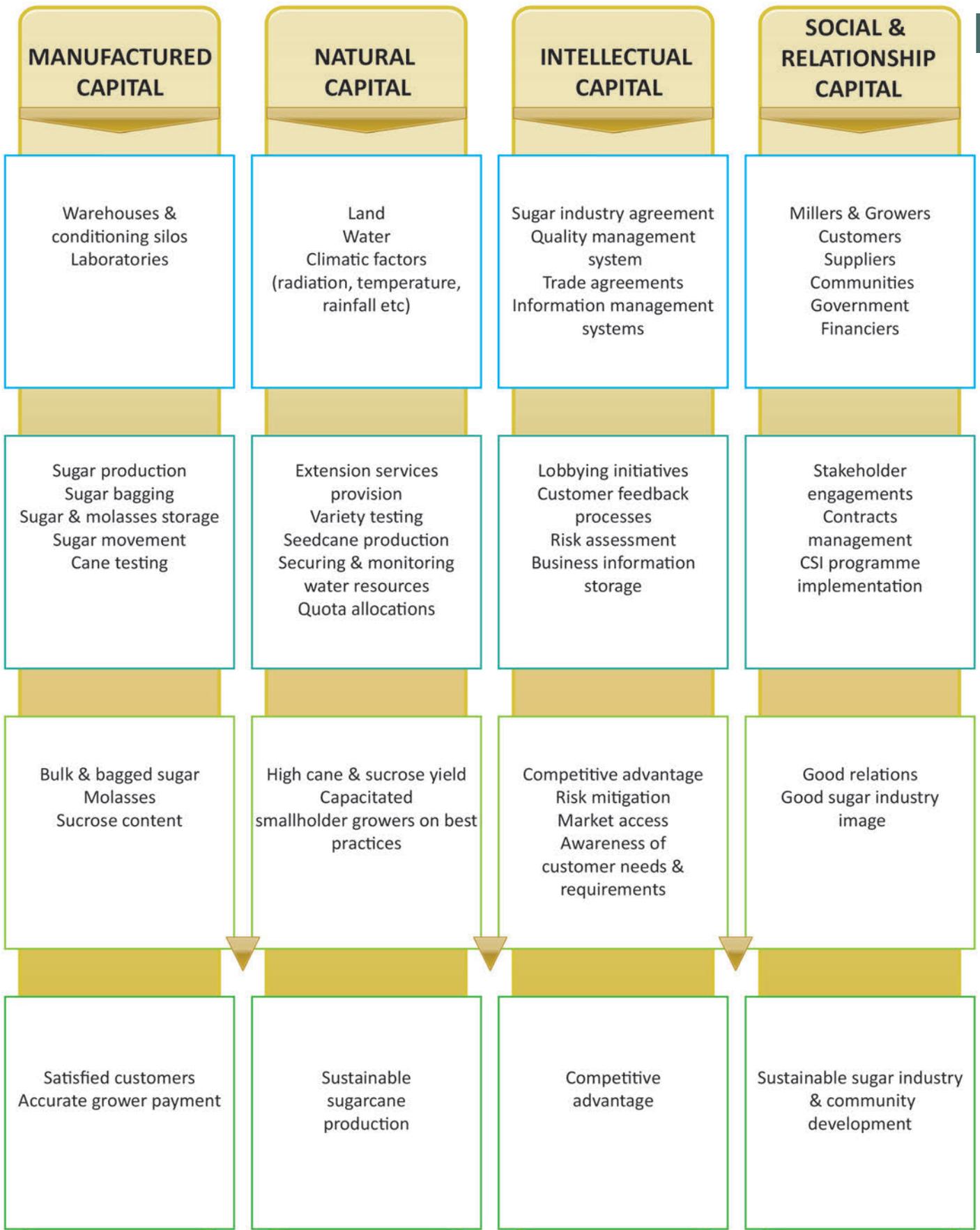
The change in climate results in extreme weather conditions such as drought, floods, freezing and high temperatures across the globe. The year under review ended with good river flows closer to the long term mean flow, mainly due to good rainfall received during the late summer months. The good rainfall resulted in reduced withdrawals from both rivers and dams. By end of March 2018/19, the major reservoirs such as Maguga, Lubovane and Mnjoli were standing at 99.5%, 100.5% and 90.1%, respectively. Given this improved water availability status, it is expected that the forthcoming year (2019/2020) will progress well with limited water shortages throughout the industry. To this end the sugar industry, through ESA, continues to partner with Government and other stakeholders in ensuring the industry's water security and sustainability. As a result, the Government committed to increasing water storage reservoirs through the construction of the Mkhondvo and Ngwavuma dams, which will directly improve the industry's water security.



BUSINESS MODEL

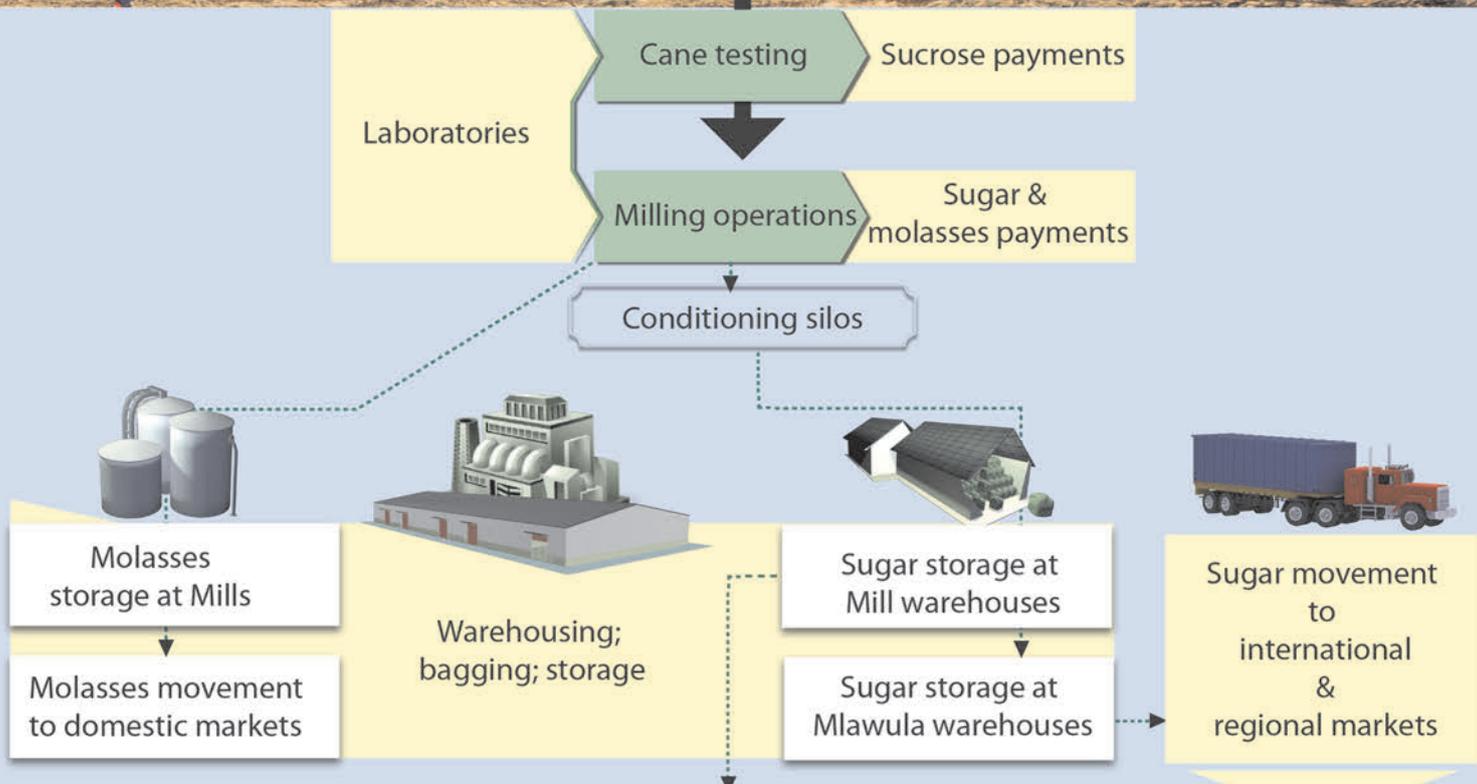
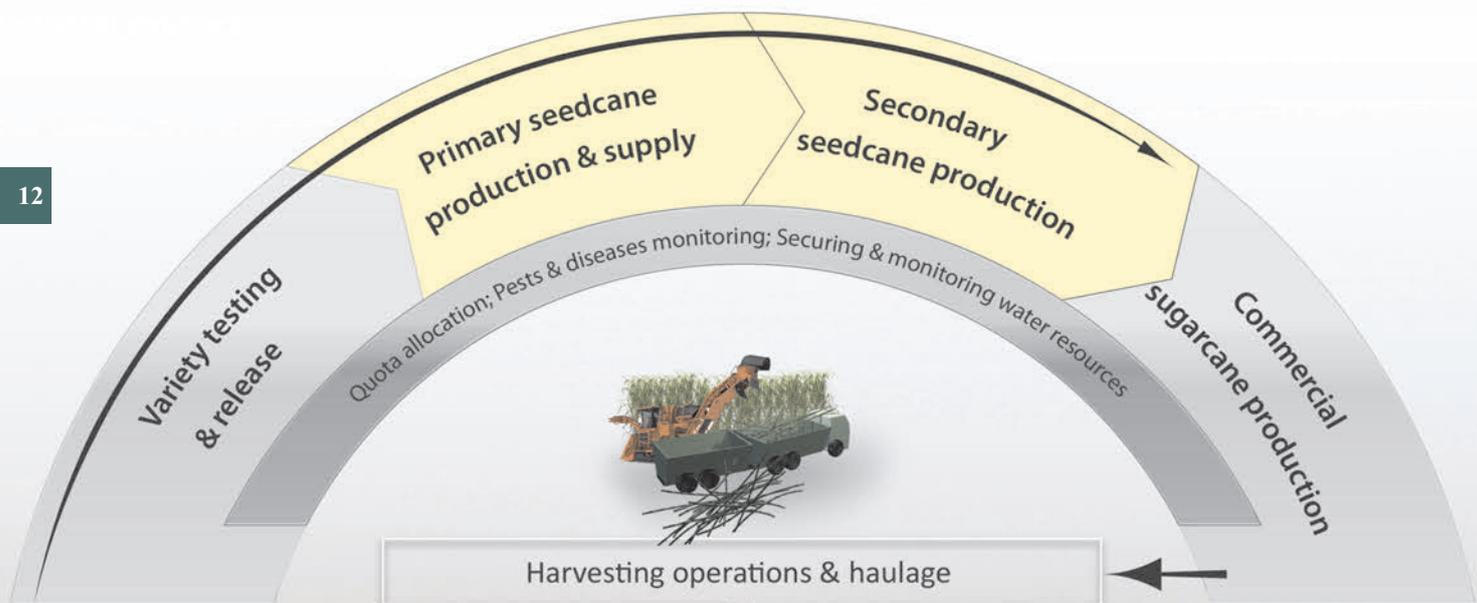
ESA'S SUSTAINABLE VALUE





ESA'S VALUE CREATION

12



Support functions:

Funds sourcing; Financing; Skills engagement, retention & development; Trade & external affairs; Sustainability programme; Stakeholder engagements; Lobbying; Risk management; CSI programme; Quality management system; IT systems

STRATEGY AND RESOURCE ALLOCATION

The Executive Committee



Dr. Phil Mnisi (51)
Chief Executive Officer, CEO

The CEO sees to the advancement of the sugar industry's interests through the observance of the Sugar Act, Sugar Industry Agreement, and the effective and efficient execution of the Association's Corporate Strategy. He plays a strategic and pivotal role in advocating for the sugar industry through interaction with policy makers and non-state actors. The prime goal is the profitable marketing and management of the industry and its Association through fulfilment of its strategic objectives.



Ms. Sharon De Sousa (49)
Commercial Director, CD

The responsibility of the CD is mainly the development and implementation of the ESA marketing strategy, with the objective of achieving an optimal marketing mix so as to maximize sales revenue on a sustainable basis, while also ensuring the provision of an efficient logistics system (i.e. storage, movement and delivery of the product to customers). This office also oversees the function of Trade & External Affairs management, which includes advocating and lobbying for preferential market access for Eswatini Sugar.



Mr. Banele Nyamane (40)
Financial Director/Company Secretary, FD

The FD Maintains control over all ESA financial activities (i.e. annual budgeting, sourcing finance, accounting, auditing) and implements finance policies to ensure optimum use of organisational assets while safeguarding against any financial loss. This office oversees the information technology systems as well. The FD further assumes and executes the functions of Company Secretary of the Association.



Mr. Siphon Dlamini (54)
Head: Cane Testing & Quality, HCTQ

The HCTQ oversees the systems and infrastructure for the accurate measurement of sucrose to facilitate the payment of sugarcane growers. Such systems include methods, procedures and equipment for weighing of sugarcane and mixed juice, sampling methods and equipment as well as laboratory processes. This function also manages the Quality Management System of ESA.



Mr. Noah Dlamini (53)
Head: Extension & Technical Services, HETS

The HETS manages the sugar industry extension and technical services by coordinating the industry Crop Production Research, Irrigation Management, Extension, Pest & Disease Control and Primary Seed cane production functions to encourage the adoption of improved agricultural practices by stakeholders.



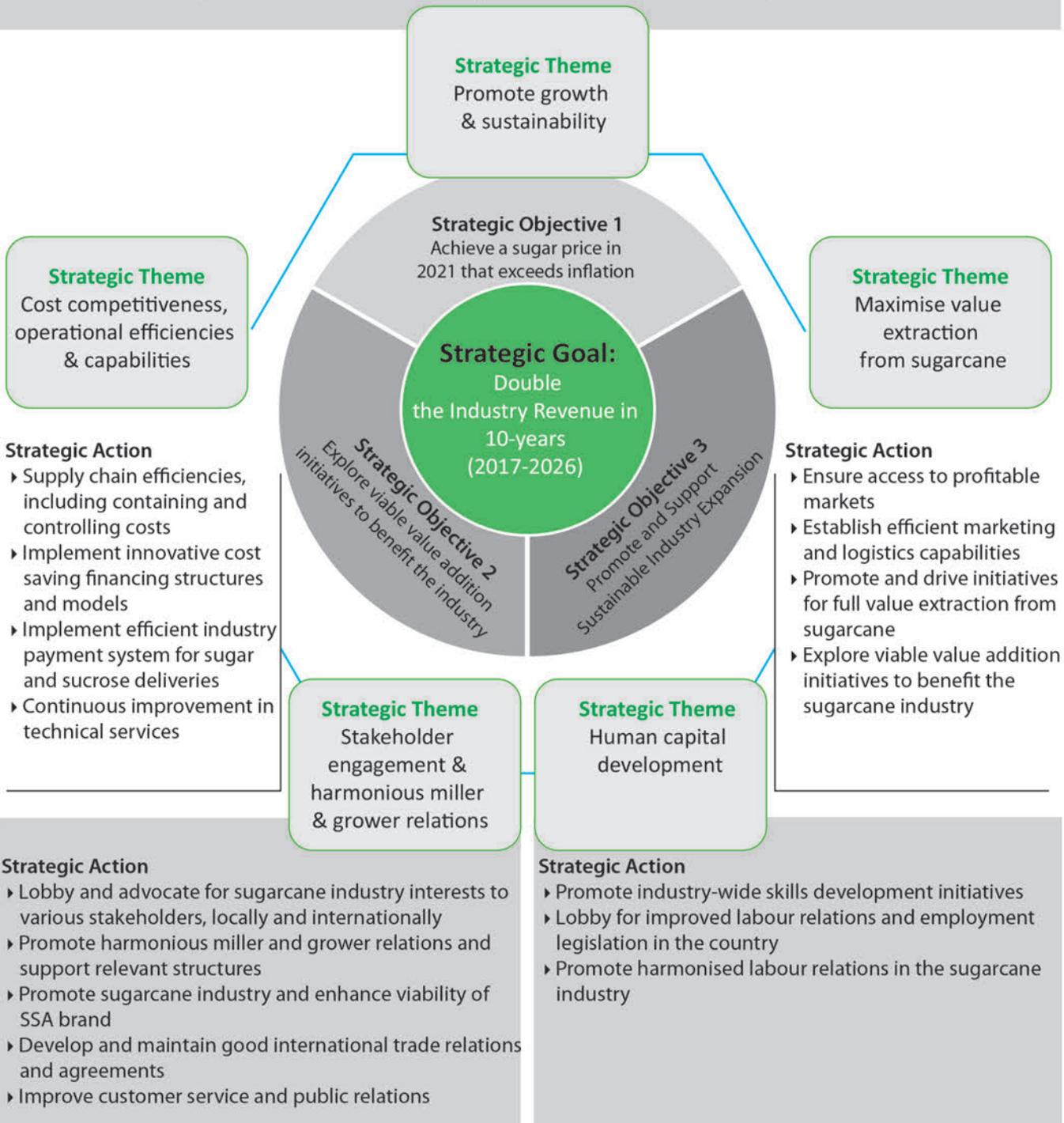
Ms. Lungile Motsa (44)
Head: Human Capital & Administration, HHCA

The HHCA is entrusted with human capital recruitment, development and retention for the delivery of strategic objectives for ESA. The safety and wellness of employees is at the centre of this function. The promotion of harmonious labour relations is also a major objective of the human capital function.

ORGANISATIONAL STRATEGY

Strategic Action

- ▶ Optimise sugar pricing
- ▶ Deliver sustained profitability and competitiveness
- ▶ Support initiatives for provision of adequate water resources and long-term water security
- ▶ Ensure sustainability of the sugarcane industry and undertake necessary promotion initiatives
- ▶ Create a Sugarcane Fund to finance industry needs and ensure sustainability



VALUES:

Excellence Integrity Growing our People Continuous Improvement Customer Centric

ORGANISATIONAL PERFORMANCE

1.1 Price attained from sales: ESA's objective is to maximise returns from the various markets in which sugar is sold. Prices realized in all the markets were higher in the year under review compared to the previous year.

1.2. Costs of finance: As per the business model, financial capacity for ESA and industry operations are financed through short, medium and long-term borrowing from financial institutions. It is therefore in the industry interest to achieve favorable borrowing rates. Favorable rates were achieved during the year under review.

2.1 Value Addition: The industry identified value addition as a strategic area for industry growth. Management developed a proposal on a value addition initiative for stakeholder consultations. The consultations were ongoing at the time of reporting.

2.2 Productivity: As part of initiatives to improve the viability and profitability of small-scale growers, the objective was to increase sucrose and cane yield per ha by 5%. Efforts resulted in both sucrose and cane yields increasing by 8.72 % and 9.9% respectively, from 2017/18 yields

2.3 Logistics: With the increases in sugar production (both currently and in the medium term), storage and bagging capacity was, and may continue to be a challenge. In light of this development, a proposal for a first phase for expansion of the bagging and warehouse capacity was considered and approved by Council.

1
Increase the value of proceeds attributable to shareholders

3
Improve laboratory testing competency and integrity of results

Objective :
Achieve the budgeted Sugar Price

Target was achieved through collaborative efforts under the key value drivers of the ESA strategy

2
Support sustainable industry growth and development

4
Maintain/ improve market access for Eswatini Sugar in the region through Stakeholder engagement & management

3.1 Competency and integrity of testing laboratories: Industry has an interest to enhance the standard of laboratory testing and the integrity of the results obtained to facilitate accurate sucrose payments and provide assurance to customers on product quality. An interlaboratory competency scheme has been developed and approved for implementation next year. During the first phase, the scheme will be limited to the three industry laboratories, with a medium-term view to incorporate the University of Eswatini sugar laboratory, once it is successfully established.

4.1 Improve market access to strategic regional markets: The regional marketing strategy is aimed at improving market access in the COMESA and SADC regions. Kenya and Mozambique were amongst the countries identified. Discussions between the Eswatini Government and the Mozambique and Kenya Governments were held during the year under review with the aim of enhancing sugar trade between Eswatini and these two countries.

MATERIALITY AND RISK MANAGEMENT

ESA's main function is to obtain maximum value from the sale of its products on a sustainable basis. In so doing, ESA strives to ensure that its business activities are carried out in a responsible, transparent, accountable and fair manner, both with regard to the marketing of all sugar and molasses manufactured in the country as well as in the equitable sharing of the subsequent proceeds. As such, ESA acknowledges the importance of continuously carrying out a robust materiality assessment to counteract any negative effect from matters that affect the organisation's ability to create and sustain value. Materiality, in the context of ESA, refers to those issues identified and assessed to have significance to limit the organisation's ability to create value for stakeholders in the short, medium and long term.

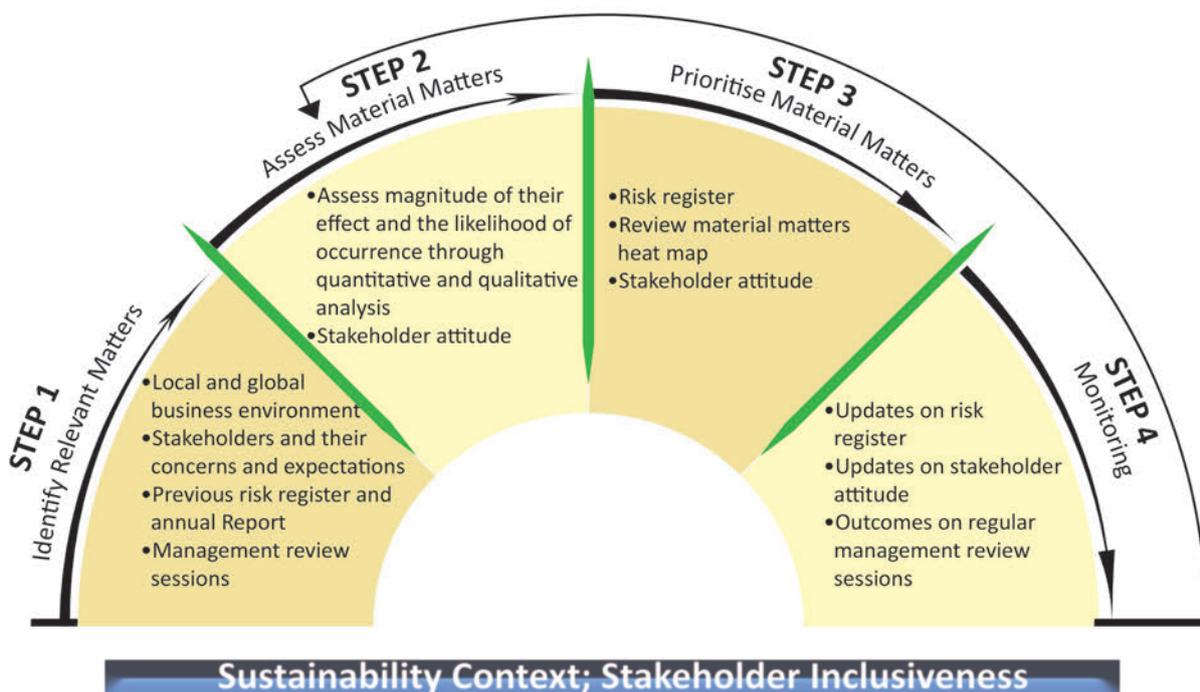
Material matters are identified and assessed through an integrated process conducted by Management and approved by the Council within the context of the existing governance framework and operating model. These matters cover a wide range of internal and external issues including legitimate stakeholder's expectations. Internal issues are identified by continuously reviewing and updating the business procedures, policies, engagement with employees and risk management processes in order to take appropriate actions. External risks consider stakeholders' needs, expectations and concerns, as well as issues related to legal and regulatory requirements. The material matters identification process is depicted in the infographic.

The following table describes the top material matters and shows their change in ranking over the year 2018/2019. These were assessed based on their magnitude of effect and likelihood of occurrence.

By end of the financial year, most of the material matters remained unchanged in their relative ranking since the beginning of the year. However, 'Climate Change & Water Availability' was downgraded as a priority in the short to medium term due to reduced effect as a result of significant rainfall received.

Present ranking	Material matters	Change in ranking since 2018
1	Global Sugar Markets & Access to Preferential Market	↔
2	Cost Pressures	↔
3	Foreign Exchange Rates	↔
4	Logistics	↔
5	Customer Requirements & Product Liability	▲ from 6
6	Climate Change & Water Availability	▼ from 5
7	People Skills & Experience	↔

Key ↔ Unchanged Ranking ▼ Decreased in ranking ▲ Increased in ranking ● New issue



The following table shows the strategic interventions undertaken by ESA to mitigate against any negative consequences of the identified material matters on its value creation process in the short, medium and long term.

Material Matters	Material Risk	Actions to Mitigate Risks & Opportunities	Impact/Result of Actions
Sugar Markets & Preferential Market Access	Ability to remain competitive in the markets in which ESA operates and has growth aspirations	<ul style="list-style-type: none"> <input type="checkbox"/> Seek ways to reduce production costs and improve efficiencies. <input type="checkbox"/> Advocate for preferential access for Eswatini sugar. 	<ul style="list-style-type: none"> <input type="checkbox"/> Adoption of best management practices in the production of sugarcane and sugar. <input type="checkbox"/> Preferential access maintained and/or improved for Eswatini sugar in existing and new markets.
	Effectiveness of SACU sugar tariff protection	<ul style="list-style-type: none"> <input type="checkbox"/> Advocate for upward review of SACU tariff 	<ul style="list-style-type: none"> <input type="checkbox"/> The SACU tariff was reviewed upward in August 2018 increasing the protection afforded to the SACU sugar market. A significant reduction in the volume of imports into the SACU market was seen since.
Cost Pressures	Increasing input costs for sugarcane and sugar production	<ul style="list-style-type: none"> <input type="checkbox"/> Leverage on available systems, processes, and structures to allow for improved efficiency and productivity <input type="checkbox"/> Investigate and invest in cheaper alternative sources of energy in the long term 	<ul style="list-style-type: none"> <input type="checkbox"/> Adoption of best management practices in the production of sugarcane and sugar. <input type="checkbox"/> Alternative source of energy for irrigation pumps was identified for trials. <input type="checkbox"/> Adoption of energy saving technologies (e.g. variable speed drives)
Foreign Exchange Rates	Failure to achieve budgeted foreign exchange rates	<ul style="list-style-type: none"> <input type="checkbox"/> Optimise domestic sales to reduce exposure to sales denominated in foreign currency <input type="checkbox"/> Enhance effectiveness of Finance Risk Policy and Hedging Strategy 	<ul style="list-style-type: none"> <input type="checkbox"/> Domestic sales increased. <input type="checkbox"/> The Finance Risk Policy and Hedging Strategy was reviewed and found to be effective.
Logistics	Inability to meet strategic marketing targets due to logistical constraints	<ul style="list-style-type: none"> <input type="checkbox"/> Develop a logistic plan to support marketing strategy 	<ul style="list-style-type: none"> <input type="checkbox"/> Logistic plan was developed to align with five-year production and sales forecasts
	Shortage of storage facilities	<ul style="list-style-type: none"> <input type="checkbox"/> Review logistics model for bagging and storage capacity 	<ul style="list-style-type: none"> <input type="checkbox"/> Business case for the first phase of the expansion of the bagging and warehouse capacity was approved by Council
Climate Change & Water Availability	Inability to support expansion of sugar industry due to inadequate water supply	<ul style="list-style-type: none"> <input type="checkbox"/> Lobby government for additional dams to support sugar industry 	<ul style="list-style-type: none"> <input type="checkbox"/> Government engaged at high level on priority dams for the industry
	Decline in yields and area under sugarcane production due to shortage of water for irrigation.	<ul style="list-style-type: none"> <input type="checkbox"/> Promote adoption of efficient irrigation systems and climate-smart practices 	<ul style="list-style-type: none"> <input type="checkbox"/> Conversion to efficient irrigation systems (e.g. drip & centre pivot) is on-going with some industry growers
Customer Requirements	Loss of customers due to failure to comply with standards and customer requirements	<ul style="list-style-type: none"> <input type="checkbox"/> Conduct and analyse industry compliance audits, develop and implement action plans for continuous improvement 	<ul style="list-style-type: none"> <input type="checkbox"/> Continually reviewed systems to monitor compliance to standards and specifications
People Skills & Experience	Loss of skills and experience in ESA impeding the provision of the required level and quality of service	<ul style="list-style-type: none"> <input type="checkbox"/> Pursue a skill retention policy and develop and implement a robust succession plan 	<ul style="list-style-type: none"> <input type="checkbox"/> A succession plan and capacity building programme are in place

SUSTAINABILITY PROGRAMME

Sustainability Shared Value Statement and Strategy

The Eswatini sugar industry developed a robust Sustainability Programme aimed at ensuring that the production of sugarcane and sugar (as well as its co-products) is done without compromising the factors of production. The Sustainability Programme has five focal areas which place emphasis on creating shared value both within the industry members and customers. The material issues identified in the industry, are addressed through five focal areas namely: environmental protection, human resource, economic development, governance and community development. In year 2017/18, Council approved the industry's sustainability shared value statement from which a sustainability shared value strategy was developed. The Sustainability Strategy was approved by Council in the financial year under review. The strategy is mainly created around the five key focal areas mentioned above. These focal areas together with the material issues identified seek to address some of the key

challenges the sugar industry members and stakeholders face.

In the next financial year, the main deliverable of the programme is to implement the approved strategy through coordination with key industry members. The implementation of the programme will be executed under the guidance of the sustainability task team, which is the governing committee, mandated by Council.

Shared Value Statement

"The industry strives to meet all sustainability requirements by benchmarking itself against global sustainability standards for continuous improvement and alignment with best management practices, to create value for its sugar and by-products."

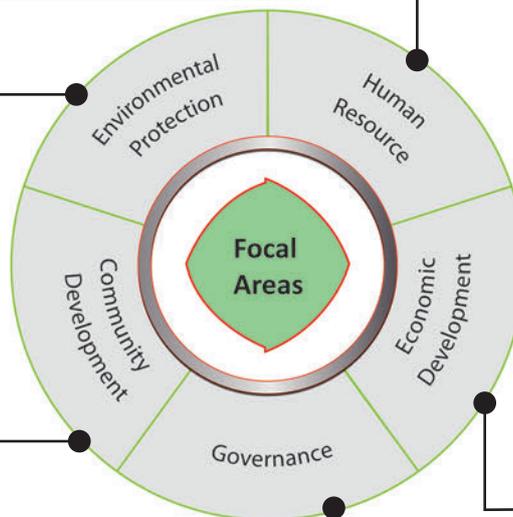
The protection of the environment is crucial to the sugar industry and industry players are committed to its preservation. Climate change effects such as extreme weather events, increasing energy costs and water supply limitations are heavily affecting sugarcane growing businesses. Hence, the industry is exploring how to tackle these risks. Environmental management Initiatives seek to ensure that ecosystems are conserved, protected and made resilient through sustainable utilisation, production and management of natural resources.

The sugar industry, as a large employer in the country, seeks to ensure that its workforce is competent and continuously developed. It is also committed in developing the business skills of smallholder sugarcane growers in order for them to remain viable and profitable into the future. The industry recognises that this can be achieved through strengthening institutional support systems.

ESA acknowledges that the sugar industry operates within society, and as such, it has a broad commitment to socio-economic transformation. Investing in communities achieves shared social and economic transformation of human livelihoods in the country.

The industry makes an important contribution to the national economy through its agricultural and industrial investments, foreign exchange earnings and high employment. In order to thrive in the challenging economic climate, it is imperative that the industry pursues cost competitiveness, meets customer requirements, improves productivity and performance in all areas and continues to invest in initiatives that enable new product development and value creation.

ESA is committed to good corporate governance as it develops and presents a greater sense of accountability to the sugar industry stakeholders. This focal area aims to enhance transparency on issues of compliance to legislations, standards, good governance principles, and matters which may pose a reputational risk for the industry.



OUTLOOK

The future perspective of the business as presented in this report is associated with issues outside the control of ESA, based on the best judgement of available information at the time of its compilation. Much effort is made to exploit all opportunities which may present themselves, identify all risks and threats, and evaluate the associated outcomes. These are evaluated in terms of how they could affect the ESA's value creation.

In this regard, the organisation remains conscious of the challenges which may lie ahead and cause a disruption in the achievement of the organisational objectives. These challenges are considered in the context of their impact in the short term (one year or less), medium term (two to five years) and the long term (beyond five years).

Global Markets

The industry operates within a dynamic world sugar market within which the pendulum can swing in opposite directions. The year under review saw a global sugar production surplus and resultant low sugar prices, carried over from the previous year.



Source: International Sugar Organisation (Quarterly Outlook, June 2019)

Global production is forecast to scale back in the next season as major global producers encounter a reduction in their production volumes. There will, however, still be a production surplus against low increase in world consumption, which would translate to the world market price remaining depressed.

The global sugar market is a cyclical one, as production is anticipated to drop in response to decrease in the world market price. In the medium term, production is expected to fall as producers react to the low global market prices, resulting in a deficit which could trigger an uptick in the world market price. Other factors such as commodity prices and weather conditions also have an influence on production.

Preferential Markets

Eswatini's sugar industry is export oriented, as a very small portion of the sugar produced in the country is consumed locally. About 95% of the sugar produced is destined to markets outside of Eswatini's borders.

The SACU market, which serves as a domestic market continues to be a key market for the Eswatini industry. Over 50% of ESA sales are targeted into that market. The protection offered to this market in the form of a common external tariff enables the movement of sales in this market. The maintenance of this protection in the short term, and its increase in the medium term, is pertinent for this market to remain the key market for Eswatini sales.

While the preferential markets in which Eswatini benefits from are still in place, the conditions within those markets have presented some challenging dynamics. These include erosion of value due to the falling global market prices and increased production in the year under review in markets such as the EU. The introduction of non-tariff barriers particularly in the regional markets have made the sale of sugar in those markets difficult. As a result, the value attainable from the sugar sold into these markets will continue to be a challenge in the future.

The EU market in particular is expected to turn around as beet producers in the region start to reduce production due to the drop in returns. As such, the value attainable in this market is expected to improve in the medium term as the EU region returns to production levels which prevailed prior to the lifting of the restrictions of beet production. Other surplus sugar producers in the region are faced with the same predicament as Eswatini - seeking alternative markets in the East and Southern African region to divert sales from the EU market.

In the medium to long term, markets in the Tripartite Free Trade Area (encompassing 26 countries in the Eastern and Southern African region) and the Africa Continental Free Trade Area (spanning 44 countries) present new opportunities for sugar amongst other products. The marketing strategy of ESA is aimed at extracting maximum value from these-to-be realised markets.

Costs

Operational efficiencies are one way of keeping costs of production low. This is pivotal for the viability of the industry, particularly in light of low global market prices. Smallholder sugarcane growers tend to be at the highest risk when costs cannot be contained vis-à-vis the returns for their cane.

Electricity costs for irrigation continue to be one of the highest contributors to the costs that sugarcane farmers incur. While efforts such as promoting adoption of best irrigation systems and practices by growers to try and keep these costs low, electricity continues to put pressure on the sugarcane grower. With the country being an importer of electricity, and therefore a price taker, there is very little that can be done to contain this cost. Alternative and renewable energy sources are therefore being sought to alleviate this in the medium and long term.

Surveys have further shown that harvesting (cane cutting, loading & haulage) and agrochemicals costs also take a significantly larger proportion of grower costs, smallholder growers being the most affected. To counteract these effects, growers are encouraged to form groups for purposes of procuring goods and services in bulk. If adopted, this practice is expected to contain the targeted costs in the short and medium term.

Moreover, as the viability and sustainability of the cane growers continue to be topical, efforts are ongoing within ESA to empower growers with knowledge on technologies and practices to assist in containing costs and better govern their businesses.

ESA is also exploring opportunities for other products that can be produced from the stick of cane and other forms of sugar to increase revenue streams for shareholders through product diversification and value-addition. Clearly, in the long-term, the competitiveness of the industry hinges on its ability to serve markets with diverse products of high-value. This will demand matching technologies, handling capacities and skills.

Currency fluctuations

A significant share of the export sales are denominated in foreign currency. As such, foreign exchange movements influence the returns realised by the industry. During the course of the year under review, the Lilangeni weakened against the US Dollar, from E11,75 to the US Dollar at the beginning of April 2018 to E14,60 in March 2019. This movement proved favourable to the industry.

Numerous factors such as speculation on political and economic performance of neighbouring South Africa to whose currency the Lilangeni is pegged, influence the foreign exchange movements. This applies to other countries such as the US and the EU whose currencies the other foreign exchange sales are denominated in.

Logistics

Over the years, ESA has established efficient logistical capabilities and efficiencies, which are critical to meeting customer requirements and resultant customer satisfaction. The diversification of markets has called for a review of

traditional operations in order to deliver the sugar to the various destinations as required. The logistics challenges were further magnified by the increase in production realised in the year under review and limitations in bagging capacity.

Limited storage capacity introduced another dimension as sales were slow due to global market conditions. These all called for flexibility in bagging, warehousing, handling and movement of the products. Investments in the expansion of bagging capacity to meet the requirements of the new markets are in the pipeline in the medium-term, to match the industry's forecasted requirements in response to a rise in production and varying customer requirements.

Water resources availability

The sugarcane crop in the industry demands between 1 500 and 1 700 mm of water supply. The average annual rainfall received during the year under review was 617 mm in the southern areas and 700 mm in the northern areas of the industry. To achieve optimal yields, the shortfall (>53%) is therefore met by irrigation. As such, the availability of water is crucial for the sustainability of the industry. With the changing climatic conditions, water management has increasingly become an issue, with the need for more dams and reservoirs growing.

While the year under review had good rainfall and the river and dam water levels were sufficient to sustain the crop through the dry winter season, the changing global weather conditions in general present uncertainty on the availability of water into the future. The erratic changes year on year call for improvements in water management, changes in technology and increased efficiencies in water use and irrigation practices.

The expansion of the industry hinges on the available resources and their sustenance into the medium and long term. To this end the Eswatini Sugar Industry, through ESA, is partnering with Government and other stakeholders in ensuring the industry's expansion and sustainability. In its strategic road map, the Government has committed to increase water storage capabilities in the form of medium sized dams in strategic areas in the country, including Mkhondvo and Ngwavuma dams, which will directly benefit the sugar industry's water resources status. The operationalisation of water management institutions at river basin level, including, River Basin Authorities (RBAs) and Irrigation Districts (IDs), will also be reinforced through the Department of Water Affairs (DWA). The Eswatini sugar industry by its very nature, size and contribution into the country's economy is fully represented in the RBAs and IDs.

Customer requirements and preferences

Historically, customer satisfaction was purely measured on delivery of quality product on time. However, with time focus has changed to include sustainable sourcing throughout the

value chain. Customers are increasingly requiring their suppliers to demonstrate that the production process goes beyond economic considerations, but takes into account environmental, social and ethical factors as well. ESA's Sustainability Policy and the Shared Value Strategy confirms the commitment to remain a preferred supplier for key buyers of sugar and demonstrate the continued improvement in the sustainable production of sugar. To achieve this, ESA benchmarks itself and aligns its best management practices against global standards.

There is need to remain alive to changing customer requirements and preferences and have a level of flexibility to these changes. Consumers are becoming increasingly health conscious, with a negative perception on the use of sugar and its effects on the body. Taxes applied on products with added sugar have had an increased influence on consumer choices. The increased availability of alternative sweeteners also contributes to changes in customer preferences.

People skills and experience

The staff compliment at ESA was adequate in the period under review to deliver on its mandate. ESA maintains a healthy and enabling environment for its human capital to

help them perform and develop at their full potential. This is achieved by conducting continuous skills gap analysis to ensure that human capital meets the organisation's present and future talent requirements to create value and by developing and implementing a robust wellness programme to enhance the productivity of its employees. True to its value of 'Growing its People', ESA is committed to improving the welfare of its people and helps them develop to their full potential

Labour relations have a potential of being a sticky point in organisations and in the country. It is therefore in the industry's interest to keep abreast with the issues to ensure that labour and workplace policies are aligned to local legislation, international laws and best practices. ESA achieves this by participating in relevant national and other internationally recognized bodies either directly or indirectly. Thereafter, ESA disseminates this information to members to promote good labour relations in the sugarcane industry.

GOVERNANCE AND REMUNERATION

Commitment to ethical and effective corporate governance

ESA's commitment to the highest standards of ethical and effective corporate governance, strong risk management and a transparent culture are the guiding framework for its business management. The organisation believes that effective corporate governance enables it to maximise returns to its members, whilst managing key risks as set out in the material matters section. ESA promotes strong principles of integrity which helps in the entrenchment of sustained excellence in every aspect of the business. This enables positive business performance in the short, medium and long terms. This commitment is applicable to all ESA structures, including Council and its subcommittees, management and all ESA employees. By extension, ESA also promotes dealing with business partners who exhibit good corporate practices to create sustainable business relationships.

Council embraces the principles of the King IV Code on Corporate Governance as a guideline to be used by ESA in managing its business affairs. Council acknowledges that full implementation of the King IV Code will be a process which will require an in-depth understanding and interpretation of its principles into contextual circumstances.

Governance framework

ESA is committed to good corporate governance even though its structure is different from a normal corporate entity. Its members are the Associations of millers and growers—namely, ESMA and ECGA, respectively. Their representatives are appointed into Council as defined by existing statutes. Therefore, their independence is limited to the extent that they represent the interests of their respective associations. However, this is compensated by the fact that all decisions taken are expected to be for the good of the overall sugar industry wherein the benefits or losses are shared in a predefined manner. The diagram depicts the governance structure of ESA.



Council

In line with the Constitution of ESA, members of Council and other committees are nominated and appointed at the Annual General Meeting (AGM) held in September. All the current members of Council have sufficient experience in ESA operations complemented by extensive experience in the sugar industry in Eswatini. Over and above the duties set out in the Constitution, Council also;

- ❑ determines strategies, approves major policies and plans
- ❑ responsible for risk management
- ❑ provides oversight as well as monitoring, to help ensure accountability.

Council has delegated some of its responsibilities to the Sub-Committees as shown in the structure of ESA.

Council is satisfied that it has fulfilled its responsibilities in accordance with the Constitution and the spirit of the principles as espoused in King IV.

Council Induction

At the first meeting of all the committees after the Annual General Meeting, members of those committees are taken through an induction. The induction covers the structure and mandate of ESA. It also covers the terms of reference of that particular committee and the Code of Conduct for ESA.

Leadership Structure and Profile

The leadership of ESA at all levels is through appointments by ESMA and ECGA. The decision-making process at Council and its subcommittees is by consensus, with each association having one vote. In considering appointment to the subcommittees, these bodies assess the relevant expertise as well as experience of the candidate. In this regard, the individual members of the governance structures were considered appropriate for appointment in the year under review.

ESA Leadership



**Mr. Tom Dlamini (69)
Chairman,**

Tom Dlamini is the Chairman of Council. Retired, his last employment was with the Swaziland National Housing Board (SNHB) as Managing Director for 16 years. Prior to joining SNHB, he worked for 14 years as an Engineer and held a senior management position at the then Swaziland Electricity Board (SEB), now known as Eswatini Electricity Company. He has been serving as Chairman of Council for 9 years.



**Mr. Nick Jackson (54)
President,**

Nick Jackson is the President of ESA from 1 April 2019 having been nominated by the Eswatini Sugar Millers Association. He is currently the Managing Director of Royal Swaziland Sugar Corporation (RSSC) and has over 20 years' experience mostly in the sugar industry, having held the position of CEO of Guyana Sugar Corporation in the Caribbean. He holds an Honours Degree in Biochemistry. He serves on several other Boards in institutions of high importance in the country. He has been a member of Council for 10 years.



**Mr. George White (60)
Vice President,**

George White is the Vice President of ESA from 1 April 2019 having been nominated by the Eswatini Cane Growers Association. During the year under review, he served as president in line with the constitution of the Association. He is currently the General Manager at Tambankulu Estates with over 40 years' experience in the sugarcane growing business. He holds a Diploma in Agriculture and has attended an Executive Development Programme. He has been a member of Council for 39 years.

Other Council Members

Eswatini Sugar Millers Association - Council members nominated by the ESMA include senior executive managers from both RSSC and Ubombo Sugar. Their experience varies from sugar milling operations, finance, legal, commercial and agricultural operations with an average experience of 19 years in the industry. Their average tenure as Council Members is 9 years.

Eswatini Cane Growers Association - Council members nominated by the ECGA include senior executive managers from large sugar estates and Tibiyi Taka Ngwane as well as growers who run their own sugarcane farming businesses. Their experience is largely skewed towards sugarcane growing and managing their own farms with an average experience of 20 years in the industry. Their average tenure as Council Members is 9 years.

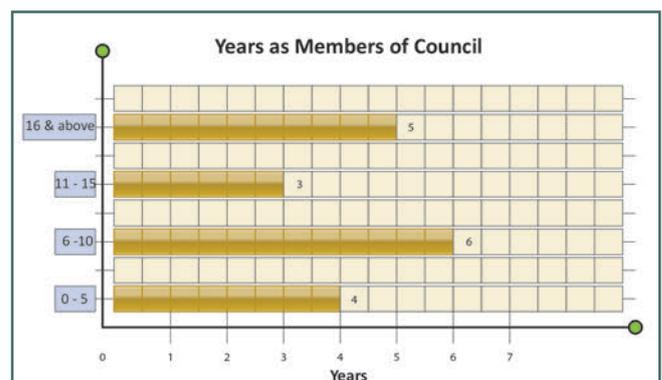
Role of President and Vice President

The President and Vice President are elected at the AGM from nominated delegates. The positions are occupied by a miller and grower representative on an alternating annual basis. The duties of the President include chairing the AGM as well as representing ESA in some public forums when mandated

by Council. In the absence of the President, the Vice President performs these duties.

Role of Chairman of Council

The Chairman of Council is nominated and appointed at the AGM and must be an individual of good standing who has no interest directly or indirectly in the growing, milling or disposal of sugarcane or sugar in Eswatini. The Chairman's role is to guide the meetings of Council and MEC. If there is an equal vote during voting, he has the power of casting a vote after certain processes have been exhausted.



Role of Secretary

The role of the Secretary is performed by the Financial Director. He performs duties and functions as prescribed in the Constitution of ESA and such other functions and duties as Council may from time to time assign to him. Since his duties are defined by statute, Council is satisfied that there is no conflict between his secretariat and executive roles. The current Secretary has five years' experience in his current role and several years in similar positions with other entities.

Executive Committee & Management Team

Council assigns responsibility for the day-to-day management of the Association to the Chief Executive Officer (CEO). To assist the CEO in discharging his duties, there is an Executive team (EXCO) of 6 members which comprises the heads of departments. The EXCO meets at least once a month to review operations and ensure that the key strategic objectives are pursued vigorously and thoughtfully. EXCO is supported by 5 managers who form the Management Team and they have an average experience of 8 years at ESA.



Key Governance Processes and Activities

The role of Council is defined in the sugar industry agreement (SIA) and it primarily involves: Strategic leadership and guidance; ultimate oversight, accountability and responsibility. Council has established several bodies (subcommittees) through which it executes its governance processes and activities by delegation. Membership to these structures is equal between millers and growers. Decisions are usually arrived at by consensus.

Council Discussions

Council has developed and maintains a standard agenda which sets the framework for meetings and seeks to ensure that each meeting covers all the sections of the industry - from routine business, through operational reports and project updates, to special items and matters of strategy, as well as business development.

The structure of the agenda is such that all material matters for the business are monitored and reported-on at

appropriate intervals, including those forming part of the marketing strategy and management objectives. The latter two areas are reported-on on a half-yearly basis while others are reported-on either quarterly or annually.

Each meeting receives reports on organisational activities and performance with respect to:

- Cane Testing
- Extension Services
- Marketing
- Industrial Relations
- Financial Performance
- Sugar and Sucrose Price Estimate
- Sustainability
- International Trade Issues, and
- Information Technology

In addition to these regular items, the following matters were discussed, among others, during the year:

July 2018

- Council tasked management to investigate the introduction of an Electronic Ticketing System for cane in the industry to minimise data capturing errors.
- Council adopted the shared value statement for sustainability.
- Council considered the proposal for the expansion of the warehousing and bagging capacity in the industry.

September 2018

- Council approved the list of chemicals to be discontinued by the industry in order to protect human life and the environment.

December 2018

- Council approved in principle the first phase of the expansion of the bagging and warehouse capacity.
- Council discussed the Industry five-year forecast.

March 2019

- Council approved the Budget and Marketing Plan for the year 2019/20.
- Council approved the Shared Value Strategy for sustainability in the industry.

Internal Controls and Internal Audit

ESA operates a combined assurance approach that optimises the assurance obtained from management, Internal Audit and external assurance providers on all the risks identified by ESA.

Risks are identified, evaluated and managed by implementing risk mitigations such as strategic actions, insurance and specific internal controls.

ESA's internal controls and systems are designed to provide reasonable assurance on the integrity and reliability of the financial and operational management information system. They ensure that assets are safeguarded against material loss and that transactions are recorded and authorised.

Governance Policies and Procedures

ESA has a policy on Code of Conduct for its members and subcommittees. The Code seeks to set minimum standards expected and required of all members of ESA committees. It seeks to ensure that these members uphold principles of integrity, accountability, and legal compliance in carrying out their duties and responsibilities. It applies to all individuals whenever they are acting in their capacities as members of ESA committees. Two other Codes of Conduct also exist mainly for ESA employees and suppliers.

Whistle-blower Hotlines and Follow up of Tip-offs

ESA operates a whistle-blowing 'hotline'. This service, operated by the Internal Auditor, enables all stakeholders to anonymously report issues that may be fraudulent or unethical. It is the responsibility of all employees and stakeholders to report known or suspected unethical or illegal conduct. Retaliation against whistle-blowers is not tolerated at ESA. The follow-up on all reported matters is co-ordinated by the Internal Auditor and reported to the Audit & Risk Committee.

Remuneration Committee

The key activities of the Committee during the year were as follows:

- ❑ Review and approval of the incentive bonus for the year ended 31 March 2018.
- ❑ Review of the cost-of-living adjustments for staff and Chairmen's allowances for the year.
- ❑ Supervising the Senior Leadership Development Plan.

Remuneration of Employees

The remuneration philosophy is aimed at attracting and retaining appropriately skilled employees at all levels to positively influence performance and enable the achievement of ESA's objectives. To ensure that ESA remains competitive in the labour market and can attract and retain employees, it strives to provide competitive remuneration.

Remuneration of Non-Independent and Independent Members

All members of Council and its subcommittees, except the independent chairmen, are not paid any remuneration. They are only reimbursed costs incurred in attending ESA business and this typically includes hotel as well as travel costs.

Remuneration of the independent chairmen is reviewed by REMCO on an annual basis, taking into account market information. They are also reimbursed costs directly incurred in carrying out the business of ESA in line with approved rates which are also reviewed annually.

AUDIT & RISK COMMITTEE REPORT

CHAIRMAN

26



The Audit & Risk Committee (hereafter referred to as "The Committee") is pleased to present its report for the financial year ended 31 March 2019 to members of Council. The Committee carried out its responsibilities as set out in the Audit Charter.

Members

There were no changes in membership during the year. All members possess the required knowledge and experience to discharge their duties. The composition and attendance record of members during the year stands as follows:

Member	Attendance
B Mhlongo (Chair)	3/3
A Ngcobo	3/3
S Potts	3/3
L Ndzimandze	3/3
J Msibi	3/3

The Chief Executive Officer, Financial Director, Commercial Director, Finance Manager, Internal Auditor and external auditor attend the quarterly meetings.

Mandate

The Committee is governed by a formal audit charter which provides a guide in terms of objectives, authority and responsibilities. The charter and terms of reference were reviewed by the Committee during the period and found to be still relevant. The Committee recognizes its important role as part of the risk management and corporate governance processes and procedures of ESA and has satisfactorily executed its responsibilities as outlined below.

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 in carrying out its fiduciary responsibilities by overseeing the integrity of ESA's financial statements, financial reporting processes, internal accounting and financial controls, the annual independent audit of the financial statements, and other aspects of financial management (including overseeing the establishment and maintenance processes to assure compliance by ESA with all applicable laws, regulations and policies).

External Audit

- To evaluate the independence, effective roles and functions of the external audit.
- 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.

Internal Audit

The internal audit function provides assurance to ESA, via the Committee, on the adequacy and effectiveness of the Group's internal control and risk management practices as well as the integrity of financial reporting systems. Internal audit also assists management by making recommendations for improvements to the control and risk management environment.

The principle of independence of the Internal Audit Unit is upheld. On operational and administrative matters, the

Internal Auditor reports to the Chief Executive Officer and Financial Director, respectively.

The scope of work for the Internal Audit Unit includes the following:

- ❑ Reviewing, appraising and reporting on the adequacy and effectiveness of the system of internal controls.
- ❑ Reviewing the processes and systems which are designed to ensure integrity in reporting of financial and operating information.
- ❑ Reviewing the adequacy of compliance with applicable policies, plans, procedures, laws and regulations.

Specific focus is placed on the system of internal controls to ensure that assets and information are protected against loss, theft or misuse, as well as on those controls which ensure that key transactional information is of high integrity.

Opinion on Internal Financial Controls

Based on the review of internal control systems conducted by the Internal Auditor, as well as information and explanations given by management and discussions held with the external auditors on the results of the audit, the Committee believes ESA'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 Chairman has regular and direct access to management at any time to discuss pertinent issues. Together with the Internal Auditor they also have closed meetings without management with the external auditors on matters that are relevant in fulfilling their functions.

The Committee held four meetings during the financial year and the following issues were discussed among other standing agenda items;

June 2018

The Committee considered the draft annual financial reports prepared by management and recommended their adoption to Council. They also reviewed the risk register for 2018 and approved the one for 2019. They reviewed the insurance cover report for the Association and satisfied themselves that the risk was properly managed.

September 2018

The Committee received several internal and external audit reports which covered other standing agenda items.

November 2019

The Committee received and approved the external audit strategy to be followed in the audit for the year ended 31 March 2019 together with the audit fee. They also discussed a report on the internal review on compliance with the tax laws by the Association.

Risk Management

While Council is ultimately responsible for the maintenance of an effective risk management process, the 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

In September 2018, the committee evaluated the performance of PwC and concluded that they were satisfied with their work and went on to recommend their re-appointment in the Annual General Meeting.

Financial Statements

The Committee has reviewed the statutory 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 appropriateness of the use of the going concern assumption in preparing the financial statements and is satisfied that it is appropriate.

Integrated Report

The Committee fulfils an oversight role in respect of ESA's Integrated Annual Report. The Committee is satisfied that all the information disclosed in the Integrated Annual Report is in no way contradictory to 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 Integrated Annual Report 2018/19.

BMhlongo
Chairman



SUMMARISED AUDITED GROUP FINANCIAL STATEMENTS
for the year ended 31 March 2019

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COUNCIL MEMBERS' RESPONSIBILITY STATEMENT

for the year ended 31 March 2019

Council Members' responsibility statement for the consolidated and separate financial statements

The members are responsible for the preparation of the consolidated financial statements which comply with International Financial Reporting Standards (IFRS) and which, in accordance with those standards, fairly present the state of affairs of the association as at the end of the financial year, and the net income and cash flows for that period.

It is the responsibility of the independent auditors to report on the fair presentation of the consolidated financial statements.

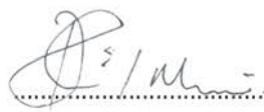
The members are ultimately responsible for the internal controls. Management enables the members to meet these responsibilities. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements in terms of IFRS and to adequately safeguard, verify and maintain accountability for the association assets. Accounting policies supported by judgements, estimates, and assumptions which comply with IFRS, are applied on a consistent and going concern basis. Systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

Based on the information and explanations given by management and the internal auditors, the members are of the opinion that the accounting controls are adequate and that the financial records may be relied upon for preparing the consolidated financial statements in accordance with IFRS and maintaining accountability for the association's assets and liabilities. Nothing has come to the attention of the members to indicate that any breakdown in the functioning of these controls, resulting in material loss to the association, has occurred during the year and up to the date of this report. The members have a reasonable expectation that the association has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the consolidated financial statements.

The summarised consolidated financial statements prepared in accordance with IFRS which appear on pages 35 to 44 were approved by the council members on 18 July 2019 and signed on its behalf by:



.....
T Dlamini
Chairman



.....
P F Mnisi
Chief Executive Officer

Independent auditor's report on the summary consolidated financial statements

To the Members of Eswatini Sugar Association

Opinion

The summary consolidated financial statements of Eswatini Sugar Association, set out on pages 35 to 44, which comprise the summary consolidated statement of financial position as at 31 March 2019, the summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Eswatini Sugar Association for the year ended 31 March 2019.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance with International Financial Reporting Standards and the requirements of the Sugar Act, 1967 as applicable to summary financial statements.

Summary Consolidated Financial Statements

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Sugar Act, 1967 as applicable to annual financial statements. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.

The Audited Consolidated Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 21st August 2019.

Council's Responsibility for the Summary Consolidated Financial Statements

Council is responsible for the preparation of the summary consolidated financial statements in accordance with the International Financial Reporting Standards and the requirements of the Sugar Act, 1967 as applicable to summary financial statements.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

PricewaterhouseCoopers

Director: *Theo Mason*

Registered Auditor

P.O Box 569, Mbabane

21st August 2019

COUNCIL MEMBERS' REPORT

for the year ended 31 March 2019

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Council has pleasure in submitting their report together with the consolidated and separate financial statements of the Association for the financial year ended 31 March 2019.

Business activities

The Association, which is established by an Act of Parliament, is involved in the purchasing and selling of sugar and molasses in Eswatini. The function of the Association under the Act is to regulate the sugar industry.

Change of name

During the course of the financial year, the name of the Association was changed from Swaziland Sugar Association ("SSA") to Eswatini Sugar Association ("ESA"), in line with the change of name of the country. The name change was approved in special annual general meeting in October 2019.

General review of business operations and results

The state of affairs of the Association at 31 March 2019 and the results of its operations for the year then ended, are fully set out in these financial statements.

Results of operations

The Group recorded revenue of E5,13 billion (2018: E4,24 billion). The increase in revenue is mainly attributable to increased sales volume in all markets, though the average selling prices were lower compared with the previous year as a result of unfavourable market conditions. The cost of sales increased from E3,97 billion to E4,80 billion in line with increased distributable proceeds. Profits that are made by the Association are distributed in full to the millers and growers and form part of the cost of sales. Distribution costs incurred during the year were E9 million (2018: E19 million). The decrease is mainly as a result of a majority of the sales being on FOB terms as opposed to CIF terms in the previous year.

Net financing costs, including foreign gains and losses, increased from E175,21 million in 2018 to E245,64 million. This is primarily a result of high volatility of the Lilangeni against export currencies during the year. Foreign exchange losses of E30,30 million were incurred compared to a gain of E11,13 million in the previous year. Interest paid also increased from E186,34 million to E215,34 million as a result of slow movement of sales at the backdrop of an influx of imported sugar in to the local market and prevailing market conditions. Administration expenses increased from E72,9 million to E77,4 million.

Net cash flow hedges realised and transferred to profit or loss relate to foreign exchange gains that were recognised in equity in the previous financial year. ESA's policy is to apply hedge accounting in respect of the hedged instruments outstanding at year end and this gain or loss is released to profit or loss as the underlying sale transactions occur. At the end of the financial year, there were no outstanding forward exchange contracts compared to the previous year.

Consolidated statement of financial position

The carrying value of property, plant and equipment decreased from E147,46 million to E139,91 million as a result of the depreciation charged during the year.

Inventories decreased from E1,125 billion to E1,012 billion as a result of lower closing stock quantities and net realisable selling prices when compared to the previous year. Trade receivables increased by E243,5 million mainly as a result of increased customer uptake towards the end of the year to take advantage of reduced selling prices in the local market. Trade payables increased as a result of a high amount available for distribution when compared with the previous year. Bank overdraft decreased marginally from E1,06 billion to E1,02 billion.

COUNCIL MEMBERS' REPORT*for the year ended 31 March 2019 (continued)**Events subsequent to year end*

No events occurred after the reporting date that would require adjustment to or additional disclosure in these financial statements.

Subsidiaries and jointly controlled company

The Association has the following subsidiary companies:

Swaziland Sugar Assets Limited	100%
Sugar Assets (Mhlume) Limited	100%
Sugar Holding Company Limited	100%
Commodity Marketing Company Limited	100%
Sugar Assets (Simunye) Limited	100%

The Association is involved in the following jointly controlled company:

Sociedade Terminal de Açúcar De Maputo Lemitada ("STAM")	25%
--	-----

Council

Council is the highest governing body of the Association. Council comprises an equal number of representatives from Eswatini Millers Association and Eswatini Cane Growers Association. The Chairperson is an independent non-executive member. Council members in office at the reporting date were as follows:

Mr T Dlamini	Chairman
Mr G White	President
Mr O Magwenzi	Vice President
Mr N Jackson	
Dr A T Dlamini	
Mr B James	
Mr S Potts	
Mr L Ndzimandze	
Mr S Geldenhuys	
Mr M Maziya	
Mr M Mndzebele	
Mr P Myeni	
Mr P Malandvula	
Mr M Mabuza	
Mr T Nkambule	
Mr M Hlatshwayo	
Mrs S Magagula	
Mr K Fitzpatrick	
Mr O Mabuza	
Mr M Jele	

COUNCIL MEMBERS' REPORT

for the year ended 31 March 2019 (continued)

Audit and Risk Committee

The Audit and Risk Committee is a sub-committee of Council. The Committee is responsible for overseeing the overall risks of the Association and ensuring that adequate controls are in place to mitigate identified risks. The committee is chaired by an independent non-executive member. Members of the Audit and Risk Committee at the reporting date were as follows:

Mr B Mhlongo	Chairman
Mr S Potts	
Mr L Ndzimandze	
Mr A Ngcobo	
Mr J Msibi	

Secretary

Mr B Nyamane

Business address

Nkotfotjeni Building
Cnr Msakato & Dzeliwe Street

Postal address

P O Box 445
Mbabane

CONSOLIDATED AND SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 March 2019

		Group		Association	
	Notes	2019 E	2018 E	2019 E	2018 E
Revenue	2	5 128 520 754	4 235 745 911	5 128 520 754	4 235 745 911
Cost of sales		(4 803 007 287)	(3 972 952 545)	(4 818 901 498)	(3 990 562 258)
Gross profit		325 513 467	262 793 366	309 619 256	245 183 653
Other income		5 961 046	4 509 714	5 961 046	4 509 714
Distribution costs		(8 954 061)	(18 978 309)	(8 866 251)	(18 966 249)
Administrative expenses		(77 426 737)	(72 945 106)	(75 693 497)	(71 297 949)
Foreign exchange (losses) /gains		(30 297 487)	11 127 836	(30 297 487)	11 127 836
Operating profit before financing costs	3	214 796 228	186 507 501	200 723 067	170 557 005
Finance income		-	-	14 718 842	15 904 247
Finance expense		(215 337 705)	(186 341 950)	(215 337 705)	(186 341 950)
Net financing costs	4	(215 337 705)	(186 341 950)	(200 618 863)	(170 437 703)
Share of (loss)/profit of jointly controlled entity (net of tax)		645 681	(46 249)	-	-
Profit before tax		104 204	119 302	104 204	119 302
Income tax expense		(104 204)	(119 302)	(104 204)	(119 302)
Profit for the year		-	-	-	-
Transfer to distributable reserves		-	-	-	-
Other comprehensive Income					
<i>Items that are or may be reclassified to profit or loss</i>					
Unrealised cash flow hedges		-	1 666 400	-	1 666 400
Total comprehensive income for the year		-	1 666 400	-	1 666 400

Profit for the year is attributable to members of the Association

Total comprehensive income of the group is attributed to the members of the Association.

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

at 31 March 2019

		Group		Association	
	Notes	2019 E	2018 E	2019 E	2018 E
ASSETS					
Non-current assets					
Property, plant and equipment	5	139 910 677	147 456 052	8 261 506	8 369 671
Investment in subsidiaries		-	-	500	500
Jointly controlled entity		35 230 558	27 833 442	39 362 024	39 362 024
Total non-current assets		175 141 235	175 289 494	47 624 030	47 732 195
Current assets					
Loans to subsidiaries		-	-	131 351 532	138 788 734
Inventories		1 011 592 790	1 125 254 831	1 011 592 790	1 125 254 831
Trade and other receivables		761 244 962	517 657 496	761 244 962	517 657 496
Other financial assets		-	1 666 400	-	1 666 400
Current tax asset		128 578	113 479	128 578	113 479
Cash and cash equivalents		57 080 356	100 530 320	57 080 356	100 530 320
Total current assets		1 830 046 686	1 745 222 526	1 961 398 218	1 884 011 260
Total assets		2 005 187 921	1 920 512 020	2 009 022 248	1 931 743 455
RESERVES AND LIABILITIES					
Non-distributable reserve		3 934 308	3 934 308	3 934 308	3 934 308
Other		-	1 666 400	-	1 666 400
Total reserves		3 934 308	5 600 708	3 934 308	5 600 708
Non-current liabilities					
Long term liabilities	6	250 000 000	250 000 000	250 000 000	250 000 000
Current liabilities					
Bank overdraft		1 016 237 858	1 062 179 602	1 016 237 858	1 062 179 602
Short term borrowings	7	363 000 000	333 000 000	363 000 000	333 000 000
Trade and other payables		372 015 755	269 731 710	375 850 082	280 963 145
Total current liabilities		1 751 253 613	1 664 911 312	1 755 087 940	1 676 142 747
Total liabilities		2 001 253 613	1 914 911 312	2 005 087 940	1 926 142 747
Total reserves and liabilities		2 005 187 921	1 920 512 020	2 009 022 248	1 931 743 455

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

for the year ended 31 March 2019

	Group		Association	
	2019 E	2018 E	2019 E	2018 E
Cash flows from operating activities				
Cash generated from operations	189 944 384	(622 809 140)	167 044 744	(648 145 787)
Interest received	-	27 537 558	14 718 302	43 441 803
Interest paid	(215 337 705)	(202 751 670)	(215 337 705)	(202 751 670)
Taxation paid	(119 303)	(59 156)	(119 303)	(59 156)
<i>Net cash (outflows)/inflows from operating activities</i>	<u>(25 512 623)</u>	<u>(798 082 408)</u>	<u>(33 693 962)</u>	<u>(807 514 810)</u>
Cash flows from investing activities				
Acquisition of property, plant and equipment	(2 111 006)	(7 076 823)	(1 365 973)	(1 365 417)
Proceeds from the sale of property, plant and equipment	115 409	-	115 409	-
<i>Net cash outflows from investing activities</i>	<u>(1 995 597)</u>	<u>(7 076 823)</u>	<u>(1 250 564)</u>	<u>(1 365 417)</u>
Cash flows from financing activities				
Loans received/(repaid) from short term borrowing	30 000 000	45 000 000	30 000 000	45 000 000
Loans to subsidiary companies received/(repaid)	-	-	7 436 306	3 720 996
<i>Net cash inflows/(outflows) from financing activities</i>	<u>30 000 000</u>	<u>45 000 000</u>	<u>37 436 306</u>	<u>48 720 996</u>
Net decrease in cash and cash equivalents	2 491 780	(760 159 231)	2 491 780	(760 159 231)
Cash and cash equivalents at the beginning of the year	(961 649 282)	(201 490 051)	(961 649 282)	(201 490 051)
Cash and cash equivalents at the end of the year	<u>(959 157 502)</u>	<u>(961 649 282)</u>	<u>(959 157 502)</u>	<u>(961 649 282)</u>

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN RESERVES

for the year ended 31 March 2019

	Non- distributable reserve E	Other reserve E	Total Equity E
Group and Association 2019			
Balance at beginning of year	3 934 308	1 666 400	5 600 708
Cash flow hedges realised and reclassified to profit or loss	-	(1 666 400)	(1 666 400)
Unrealised cash flow hedge recognised in other comprehensive income (1)	-	-	-
	<u>3 934 308</u>	<u>-</u>	<u>3 934 308</u>
Group and Association 2018			
Balance at beginning of year	3 934 308	2 260 923	6 195 231
Cash flow hedges realised and reclassified to profit or loss	-	(2 260 923)	(2 260 923)
Unrealised cash flow hedge recognised in other comprehensive income (1)	-	1 666 400	1 666 400
Transfer from profit and loss	<u>-</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>3 934 308</u>	<u>1 666 400</u>	<u>5 600 708</u>

(1) This amount also represents total comprehensive income for the period

NOTES TO THE SUMMARISED AUDITED FINANCIAL STATEMENTS*for the year ended 31 March 2019***1. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these Summarised consolidated financial statements, and have been applied consistently by Group entities.

1.1 Foreign currency*Foreign currency transactions*

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Emalangeni at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit or loss. Non-monetary assets and liabilities that are measured in terms of historical costs in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Emalangeni at foreign exchange rates ruling at the date the fair value was determined. These foreign currency exchange differences are also recognised in profit or loss.

1.2 Inventories

Inventories of sugar and molasses on hand at the year-end are valued at the amounts distributable to the growers and millers in accordance with the final estimate. The final estimate which represents the amounts to be paid by the Association to growers and millers is considered to be the lower of cost and net realisable value and, is determined as the estimated selling price in the ordinary course of business, less estimated volume rebates, discounts, and point of sale costs.

Management's determination of the final estimate is based on the most reliable evidence available at reporting date.

Other stocks are valued at the lower of cost and net realisable value, on a first in - first out basis.

1.3 Revenue

The Group adopted IFRS 15, "Revenue from contracts with customers" from 1 April 2018 which resulted in changes in accounting policies.

New accounting policies on revenue from contracts with customers are summarised below;

Revenue is derived from sale of sugar and molasses. Revenue is recognised when or as the Group satisfies performance obligations by transferring a good or service to a customer. The Group has determined that it generates all its revenues at a point in time. Revenue is measured based on the consideration specified in the different contracts with customers and net of value-added tax, rebates and discounts.

i) Sugar and molasses sales

The group buys and sells sugar and molasses from millers and growers. Revenue is recognised when control of sugar and molasses has transferred, when the sugar or molasses is delivered to the customer. For the local market delivery is generally when the sugar or molasses is released from the warehouse to the customer, while for the export market, depending on the terms of the sale, if free - on - board, the sale is recognized upon loading the sugar to the carrier and issuance of the bill of lading. In the case of cost-insurance-freight sale, revenue is recognized when the carrier has discharged the sugar to the customer, at the customer's port destination. Molasses revenue is for the local market and revenue is recognized upon release to the customer at the warehouse. The group has full discretion, over the channels and price, to sell sugar and molasses, and there are no unfulfilled obligation that can affect customer's acceptance of sugar or molasses.

(i) *Sugar and molasses sales (continued)*

Revenue from the sale of sugar and molasses is recognised in profit or loss when significant risks and rewards of ownership have been transferred to the buyer. Revenue is measured at the fair value of the consideration received or receivable, net of strategic rebates, export rebates and discounts. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described above. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(ii) *Export sales*

Export sales proceeds are translated at the rate ruling when the risk and rewards have passed to the buyer. The difference between the actual rates of exchange at transaction date and the rate at which the group has obtained advances in foreign currencies for those sales or, where applicable, the rates of exchange actually realised after taking account of forward exchange contracts, is recognised in profit or loss as a foreign currency gain or loss.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2019 (continued)

	Group		Association	
	2019	2018	2019	2018
	E	E	E	E
2. Revenue - disaggregation of revenue from contracts with customers				
The group derives revenue from transfer of goods at a point in time in the following major product lines and channels				
<i>Revenue by product type comprises:</i>				
- Sugar sales	4 937 824 807	4 050 693 859	4 937 824 807	4 050 693 859
- Molasses sales	190 695 947	185 052 052	190 695 947	185 052 052
	<u>5 128 520 754</u>	<u>4 235 745 911</u>	<u>5 128 520 754</u>	<u>4 235 745 911</u>
<i>Revenue by channel comprises:</i>				
SACU market	3 471 636 879	2 985 734 591	3 471 636 879	2 985 734 591
Regional market	268 395 738	364 231 540	268 395 738	364 231 540
International market	1 388 488 137	885 779 780	1 388 488 137	885 779 780
	<u>5 128 520 754</u>	<u>4 235 745 911</u>	<u>5 128 520 754</u>	<u>4 235 745 911</u>
Sugar is sold into the Southern African Customs Union ("SACU"), regional and international markets. Molasses is sold within the SACU market.				
3. Operating profit before financing costs				
Operating profit before financing costs is arrived at after charging (crediting) the following:				
<i>Income:</i>				
<i>Administration Expenses:</i>				
Auditors remuneration				
- Current year	88 727	213 116	88 727	213 116
- Prior year	619 298	490 236	619 298	490 236
Council emoluments	-	-	-	-
Depreciation	9 550 486	10 852 264	1 368 240	1 419 868
Lease expenses	1 220 216	1 140 389	1 220 216	1 140 389
(Profit)/Loss on sale of property, plant and equipment	-	-	-	-
Management fees				
- Computer related	1 669 377	1 217 474	1 669 377	1 217 474
Payroll costs	35 008 802	33 240 098	35 008 802	33 240 098

NOTES TO THE SUMMARISED AUDITED FINANCIAL STATEMENTS

for the year ended 31 March 2019

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4. Net financing costs

	Group		Association	
	2019	2018	2019	2018
	E	E	E	E
Finance income and expense				
<i>Finance expense on financial liabilities</i>				
Measured at amortised cost	(215 337 705)	(186 341 950)	(215 337 705)	(186 341 950)
Foreign exchange loss	(30 297 487)	(16 409 720)	(30 297 487)	(16 409 720)
Finance expenses	<u>(245 635 192)</u>	<u>(202 751 670)</u>	<u>(245 635 192)</u>	<u>(202 751 670)</u>
<i>Finance income on financial assets</i>				
Interest income on loans originated by the Association	-	-	14 718 842	15 904 247
Foreign Exchange gain	-	27 537 556	-	27 537 556
Finance income	<u>-</u>	<u>27 537 556</u>	<u>14 718 842</u>	<u>43 441 803</u>
Net finance costs	<u>(245 635 192)</u>	<u>(175 214 114)</u>	<u>(230 916 350)</u>	<u>(159 309 867)</u>

5. Property, plant and equipment

Allocation of depreciation

	Group		Association	
	2019	2018	2019	2018
	E	E	E	E
Direct cost of sales	493 271	554 570	493 271	554 570
Direct analysis of cane	195 749	220 460	195 749	220 460
Extension services	262 488	233 730	262 488	233 730
Administration	416 732	411 108	416 732	411 108
Operating expense	8 182 246	9 432 396	-	-
Total	<u>9 550 486</u>	<u>10 852 264</u>	<u>1 368 240</u>	<u>1 419 868</u>

NOTES TO THE SUMMARISED AUDITED FINANCIAL STATEMENTS
for the year ended 31 March 2019 (continued)

5. Property, plant and equipment (continued)

Reconciliation of the opening and closing carrying amounts

	Opening carrying amount E	Additions E	Disposals E	Transfer E	Depreciation E	Closing carrying amount E
Association						
Freehold land and buildings	1 535 430	403 742	-	-	(185 392)	1 753 780
Leasehold land and buildings	1 298	-	-	-	(185)	1 113
Plant and equipment	4 364 016	187 351	(47 866)	-	(708 455)	3 795 046
Furniture and fittings	515 848	70 760	(1 772)	-	(53 835)	531 001
Motor vehicles	1 686 944	513 418	(56 257)	-	(420 373)	1 723 732
Capital work in progress	266 135	190 699	-	-	-	456 834
	<u>8 369 671</u>	<u>1 365 970</u>	<u>(105 895)</u>	<u>-</u>	<u>(1 368 240)</u>	<u>8 261 506</u>
Group						
Freehold land and buildings	1 535 430	403 742	-	-	(185 392)	1 753 780
Leasehold land and buildings	1 298	-	-	-	(185)	1 113
Plant and equipment	4 364 016	187 351	(47 866)	-	(708 455)	3 795 046
Furniture and fittings	515 848	70 760	(1 772)	-	(53 835)	531 001
Motor vehicles	2 722 341	513 418	(56 257)	-	(510 263)	2 669 239
Conditioning silo buildings	36 436 028	-	-	-	(1 561 242)	34 874 786
Sugar store buildings	52 782 056	-	-	-	(2 158 477)	50 623 579
Conditioning silo equipment	7 796 028	-	-	-	(1 111 485)	6 684 543
Sugar store equipment	31 338 999	475 033	-	880 974	(2 795 396)	29 899 610
Molasses storage equipment	8 816 100	-	-	-	(465 756)	8 350 344
Capital work in progress	1 147 908	460 702	-	(880 974)	-	727 636
	<u>147 456 052</u>	<u>2 111 006</u>	<u>(105 895)</u>	<u>-</u>	<u>(9 550 486)</u>	<u>139 910 677</u>

NOTES TO THE SUMMARISED AUDITED FINANCIAL STATEMENTS

for the year ended 31 March 2019 (continued)

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	Group		Association	
	2019 E	2018 E	2019 E	2018 E
6. Long term liabilities				
<p>This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk.</p>				
Public Service Pension Fund	250 000 000	250 000 000	250 000 000	250 000 000
Total liabilities	250 000 000	250 000 000	250 000 000	250 000 000
Current portion included in current liabilities	-	-	-	-
Non-current portion	250 000 000	250 000 000	250 000 000	250 000 000
Repayment profile				
Current	-	-	-	-
Within 2 years	250 000 000	250 000 000	250 000 000	250 000 000
More than 2 years	-	-	-	-
	250 000 000	250 000 000	250 000 000	250 000 000
7. Short term borrowings				
Promissory notes	263 000 000	233 000 000	263 000 000	233 000 000
Other loans	100 000 000	100 000 000	100 000 000	100 000 000
	363 000 000	333 000 000	363 000 000	333 000 000

Notes

Notes



**ESWATINI
SUGAR
ASSOCIATION**
United for Growth. *Creating more Value*

Organisational Values

ESA recognizes and subscribes to high ethical standards and principles which guide the way the organisation conducts its business activities and dealings. Below are ESA's main values which were well accepted across the organisation.



Excellence

We strive to excel in everything we do for our stakeholders



Integrity

We are objective, professional, and conduct our business in accordance with highest ethical standards



Growing our People

We improve the welfare of our people and help them develop to their full potential



Continuous Improvement

We are innovative and progressively develop our products, services and processes to be best in class



Customer Centric

We value our customers and strive to meet and exceed their expectations



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