

INTEGRATED ANNUAL REPORT 2015/16



SWAZILAND SUGAR ASSOCIATION



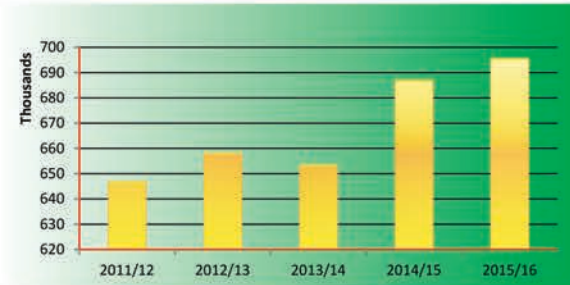
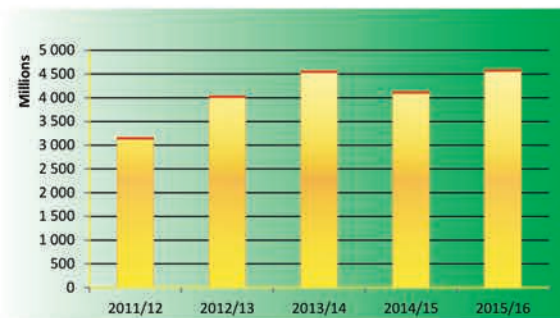
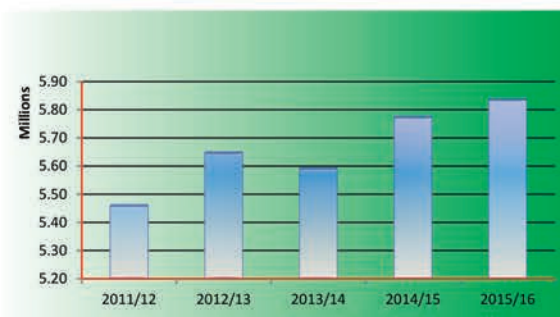
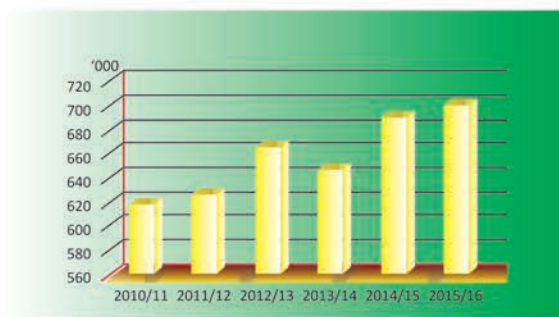
An aerial photograph of a vast sugarcane plantation. The fields are arranged in neat, curved rows, creating a rhythmic pattern of green. A prominent blue irrigation canal winds through the center of the plantation. In the background, there are rolling hills under a clear sky.

MISSION STATEMENT

“SSA is committed to providing quality sugar products and services in a sustainable manner. This is achieved by consistently meeting the requirements and expectations of sugar industry principals, customers and other stakeholders; thus contributing to the overall national economic growth and human development”.

QUALITY POLICY STATEMENT

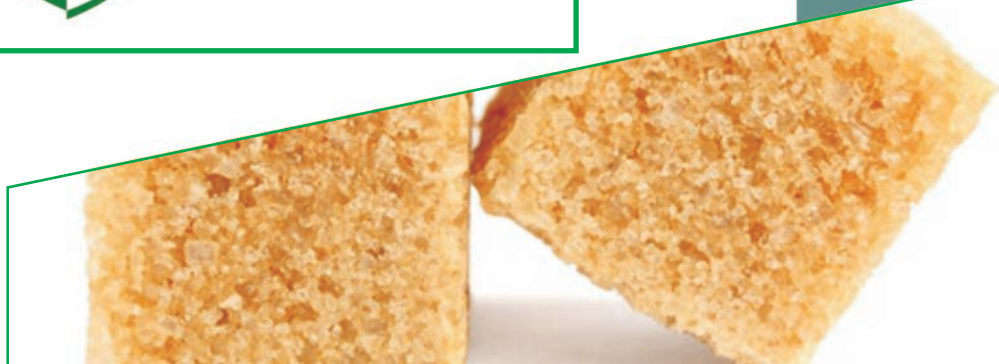
“As a basis to enhance operational efficiencies, SSA is committed to the implementation and continual improvement of its Quality Management System. This commitment underlies SSA's fundamental quality policy, which is to meet consistently the requirements and expectations of its customers as well as other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

SUGAR PRODUCTION (Tonnes)**SUGAR PRICE INDEX****REVENUE (Emalangen)****SUCROSE PRICE INDEX****SUGARCANE PRODUCTION (Tonnes)****TOTAL SALES (Tonnes)****AVERAGE SUGARCANE YIELDS (Tonnes per hectare)****TOTAL RAINFALL (mm)**

ACP	African, Caribbean & Pacific
ARC	Audit & Risk Committee
COMESA	Common Market for Eastern and Southern Africa
CFTA	Continental Free Trade Area
DBRP	Dollar Based Reference Price
DC sugar	Direct Consumption sugar
EAC	East African Community
EPA	Economic Partnership Agreement
EU	European Union
FSSC	Food Safety System Certification
GDP	Gross Domestic Product
IRC	Independent Review Committee
<IR>	Integrated Reporting
ITAC	International Trade Administration Commission
KDDP	Komati Downstream Development Project
LUSIP	Lower Usuthu Smallholder Irrigation Project
MEC	Marketing Executive Committee
MSIRI	Mauritius Sugar Industry Research Institute
MTTQ	Metric Tonnes Tel Quel
REMCO	Remuneration Committee
RFID	Radio Frequency Identification
SACU	Southern African Customs Union
SADC	Southern African Development Community
SASRI	South African Sugarcane Research Institute
SCGA	Swaziland Cane Growers Association
SIA	Sugar Industry Agreement
SLA	Service Level Agreement
SSA	Swaziland Sugar Association
SSG	Smallholder Sugarcane Growers
SSMA	Swaziland Sugar Millers Association
TCH/AN	Tonnes Cane per Hectare per Annum
TFTA	Tripartite Free Trade Area
TRQ	Tariff Rate Quota
USA	United States of America
VHP	Very High Pol
WTO	World Trade Organisation



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On behalf of the SSA Council, I have the pleasure once more to present the Integrated Annual Report for 2015/16, herein referred to as the Report.

This Report conveys Council's commitment to a transparent, responsible and accountable business philosophy. It is SSA's main communication tool to the various stakeholders whose business interests are closely associated and linked to the sugar industry in Swaziland and beyond. While the primary target audience of the Report are the financiers who provide the financial capital to fund the sugar production process, other stakeholders whose interests are served by the Report include members of SSA, government, various sugar industry partners, researchers and customers. The Report is issued together with the Group's Audited Financial Statements, which are available in electronic form on the SSA website (www.ssa.co.sz). In this Report, the summarized financial statements are included.

Council has embraced the concept of integrated reporting in accordance with the International <IR> Framework published by the International Integrated Reporting Council (IIRC) in December 2013. The principles in the framework have enabled SSA to embed the cycle of integrated thinking in its business

practices thus resulting in the continuous refinement of its business model. Such refinement requires a consistent review of capital allocation so as to ensure the financial stability of SSA in a sustainable manner.

Achieving excellence in integrated reporting remains a challenging but rewarding journey. In recognition of the progress made in this journey, the 2014/15 Report received first prize in the Regional section of the Integrated Reporting Awards 2015 hosted by the Chartered Secretaries of Southern Africa and the Johannesburg Stock Exchange Limited. This achievement was for the second year in succession and indicates the commitment of SSA to the values of excellence and continual improvement.

The process of compiling the Report involved various steps, including consultations with external and internal stakeholders. The previous Report was reviewed by a Management Task Team to identify any weaknesses, including compiling feedback from employees, SSA committees and external stakeholders. The information obtained from this step was used to guide the drafting of this Report, through the issuance of drafting guidelines. The guidelines for the compilation of the Report were then approved by the Audit & Risk Committee (ARC), which also approved the Draft of the Report after satisfying itself that it met the requisite integrated reporting standards. The ARC then presented the Report to Council for its approval.

Assurance

The content of the Report was assured at three levels. At the first level, SSA has developed a documented quality management system, according to the ISO 9001:2008 standard, which defines all key controls to ensure that processes operate according to the desired standards. The monitoring of the system is conducted twice a year through management review sessions attended by the entire Management Team and the outcome of the reviews is reported to Council.

At the second level, an internal review system of controls has been implemented which includes quality system audits, ARC processes, as well as continuous reporting and accountability to relevant SSA committees. These structures are all technically competent to provide reasonable assurance to



Council in terms of the integrity and effectiveness of the SSA processes and performance.

At the third level, external assurance for the financial statements was provided by KPMG Chartered Accountants (Swaziland) and their independent opinion forms part of this Report. Also at this level, DQS UL Management Systems Solutions conducted an independent audit of the Quality Management System and issued a certificate confirming that it complied with the requirements of the ISO 9001:2008 standard. The rest of external assurance of the non-financial aspects of the Report remains under consideration, especially in relation to the demands and costs of such to key stakeholders. At this stage, external assurance of the non-financial aspects of the Report is not considered warranted given the rigorous and thorough

existing processes. Specific external assurance arrangements can be provided on a case by case basis.

Council is satisfied that the Report covers and reports on all the material matters that were important in driving value creation at SSA during the period. It is also satisfied that the Report is in accordance with the International <IR> Framework and that the integrity of the information presented has been adequately addressed through the ARC processes. Council accepts full responsibility for all the information presented in this Report and has therefore approved its release. This was done on 7 July 2016.

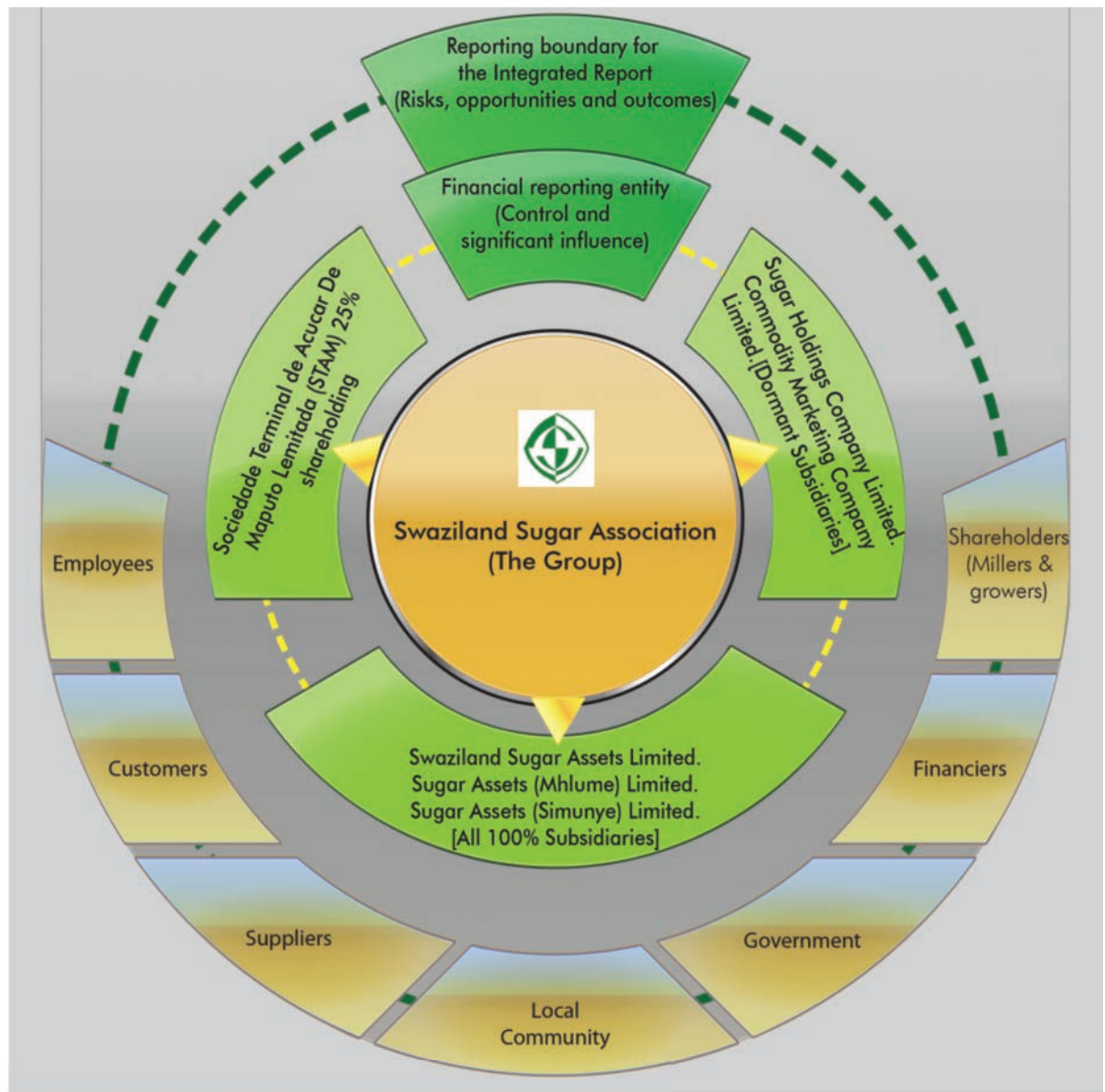
T Dlamini
Chairman

Reporting Boundary

The Report covers the period from 1 April 2015 to 31 March 2016. However, in certain sections, and for purposes of providing context and comparison to the current information, disclosure has been made that relates to previous periods and some of this information may not necessarily be available in previous reports.

The Report covers the financial reporting entity defined in the audited financial statements as "Swaziland Sugar Association, its subsidiaries and

Joint Venture Company". It provides a background to understand the full meaning and circumstances underlying the figures disclosed in the financial statements. Other entities covered include those stakeholders who are not directly under SSA control but whose activities and outcomes either affect or have the potential to affect the ability of SSA to create value. The diagram below, adopted from the International <IR> Framework, has been used to disclose these entities and their relationship with SSA.



Some of the information disclosed in the Report relates to these entities and in some cases, it relates to the future, all of whose outcomes are unknown and in certain instances highly volatile. Furthermore, certain information may be unavailable at the time of compiling this Report to enable a proper assessment of future prospects. In particular, climate change and exchange rates remain the two top areas which have a significant impact on SSA's ability to create value in the long term.

Forward-Looking Statements

This Report includes certain forward-looking statements that reflect the current views or expectations of Council with respect to future events and financial or operational performance. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond SSA's control.

These forward-looking statements speak only as of the date of this Report and are not based on historical facts, but rather reflect SSA's current expectations concerning future results and events. SSA makes no undertaking to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after the release of this Report or to reflect the occurrence of any

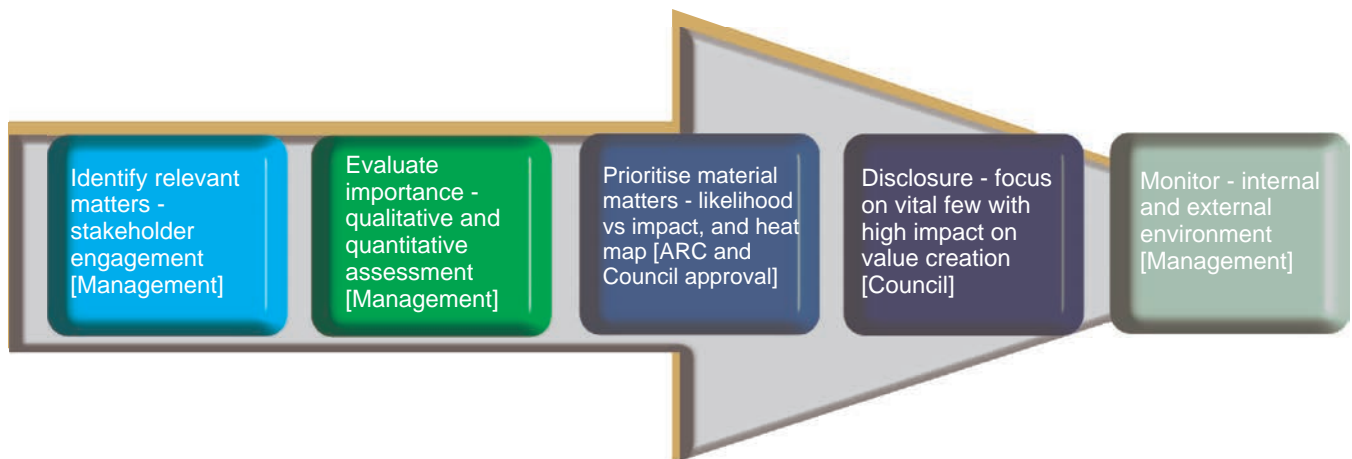
unexpected events. Readers are therefore advised to exercise caution regarding interpreting any forward-looking statements contained in this Report.

Materiality

In determining the content of the Report, SSA has taken into consideration all matters that could have a substantive impact on the value creation process and sustainability of SSA. The Report confines itself to these matters. A detailed description of the process to determine the materiality of matters to SSA is provided under the section "Materiality". All disclosures made in the different sections of the Report are meant to explain how SSA has responded to these material matters to advance its mandate of creating sustainable value for its different stakeholders.

The value created is defined in terms of the outcomes dispensed to different stakeholders in the form of the changes in the capitals over different time frames. Due to the relatively small contribution made by the industry's by-products to the value creation process and amount, these products are given cursory coverage in the Report.

The process builds upon the work done in the previous year and can be summarized in the following flow diagram.



Significant Frameworks and Methods

The Report was compiled in accordance with various best practice principles and standards from different frameworks and methods. A summary of some of these frameworks and methods is shown on the right.

FRAMEWORK, CODE, STANDARD, LAWS	SECTION OF REPORT
International Financial Reporting Standards	Financial statements
King III Code, 2009	Governance
The International Reporting <IR> framework, 2013	Content
The Sugar Act, 1967	Financial statements, Governance



The role of the President is to preside over the Annual General Meeting and to represent SSA interests in various external forums. The report on the performance of SSA during the year is presented by the Chairman of Council. The Council's report in the Summarised Financial Statements covers its oversight responsibility of SSA's affairs. A report from REMCO is presented under the Governance and Remuneration section of the Report.

My responsibility, on behalf of the members (millers and growers), is to express satisfaction with the performance of SSA during the year. Millers and growers have participated extensively, through their various representatives, in shaping the agenda and performance of SSA. The results contained in this Report are a testament to their sterling dedication and good work.

The Council has also played an important role in ensuring that SSA not only attains its objectives for the year but also creates a sustainable framework to support future industry growth. The vigilant supervision of the implementation of key strategies has been instrumental in supporting the good results contained in this Report.

The Marketing Strategy covering the period 2014/15 to 2019/20 remains the central pillar of SSA's strategies and activities. The Report provides good insight on how SSA has performed in this regard. In particular,

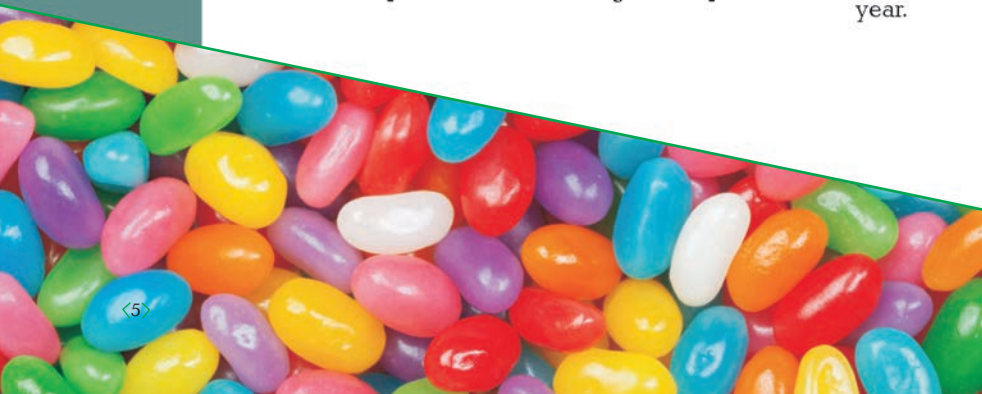
the reorientation of markets through the reduction of sales to the EU markets as well as an increase in sales to the regional markets has already started to show good results. The Extension Strategy is a long-term initiative, whose results are better measured in the medium term. The frameworks and systems put in place to support sugarcane productivity initiatives are sound.

The industry has been affected by the El Nino weather effects in the form of drought, which has significantly impacted the productivity of the members. Resilience in the face of such external shocks is key for the sustainability of the industry. At the same time, acting responsibly in sharing a precious resource, such as water, runs at the heart of the industry's *modus operandi*.

Every effort was made to spare sufficient water to meet human consumption needs while making means to extract an optimum amount of water for irrigating sugarcane fields. This was complemented by a rigorous review of irrigation systems and requirements. At the same time, a lobby was made to policy makers to act in a balanced manner when deciding on the regulation of water use in light of the prevailing drought conditions. As an industry, we express our gratitude to Government for giving us an ear and sparing a total shutdown of our operations.

Regrettably, despite such efforts, some industry members have found themselves without sufficient water to sustain their sugarcane crop. Some fields have been abandoned while others realised yields far below their potential. Efforts are underway to assist these growers to recover their production and attain optimum yields in the shortest possible time. The availability of sufficient seedcane material has been ensured.

The industry has continued to engage on the crafting of a New Vision, whose key focus is exploring new initiatives that could increase the value creation within it. Discussions progressed significantly during the year, including the identification of various cost-reduction initiatives that ought to be pursued both at individual member and industry level. Work also continued on other aspects of the Vision but discussions on these were ongoing at the end of the year.



Let me express my thanks to Council and management for the diligent work in delivering on SSA's mission and objectives. The results speak for themselves. I also wish to thank the members of SSA - growers and millers - for their support during the year. Furthermore, I wish my successor, Mr George White from the Swaziland Cane Growers Association, a good year ahead as he leads SSA through a very challenging period in which the drought effects will be at their prominence.

Lastly, let me take the opportunity to thank Dr Mike

Matsebula for his excellent leadership in moving SSA to such prominent heights during his tenure. His imminent retirement will in no way make his contribution to the industry fade in recognition. He has left a lasting legacy that can only sustain SSA into higher levels of performance and delivery. His successor and the rest of the management team shall be well served by the legacy he has left behind. I wish him well in his well-deserved rest.

N Jackson
President



SSA has strived on its motto of continual improvement to deliver good performance for its members over time. The performance results of the 2015/16 year are a testament to the effect that such a working principle can deliver. The financial value created and distributed to key stakeholders is presented in the statement below:

Value Added Statement As At 31 March 2016

	2016	2015
Wealth created		
Revenue	4,573,905,571	4,107,737,432
Marketing and logistics costs	388,451,836	287,822,803
VHP and Refining allowances	193,102,012	171,757,469
Technical services	28,206,593	26,540,914
Total wealth created	3,964,145,130	3,621,616,246
Wealth distributed as follows to stake holders		
To millers	1,211,904,332	1,113,370,566
To growers:	2,587,168,809	2,376,819,297
Out-growers	1,241,841,028	1,221,841,730
Millers estates	1,345,327,781	1,154,977,567
To government	55,022	261,996
To financiers	132,885,078	112,425,853
To donations beneficiaries	643,542	1,179,881
To employees	31,488,347	26,501,102
Total wealth distributed	3,964,145,130	3,621,616,246
Percentage distribution of wealth:		
To millers	31%	31%
To growers	65%	66%
To government*	0%	0%
To financial institutions	3%	3%
To employees	1%	0%
To donation beneficiaries*	0%	0%

*Negligible since it is less than 0,03%.

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

The sugar industry has been under pressure for the better part of the past decade, primarily driven by the reforms undertaken in its major export market (the European Union). This has seen realised prices reduce by a significant amount over the period from 2006 when the reforms were first implemented. It has required that cost and production efficiencies be optimised at all levels of the value chain.

This commentary is partly a review of the ten-year period since the implementation of the EU Sugar Sector Reforms and an annual performance report for 2015/16. During the period, the industry has taken decisive steps to improve its cost efficiencies and to deliver maximum value from the products sold. This was attained through the key objective of maximising productivity in order to increase total proceeds and to deliver maximum returns for each member.

Production

Sugarcane production has grown from 4 907 866 in 2006/07 to 5 836 899 tonnes in 2015/16. Most of this growth in production was attributed to the increase in smallholder grower schemes complemented by productivity initiatives embarked upon by the industry to increase sugarcane yields. Sugarcane yields grew from 97 to 100 tonnes cane per hectare per annum. Such performance was attained despite the challenges faced by the smallholder sugarcane growing sector where yields were the lowest at the start of the period. Smallholder yields increased by about 5% from 86,12 TCH/AN in 2006/07 to 90,24 TCH/AN in 2015/16.

Sales Revenue

Sugar sales revenues have grown by over 130% in the ten-year period, from E2 billion in 2006/07 to E4,6 billion in 2015/16. Such growth in revenue was attained despite (a) periods of high volatility in the world sugar market; (b) the downward movement of EU sugar prices; and (c) the EU continuing to absorb the largest chunk of export volumes. Year on year revenue growth was 12%, from E4,1 billion in 2014/15 to E4,6 billion in 2015/16.

Price Developments

The growth in revenue was partly due to improvement in prices and increased sales revenues. The average sugar price increased by 1,9% in the year while the sugar sales volume increased by 61 981 tonnes. Over the ten-year period, the average sugar price increased by 126% indicating an average annual increase of 12,6%. This achievement is significant in that average income growth has been above inflation, thus allowing SSA to deliver real growth to its members.

Preferential Markets

The preservation and pursuit of preferential markets has been key in delivering the performance detailed above. Even though the prices achieved in the EU market dropped, SSA sought to ensure that value was maintained in the EU through lobbying for an increase in Swaziland's tonnage to

compensate for the reduced prices while ensuring that import protection is retained against low-cost major suppliers (whose export prices are distorted by subsidies). This has allowed SSA to continue to attain good value out of EU sales, with export revenues realised from the EU increasing by 85% in the ten-year period, from E593 million to E1,1 billion.

Domestic Market

The preferential markets strategy has been complemented by the continued protection of the domestic SACU market. This has allowed SSA to realise better returns from its domestic SACU sales, despite the challenge of low-priced imports assisted by subsidies which had the potential to destabilise the domestic industry's market. A continuous assessment of the effectiveness of the SACU import tariff is done through a value chain model. Where necessary, appropriate representations are made to maintain the effectiveness of the tariff.

The Dollar Based Reference Price (DBRP) on which the tariff is established increased from US\$330 per tonne in 2007 to US\$566 per tonne currently. This DBRP tracks the movement in the world average costs of production to ensure that sugar sold into SACU is not dumped. The weakening of the Rand in the period has helped to improve the protection afforded by the DBRP mechanism, but it also points to the vulnerability of such protection to exchange rate movements. The volatility of the world price also adds a vulnerability to the effectiveness of such protection. As such, world price movements are not directly linked to movements in costs of production.

Sales to the domestic SACU market increased from 318 201 tonnes in 2006/07 to 400 081 tonnes in 2015/16. In the same period, revenues from SACU sales increased from E919 million to E2,6 billion.

Regional Market

The role and performance of the regional market have fluctuated over the period, partly due to the volatility of prices achieved and partly due to fluctuating volumes. Sales to the regional market were as high as 121 000 tonnes in 2006/07 but there were none in 2012/13 before they recovered to 33 000 tonnes in 2015/16. This points to the residual nature of the sales to this market, i.e., it historically absorbed sales that could not be profitably made to the primary markets (EU, US and SACU).

Going forward, however, the regional market will assume greater prominence. This would be aimed at ensuring profitable diversion of sugar sales currently destined for the EU, which is poised to effect further reforms in 2017. Significant effort is being exerted to the securing of preferences in the region, either from current regimes or through the creation of new ones. The Tripartite Free Trade Area (encompassing COMESA, EAC and SADC), and later

the Continental Free Trade Area, presents such opportunity. SSA is advocating for the creation of a special sugar dispensation under both arrangements to ensure that industries are able to protect their domestic markets on the one hand but also allow for preferential sugar flows into each other's markets (especially from surplus countries to deficit countries) on the other hand. Various discussions were held during the year within the region, either at industry level or with governments, in pursuit of this strategy.

Management Review

At the two management review sessions held during the year, the SSA systems and processes were reassessed and the outcome was that they still remained adequate and appropriate. Additional resources to support the new initiatives under the Marketing Strategy and New Industry Vision are under consideration.

Retirement

My retirement brings with it a great sense of satisfaction for me personally. During my tenure at SSA, there have been great strides made in the growth of the industry and in SSA's achievement of its business objectives. This included navigating very challenging terrains. The challenge is in ensuring that such foundation is sustained for the long-term benefit of the industry.

I leave behind systems that I am confident will serve SSA well. They have come about as a result of the collective wisdom of the management team and its supervisory bodies, including Council working with its subcommittees. All these pillars remain behind, which gives me the greatest comfort that SSA shall continue to prosper into the long term.

Mike Matsebula (Dr)
Chief Executive Officer

Ownership and Operating Structure

SSA is a member-driven organisation formed by the collective units of millers (Swaziland Sugar Millers Association) and growers (Swaziland Cane Growers Association). It has a constitution to establish it and to guide its affairs. In terms of the Sugar Act, SSA is a non-profit making corporate entity. The Council, working with its subcommittees, supervises and provides policy direction to SSA. The SSA management team is led by a CEO and its main function is to provide technical and operational support to Council and its committees.

Principal Activities

SSA provides services necessary for the regulation and general development of the Swazi sugar industry as well as the marketing of all the sugar and molasses produced in the country. The SSA office is structured to perform services such as support to sugarcane production, cane testing, marketing & logistics, treasury & financing, and economic research.

Sugarcane Production

SSA provides extension services to growers so that they produce good quality sugarcane on a sustainable basis. This is done by developing and promoting improved agricultural practices aimed at reducing production costs, increasing sugarcane yields and sustaining production in the long term. These are attained through conducting relevant research, providing an extension service (through a service level agreement with the millers), providing crop pest & disease protection services, irrigation management, controlling and supplying healthy seedcane. In improving its service delivery on variety research and release, SSA collaborates with the South African Sugarcane Research Institute (SASRI).

Cane Testing

The cane testing service ensures reliable and accurate measurement of sucrose delivered to the mills to facilitate payment to growers. The Cane Testing Service Technical Committee is responsible for establishing and updating the procedures for the testing of the cane quality. SSA provides an audit service on the processes, laboratory methods and procedures as well as related infrastructure to provide the assurance to the growers and millers that the sucrose payment process is accurate and reliable.

Marketing and Logistics

The overriding mandate is to obtain maximum, sustainable returns for the industry from the marketing and sale of industry products. In this context, the activities include the marketing, warehousing and movement of sugar as well as molasses. SSA monitors market-specific regulations (e.g. market access regulations, food safety standards and product specifications) as well as customer complaints. The monitoring and usage of the information acquired is important not only to meet customer requirements but also to enhance the competitiveness of Swazi sugar in the market place.

SSA also monitors, advises and advocates on key trade agreements in the domestic, regional and international markets where Swazi sugar is sold. These include the SADC-EU Economic Partnership Agreement (EPA), SACU Agreement, COMESA Free Trade Area, World Trade Organisation (WTO) Negotiations, Tripartite Free Trade Area and Continental Free Trade Area. These are critical for the successful marketing of Swazi sugar.

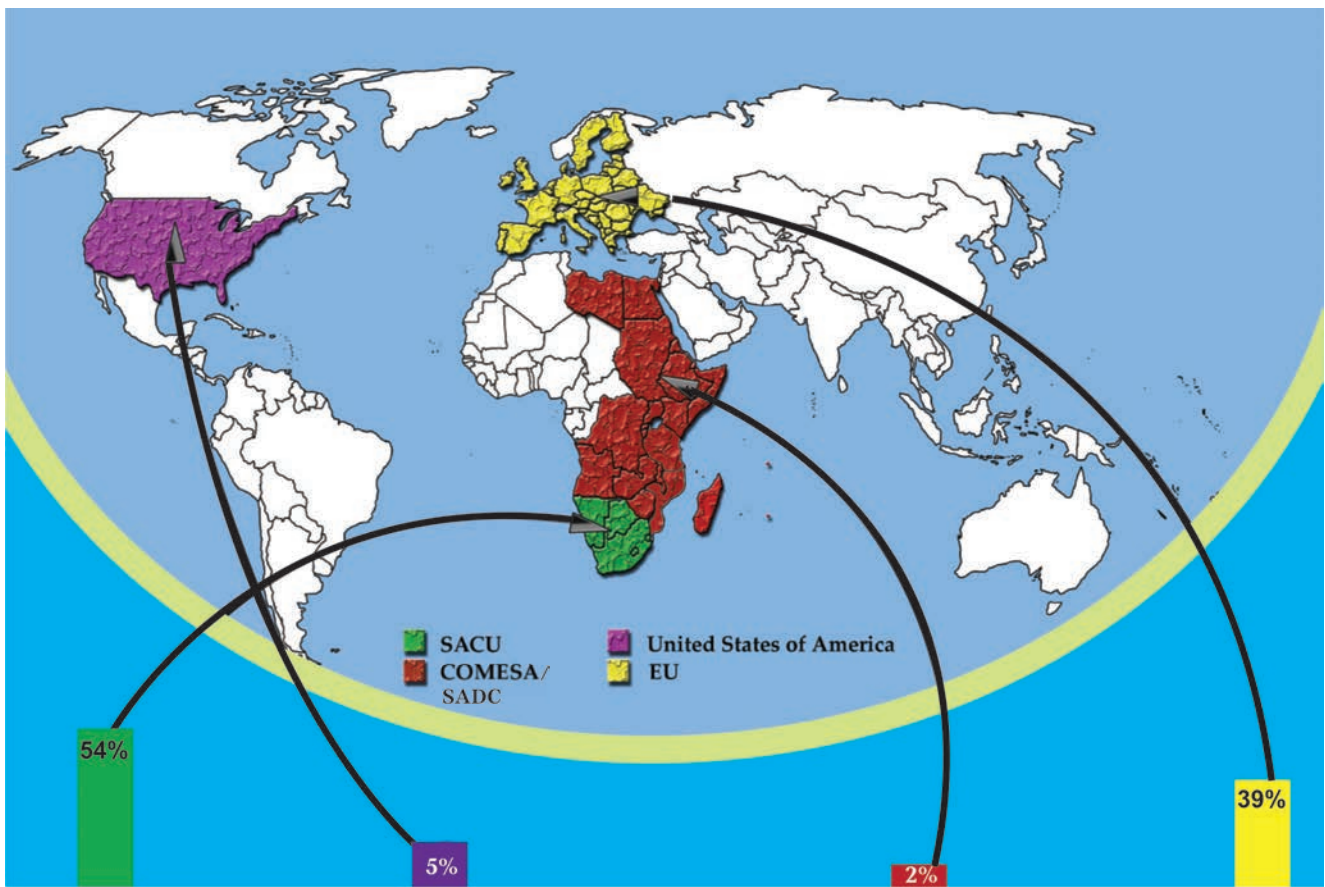
Treasury and Financing

This service entails controlling the financial affairs of SSA. It includes the payment of proceeds to millers (for onward payment to growers of their share), consolidating the annual budget, compiling sugar and sucrose price estimates, sourcing financing for the payment of sugar supplied by the mills, implementing the foreign exchange hedging policy, and cost control monitoring. It also oversees the IT function as well as the financing and implementation of capital projects.

Economic Research

Activities under this function include maintaining a marketing information system which captures prices and other pertinent information in the different market segments for Swazi sugar which is used for purposes of market research. It also coordinates industry efforts financed under the EU and other donor institutions. It monitors, analyses and gives advice on international developments which have implications for the sugar industry. Finally, it undertakes special projects whose needs may arise from time to time.





Products and Markets

Sugar and molasses are the two main products for SSA. Swazi sugar is sold into both the domestic and export markets while all molasses produced is sold in the domestic market. The domestic sugar market includes both the local Swaziland and the wider SACU area because of the free movement of goods within the Custom union. The SACU market is supported by an import tariff regime which minimises the entry of foreign sugar and is not subjected to exchange rate exposure. The export markets include the EU (duty-free quota-free access), US (WTO-bound Tariff Rate Quota), COMESA (accessed on preferential terms under a derogation) and World Market.

National Context

The sugar industry is large in terms of its contribution to national income and employment. It accounts for about 74% of agricultural production, 35% of agricultural wage employment and 13% of GDP. It also accounts for about 25% of total merchandise exports. Swaziland is also Africa's fourth-largest sugar producer (after South Africa, Egypt and Sudan). Other attributes of the Swazi sugar industry are reflected in the diagram on the right.

Production and Revenue Generation

- 5.8 million tonnes cane produced.
- 695 000 tonnes of sugar produce.
- Over E4,5 billion revenue.

Employment Creation

- Over 10 000 direct employment.
- Employs both seasonal and permanent labour.
- Employs skilled and unskilled labour.

Social Services

- Education, health, recreation, town management and other social services.
- Spends over E75 million per annum.

Economic Empowerment

- Participation in cane growing, milling and sales.
- Value added rebates for local entities.
- Outsourcing and procurement.

- 74% of agriculture output
- 35% of agriculture employment

- 25% of manufacturing output
- 18% of manufacturing employment

- 13% to GDP
- 17% to national employment
- 13% to export earnings

The Global Market

The world sugar balance has been in surplus in the past five years; but a deficit is forecasted in 2015/16. The surpluses were supported by generally higher world sugar prices in the turn of the first decade of the millennium. These surpluses have resulted in a downward pressure on world sugar prices in the recent past - thus causing contraction in production from some of the large sugar producers. Some of the extra production accumulated during the surplus years has been accumulated in stocks. It is these high stocks that have prevented the quick recovery of world sugar prices, despite the deficits forecast in the next two seasons.

WORLD SUGAR BALANCE 2014/15-2015/16 (MTTQ)

ITEM	2015/16 (MLN)	2014/15 (MLN)	CHANGE	
			(MLN)	(%)
Production	163,9	171,2	-7,3	-4,3
Consumption	170,6	167,5	3,1	1,8
Surplus/Deficit	-6,7	3,7		
End Stocks	80,8	87,3	-6,5	-7,5
Stocks /Consumption ratio in %	47,4	52,1	4,7	9,9

Source: International Sugar Organisation, Quarterly Market Outlook, May 2016

According to the ISO, the global production has declined from 171 million tonnes in 2014/15 to 164 million tonnes in 2015/16 while sugar consumption grew from about 168 million tonnes in 2014/15 to 171 million tonnes in 2015/16. In the corresponding period, closing stocks reduced from 87 million tonnes to 81 million tonnes. The deficit in 2015/16 is estimated at 6,7 million tonnes.

World raw sugar prices (New York No.11) had recovered about 25% during the year as they were at 12 US\$/lb at the start of the year but had recovered to 15 US\$/lb at the end of the year. White sugar prices (London No.5) were US\$358 per tonne at the beginning of the year but had increased to US\$445 per tonne at the end of the year.

The major changes to production in Africa were due to significantly lower production in South Africa as a result of the drought experienced in the past two years. Production in South Africa reduced from 2,1 million tonnes in 2014 to 1,7 million tonnes in 2015 (ISO, May 2016). Recovery of production is not foreseen in the short-term.

SSA Markets

SACU Market: The SACU market is a surplus producing market - i.e., it produces more sugar than is required for domestic consumption. As such, the traditional

competitors for Swazi sugar are the South African sugar millers. Given that SACU is a protected market, the only sugar allowed to enter under a preferential arrangement is that from non-SACU SADC sugar producing countries which have quota access under Annex VII of the SADC Protocol on Trade (the SADC Sugar Cooperation Agreement). Two additional sources of competition are illegal cross-border flows and most favoured nation imports from overseas large producers (particularly Brazil, Thailand and India). The competition from foreign sugar can be particularly destabilizing when it is flowing into "traditional" Swazi sugar markets within SACU and is imported at the very low highly distorted world prices.

EU Market: The EU market is a major importer of sugar, mainly from the African Caribbean and Pacific countries and least developed countries. Market access for these countries is on a duty-free quota-free basis. Swaziland is also a beneficiary under this regime. Owing to the EU sugar sector reforms instituted since 2006, the prices obtainable in this market have declined over the years but this has been partly compensated by the increased volume (after the EU abolished the import quota system in 2009). Most of the sales to this market are in the form of bulk raw sugar for further refining although the SSA strategy has been to increase sales of sugar for direct consumption over the years owing to the premium received for such sugars (especially VHP sugar). To the extent possible, in light of limitations presented by absorption by alternative markets and logistics infrastructure, most of this sugar is earmarked for diversion to the regional market. Market access will be governed by the Economic Partnership Agreement once it is signed and rectified, expected to be before 1 October 2016.

US Market: Swaziland has a limited tariff rate quota to the US market, where it sells a minimum of 16 000 tonnes per annum (but can be increased in the case of additional allocations being offered by the US). This market is currently providing the best returns for bulk raw sugar, thus diversions from the EU are pursued to the maximum extent possible.

Regional Markets: The regional market comprises both SADC and COMESA. While SADC is a surplus market (mainly due to the SACU producers) COMESA is a deficit producer. Thus opportunities for selling Swazi sugar exist both in the rest of SADC (outside SACU) and in COMESA. This comprises what is termed the regional market. Due to the deficit nature of the market, major competitors are other regional producers (especially South Africa) as well as world sugar suppliers (such as Brazil, India and Thailand). Opportunities to increase sales to this market are being explored, including under the Tripartite Free Trade Area currently under negotiation.

World Market: The major source of competition in this market is all world sugar producers (dependent on proximity) but mainly the major producers like Brazil, India and Thailand.

Select Swazi Sugar Industry Data

Parameter	2011/12	2012/13	2013/14	2014/15	2015/16
Area Under Cane (ha)	54 876	57 263	58 979	59 586	59 924
Area Harvested (ha)	51 877	53 666	55 478	56 438	57 685
Cane Production (tonnes)	5 456 409	5 648 542	5 591 830	5 639 193	5 836 553
Yield (tonnes cane per hectare)	105,2	105,3	100,8	99,9	101,2
Sucrose Content (%)	12,8	12,5	13,7	13,9	13,9
Sucrose Production (MTQ)	696 132	707 789	767 292	781 313	813 966
Sugar Production (MTQ)	646 781	658 137	653 337	686 778	695 408
Cane : Sugar Ratio	11,9	11,7	11,7	12,2	11,9
Average Dam Level (%)	95,10	90,55	99,75	80,68	34,90
Annual Rainfall (mm)	1 668,20	2 027,50	2 013,60	1 104,80	1 031,50
Number of Growers					
Large Scale	9	9	9	9	9
Medium Scale	32	29	27	31	29
Smallholder	414	433	413	427	450
Average Sugar Price	3 855	4 819	5 388	4 880	4 972
Average Sucrose Price	2 435	3 028	3 365	3 031	3 119

Compliance with Market Requirements: SSA produces high quality sugar which meets customer specifications. The specifications are continuously reviewed to cater for new customer and market requirements. Given the wide array of requirements from different customers and different markets, SSA's approach to the determination is to aim for the most stringent of these specifications so that its sugar can retain its competitive edge in the market. Mill production systems and testing laboratories are continuously revamped to support this goal. At the same time, controls are ensured at the warehouses before the sugar is dispatched to customers.

External Environment

The external environment can significantly impact the SSA business and sugar industry in general, through impacting - either positively or negatively - its value creation capabilities. Even though the external environment can impact an array of segments in the sugar industry's or SSA's value creation, the focus in this section is on those elements that significantly impact both the cane growing and the marketing of sugar.

Sugarcane Growing

The need to continually improve the productivity of sugarcane growing especially among smallholder growers continues to drive the industry's intervention. This spans across the whole value-creation chain with respect to sugarcane growing - i.e., from research on appropriate

varieties through pest and disease control up to delivery of sugarcane to the mills.

Climate Change and Water Availability

This is an environmental challenge that continues to affect the industry directly and will continue to impact business continuity, sustainability and profitability. The El Nino effect caused severe drought in the industry. The rainfall received was very low and its distribution has compromised water availability for irrigation purposes. Some rivers have run dry and dam levels remained low for most parts of the year, which negatively affected sugarcane production. Moreover, extreme temperature variations in the past year impacted negatively on the productivity of the crop. The main strategies to deal with these have been securing current and future water resources, policy advocacy on setting water tariffs, increasing efficiencies in water usage through irrigation scheduling programmes, changing irrigations systems for more efficient ones and conducting studies to inform appropriate adaptation strategies to climate change.

Cost Pressures

The Swazi sugar industry is one of the world's leading cost-competitive producers of high quality sugar. However, increases in production costs are impacting negatively on this competitiveness and are projected to slow down profitability and dampen sustainability. This is more so in light of the projected price declines in premium markets. The sugarcane growing sector also remains vulnerable to increases in costs of fertiliser, chemicals, energy for irrigation, labour and haulage which averaged 7,54% per ha for the period ended March 2015, according to the 2015 Grower Cost Survey. This was higher than the average inflation recorded in 2014/15 of 5,7%.

It is imperative for the industry to continuously find ways of reducing costs and improving on efficiencies. Over the past couple of years, the EU has injected a considerable amount of funds to improve the competitiveness of the sugarcane growing sector. Cumulatively, the industry has also invested over E2 billion in expanding capacity and improving productivity as well as efficiencies at field, factory and administration levels.

Sustainability

Sustainable Sourcing Initiatives are fast becoming requirements for sugarcane growing. These put pressure on the industry, especially smallholder sugarcane growers who are now expected to conform. Recognising the need for sustainable sugarcane production, the industry developed a production manual which is aimed at ensuring that growers adhere to best management practices. Moreover, Environmental Management Guidelines (EMG) were incorporated in the production manual for growers to produce sugarcane in an environmentally sustainable manner.

A Sustainability Management Tool (SMT) has been

developed and is currently being piloted. The aim is to roll it out to all growers within the industry.

SSA has recently become an associate member of Bonsucro, which is a milling and production standard aimed at promoting the sustainability of sugarcane farming. This membership will allow it to monitor developments on sustainability standards and, going forward, enable it to make an informed decision on the sustainability model/system to be adopted by the industry. A jurisdiction-approach pilot project has been approved by Council to create a sustainability vision for the sugar industry and compile the necessary programme to achieving it. The whole process will involve all pertinent stakeholders from both inside and outside the industry and will be based on consensus. It will be driven by a Task Team comprising representatives from SSA, SSMA and SCGA.

Marketing and Trade

Customer Requirements and Product Liability

Swaziland is a small country with just over a million people. Such a small population necessitates an outbound marketing strategy for its products. International and regional trade agreements provide opportunities for market access. These markets are however either highly regulated and protected or being subjected to regulatory reforms. Such reforms sometimes adversely affect the marketing of Swazi sugar.

Compliance with Food Safety Standards

There is continued pressure for SSA to comply with food safety standards. The mills where the sugar is produced

are under constant pressure to ensure that they are certified for food safety standards and maintain their certification as failure to do so would impact SSA's ability to sell to certain customers.

Compliance with Market Requirements

SSA produces high quality sugar which meets customer specifications. The specifications are continuously reviewed to cater for new customer and market requirements.

Logistics

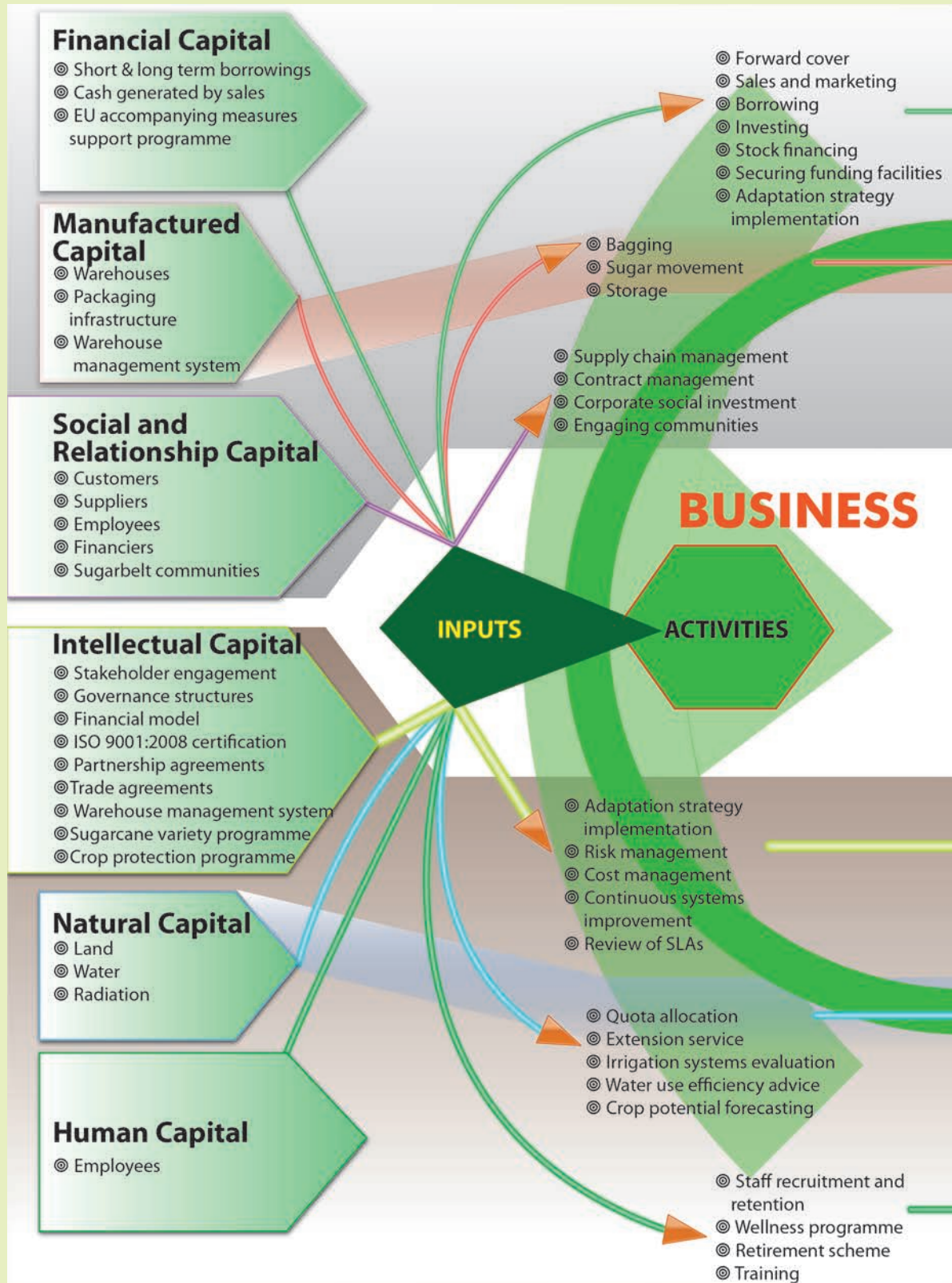
Swaziland, being a landlocked country, has no port facilities. However, the sugar industry owns 25% of STAM, the company operating the sugar terminal in Mozambique jointly owned with the sugar industries of Mozambique, South Africa and Zimbabwe. The sugar is transported by both road and rail to the port of Maputo; enabling SSA to maximize transport efficiency and meeting customer shipping requirements. Poor regional infrastructure has also negatively impacted SSA's ability to move sugar competitively in the region.

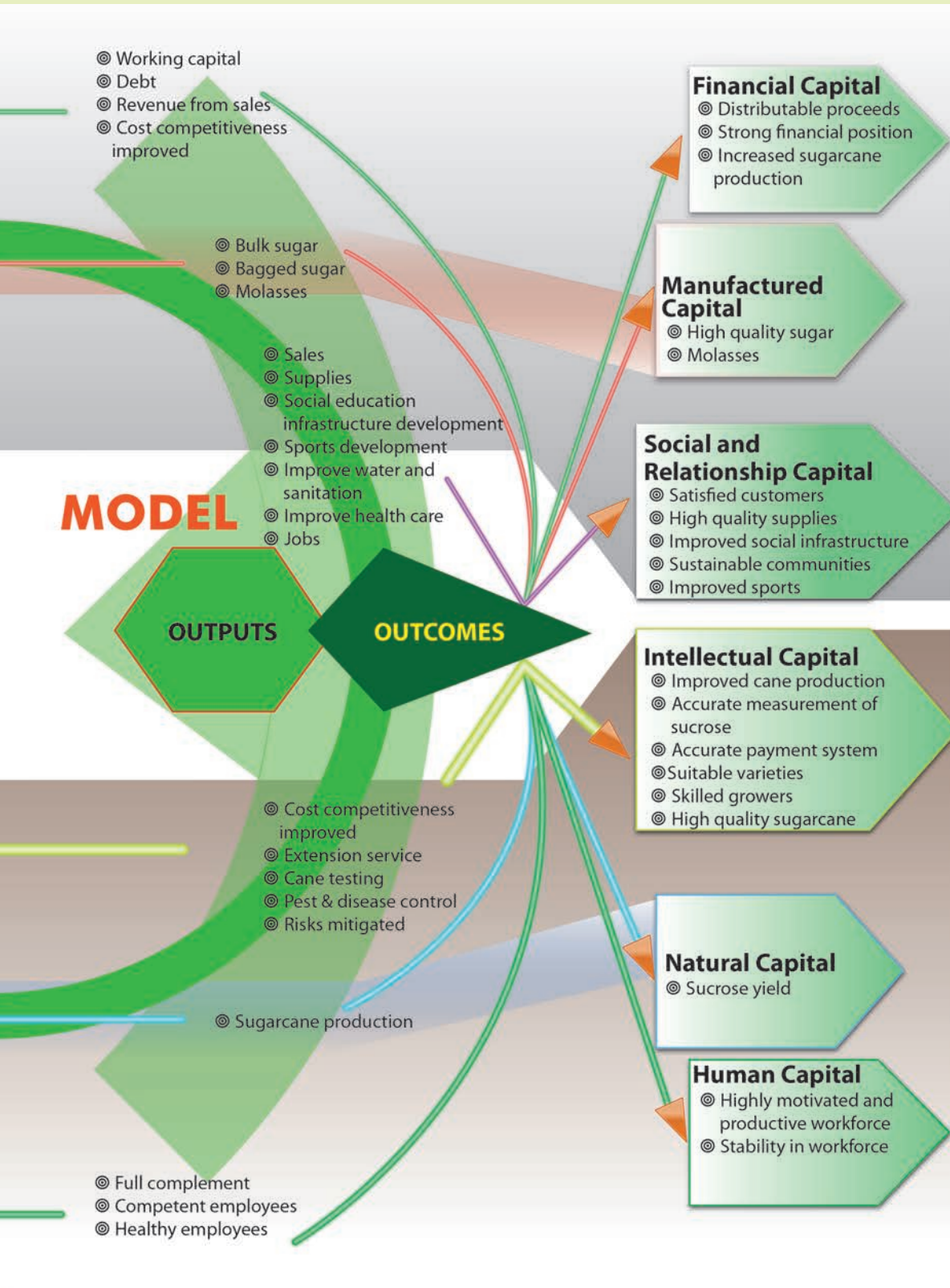
Foreign Exchange Exposure

As half of the sugar sales are destined for the EU and other markets outside the Common Monetary Area, the contracts entered into are denominated in foreign currency. Currencies used are either the Euro or US Dollar. Significant currency fluctuations have a huge impact on SSA revenues, whether positively or negatively. To minimise the negative impact, SSA has a hedging policy in place. The policy advocates for the use of foreign exchange contracts which cover a given period in order to cushion against volatility in foreign exchange markets.



The model below, adopted from the International <IR> Framework depicts how SSA utilizes the six capitals to create value for its key stakeholders. The business activities and processes disclosed are those that address the material matters. The model shows the resources required for creating value; the key business activities and processes in place to convert the resources; the outputs and outcomes of the key processes; the value created in terms of the capitals; as well as the stakeholders for whom the value is created.





Definition of Materiality

SSA defines materiality in terms of those matters that have the potential to substantively affect SSA's ability to create and sustain value over the short, medium and long term. These impacts are assessed in terms of the following:

- Possible economic impacts to the business
- Degree to which it affects key stakeholders

- Extent to which it is likely to grow in significance and impact the business in the future
- The business opportunities it presents
- Level of risk it presents

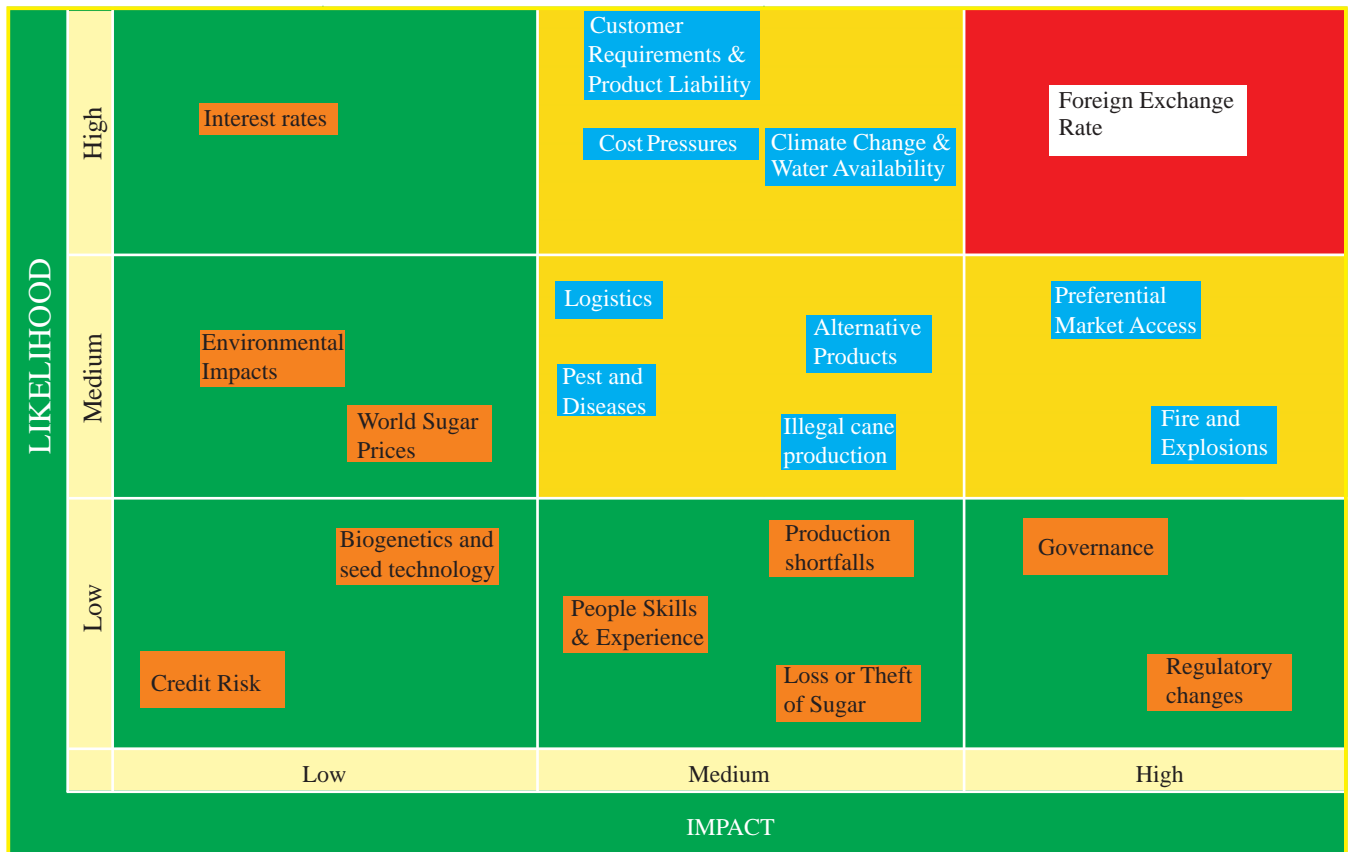
Materiality Determination Process

The materiality determination process at SSA, which is largely adopted from the International <IR> Framework is explained in detail in the table below.

Item	Action	Description	Sources/inputs	Key Personnel Involved
1.	Identify relevant matters.	Relevant matters are all those that could directly or indirectly affect value creation process.	<ul style="list-style-type: none"> ○ Stakeholder engagement programme ○ Risk Register ○ Feedback from IAR 2014/15 ○ Management Review Sessions ○ Council agenda ○ Customer survey 	Management and all employees
2.	Evaluate importance.	Importance is measured by potential impact on strategy, governance, performance and prospects.	<ul style="list-style-type: none"> ○ Quantitative and qualitative analysis ○ Stakeholder attitudes 	Management
3.	Prioritise material matters.	This is to assist in focusing on the most important matters which have the most substantive impact on the business.	<ul style="list-style-type: none"> ○ Heat Map and Risk Register 	Management, ARC and Council
4.	Disclosure	Description of context of the matter and strategic response. The collective judgement of management is used to arrive at a shortlist of matters for disclosure.	<ul style="list-style-type: none"> ○ Stakeholder engagement programme. ○ Strategic objectives 	Management, ARC and Council
5.	Monitoring	The priority and relative importance of a matter may change over the period and the monitoring is to ensure that no value is lost due to changes in the business environment.	<ul style="list-style-type: none"> ○ Risk Register captures emerging risks, opportunities and trends ○ Previous integrated annual reports 	Employees, Management, ARC

This is the same process that was used to produce the material matters disclosed in the previous year. The process involved a management workshop which was facilitated by an external consultant. For the 2015/16 period, SSA has reviewed the previous list of matters to check that there are no new circumstances that may require addition or

subtraction of some matters from the list and whether there are no circumstances that necessitate a revision of the priority of the matters. The complete list of relevant matters and their relative importance is shown in the heat map below.



Disclosure of Material Matters

Following this process, matters were identified, in order of priority, as either make or break in the context of value creation for SSA. These matters have not changed both in context and/or in priority from the 2014/15 list.

Material Matter	Why it is important	Strategic Response
Preferential Market Access	The existence of preferential markets supports SSA in obtaining relatively more remunerative prices than would have been the case otherwise.	<ul style="list-style-type: none"> Continuing to monitor developments and risks around the markets and where necessary lobby and advice government accordingly. Pursuing opportunities for new markets in Africa.
Foreign Exchange Rates	Foreign exchange is a key contributor in determining the returns of the business because almost 50% of sales are in foreign currency. The business is highly sensitive to foreign exchange fluctuations.	<ul style="list-style-type: none"> The Risk and Hedging Policy is continuously reviewed to improve its effectiveness.
Cost Pressures	The ability for the industry to be competitive in the market place depends on its ability to maintain low costs of production. It is essential to contain costs of production in sugarcane production because they affect profitability and sustainability of the sugarcane growing enterprises and the industry.	<ul style="list-style-type: none"> Conducting periodic cost surveys to assess trends in costs of production and identify strategic response initiatives through national and industry level interventions. Continuing to support growers to improve cane yields to improve productivity.
Customer Requirements & Product Liability	Customers determine quantity, form and quality of product that SSA must supply to the market. This is formalised through sugar specifications, and supply agreements. Failure to satisfy these exposes SSA to risk of losing customers and/or product liability.	<ul style="list-style-type: none"> Continuously monitor certification requirements to ensure it is maintained. Maintaining and ensuring minimal deviations from SSA sugar specifications.
Climate Change and Water Availability	Sugarcane crop water requirement is met by rainfall (24%) and irrigation (74%). Availability of water resources is critical to the survival of the crop and in turn sugar production. It is also important to assess the possible impacts of climate change on the industry including its financial implications and sustainability.	<ul style="list-style-type: none"> Monitoring of trends of water levels in all major dams and rivers is done regularly, including advising on strategies to save and efficiently use the available water. Investigating and participating in national efforts to improve water storage infrastructure.
People Skills and Experience	At the centre of the execution of the SSA's strategic objectives is human capital. The attraction of competent human capital and the retention of skills and experience is one of the key objectives for the organization. To retain skilled employees, they should be suitably rewarded. To encourage excellence, SSA also needs to ensure that employee rewards are linked to clearly defined performance measures.	<ul style="list-style-type: none"> Developing and implementing appropriate policies. Remuneration benchmarking once in five years. Conducting annual performance reviews and continuous feedback sessions between managers, supervisors and subordinates. Reviewing its skills retention list annually.
Logistics	The SSA business model relies on ensuring that sugar received from the mills is immediately packaged, stored and dispatched as effectively and efficiently as possible. Poor coordination can affect the mill production. There is a risk of potential loss of customers and sales due to inability to provide appropriate packaging facilities and enough storage space.	<ul style="list-style-type: none"> Continuous assessment of logistics and infrastructure requirements is conducted annually to cater for new market requirements and necessary improvements.

SSA's fundamental purpose is to promote the efficient production of sugar as well as the optimal marketing of sugar and its by-product. The long-term strategic objective is to ensure sustainable value creation for the sugar industry.

Strategy Formulation

In the context of SSA's broad mission, Council formulates the strategies which guides the activities and operations. These get reviewed periodically in light of stakeholder inputs, changing environment (social, political, economic, market, etc.), emerging risks & opportunities, materiality changes and other functional mandates. The strategy formulation is driven by the need to provide value addition at all key points of the sugar industry value chain where SSA has a role. These key points of the value chain span from support to crop production to optimal marketing of sugar and its by-products.

Management is responsible for providing the technical support for the development and review of these strategies. The management proposals are presented to the relevant subcommittees of Council for review prior to Council approval. These strategies may be short-term (a period of one year or less), medium-term (a period of 2-5 years) or long-term (a period more than 5 years). Despite such possible classification, the focus of each of these strategies is to ensure that the long-term sustainability of the industry is ensured - thus some strategies may not be easily classified in terms of the traditional time periods.

In order to track progress on an annual basis, Council determines annual (short-term) objectives to be pursued by management. Management is then measured on its ability to deliver on these annual objectives. Every effort is made to ensure that the objectives are aligned with a long-term sustainability concern and that the short-term goals do not compromise the long-term interests of the SSA or industry.

The table on pages 26-27 summarises the various key strategies pursued by SSA for the short, medium or long term. These strategies are informed by the material matters identified for the business as well risks & opportunities. Some of the strategies are documented through official strategy documents e.g.

Crop Production Research Strategy, Extension Strategy, Marketing Strategy and Funding Strategy .

Key Strategy Documents

A summary of the key SSA strategy documents is provided below:

Crop Production Research Strategy

It seeks to investigate and introduce novel methodologies in sugarcane production aimed at maximising sucrose yield and other sugarcane-related revenue streams. These include the provision of sugarcane varieties that are high yielding, resistant to pests and diseases, broadly adapted (to soil types, climatic conditions and harvesting seasons) with good ratooning ability, and highly efficient in resource utilisation (e.g. water and fertilizers).

Extension Strategy

SSA provides extension services to growers through a service level agreement (SLA) entered into with the mills. The strategic objective in providing the extension services is to improve yields and ensure sustainability of sugarcane growing through providing technology transfer and advisory services to sugarcane growers on all aspects of sugarcane production. This includes the provision of advice based on research findings, facilitating the quick adoption of improved agricultural practices with the primary aim being to increase productivity, profitability and sustainability of smallholder growers. The focus on smallholder growers is informed by the fact that they are relatively new to the industry (and would take time to master the skills of productive cane growing) and they are also a more vulnerable segment of the industry, presenting risks to the long-term sustainability of the industry from a cane delivery and capacity utilisation perspective.

Marketing Strategy

The main purpose of SSA under the marketing function is to maximize revenues in a sustainable manner from sales of sugar and its by-products. The Marketing Strategy focuses on the supply of good quality products and services, optimal sales mix (in terms of products, customers and markets), access to preferential markets as well as optimising warehouse and transport logistics. The marketing strategy covers the period 2014-20. The current reporting period is therefore the second year of implementation of this strategy.



Funding Strategy

The SSA business model requires a lot of financing as industry members are paid on production of the sugar, while the sugar is sold at a later stage. The cash-flow requirements to meet this obligation are therefore huge. In the current period, the peak borrowing requirement was E2,3 billion.

SSA therefore needs a sustainable funding strategy in order to enable it to meet its funding requirements in a sustainable and cost effective manner. This supports the attainment of its strategic objective of sustainable value creation for the industry.

Material Matter	Risk/Opportunities	Strategy	Key Performance Indicator
Preferential Market Access	<ul style="list-style-type: none"> Loss of market and/or reduced value of preferential markets 	<ul style="list-style-type: none"> Develop regional market preferences. Review sugar specification to meet customer and market requirements. Seek preferential access to new markets. Retain preferences in existing markets. Increase exposure to industrial/manufacturing customers in SACU and regional markets. Develop sustainability policy. Ensure maximum flexibility to switch between markets (in pursuit of maximum returns). Include preferential trade in sugar under the TFTA and CFTA arrangements. 	<ul style="list-style-type: none"> Market access preferences (retention and expansion) Sugar price Meeting market and customer requirements Customer approval status Inclusion of sugar trade preferences under TFTA and CFTA
Foreign Exchange Rate	<ul style="list-style-type: none"> Failure to achieve budgeted rates and value creation 	<ul style="list-style-type: none"> Review the hedging policy to ensure it efficiently delivers on its purpose. Minimize number of currencies used in foreign trade and use local currency (incl. Rand) wherever possible 	<ul style="list-style-type: none"> Average rates of forward cover achieved Sugar price achieved
Cost Pressures	<ul style="list-style-type: none"> Failure to achieve high yields that would sufficiently compensate for increasing costs. Increasing costs of production to unsustainable levels. Smallholder grower capacities and independence. 	<ul style="list-style-type: none"> Improve grower cane and sucrose yields. Vigorously implement pest & disease control procedures (incl. plough-out of fields presenting risk) plus provide appropriate training. Roll out water conservation and efficient irrigation guidelines. Ensure sufficient seedcane to support replanting initiatives (incl. for growers affected by drought). Use grower self-audit tool to foster sustainability and independent management of businesses by smallholder growers. Pursue training growers on best farming management practices. Capacitate growers to be self-reliant thus allowing extension services be on a request (demand) basis as opposed to supply driven. Provide extension services holistically to include all aspects of sugarcane production, best management practices and business management skills. Participate in the implementation of SADC Biosecurity Strategy. Sugarcane yields. 	<ul style="list-style-type: none"> Costs of sugarcane and sugar production Marketing, logistics and administration costs Financing costs

Material Matter	Risk/Opportunities	Strategy	Key Performance Indicator
Customer Requirements and Product Liability	<ul style="list-style-type: none"> ○ Loss of business due to inability to meet customer/market requirements ○ Release of out of specification or contaminated sugar ○ Payment of claims due to supply of product out of specification 	<ul style="list-style-type: none"> ○ Pursue food safety compliance. ○ Pursue sustainability compliance in cane growing and milling. ○ Pursue packaging initiatives to suit customer requirements in the relevant market and customer segments. ○ Ensure customer satisfaction, with products and services. 	<ul style="list-style-type: none"> ○ Sugar quality ○ Customer approval ○ Customer survey ○ Customer complaints
Climate Change and Water Availability	<ul style="list-style-type: none"> ○ Production decline due to unreliable rainfall and water availability for irrigation ○ Declined yields and declines in productivity 	<ul style="list-style-type: none"> ○ Train growers on drought management guidelines. ○ Assess water storage requirements for the industry in a prolonged drought period and make recommendations on addressing identified gaps in water storage. ○ Monitor water levels in all main storage dams and major rivers ○ Develop or speedily adopt appropriate drought resistant varieties. 	<ul style="list-style-type: none"> ○ Water availability for the industry ○ Sugarcane yields ○ Sugarcane and sugar production volumes
People Skills and Experience	<ul style="list-style-type: none"> ○ Loss of skills and experience 	<ul style="list-style-type: none"> ○ Recruit and retain well skilled and motivated employees through appropriate strategies. ○ Put in place appropriate human resources policies. 	<ul style="list-style-type: none"> ○ Training ○ Employee turnover ○ Workplace inspections and injury ○ Employee wellness programme
Logistics	<ul style="list-style-type: none"> ○ Failure to store and supply product per agreed terms ○ Costs of storage, packaging and supply 	<ul style="list-style-type: none"> ○ Develop a logistics model to allow competitiveness within markets and allow flexibility to switch between markets. 	<ul style="list-style-type: none"> ○ Sugar storage capacity ○ Packaging equipment ○ Transport/logistics efficiency ○ Road and rail transport cost

Reporting

Management provides reports on the implementation of these strategy instruments through monthly and/or quarterly reports presented to the various relevant SSA committees (including Council). Where necessary, guidance on the change of strategic direction is provided. Reports on risk management are provided to the ARC by Internal Audit.

Each of the strategies mentioned above is aligned to specific strategic objectives of SSA. Performance on these strategic objectives is monitored on an annual basis, through annual Management Objectives. The objectives have targets to be met in each year under the relevant performance indicators against which they are to be measured. Performance against the management objectives is monitored half yearly and reported to Council. The measurement of achievement against targeted outcomes is outlined in the Performance section of the Report.

Risk Management

Risk management is one of the critical tools for ensuring the attainment of SSA business objectives. This responsibility is overseen by Council through the ARC. Risk management has been instilled into all operational systems of SSA. It now forms a standing agenda item in management team and Council meetings. Its effectiveness is reviewed at the half yearly management review sessions. The implementation of mitigation actions is monitored and reported monthly to Management and quarterly to Council via the ARC. Council ensures that adequate resources are provided to support SSA's risk management requirements.

The risk management process involves identifying a risk, analyzing its potential impact, evaluating its magnitude

and devising appropriate actions to mitigate the loss exposures. This is summarised in a Risk Register for the year. This is then supplemented through a monitoring of the risk control activities. While management is responsible for developing the Risk Register, the major risks are subject to review by the ARC which then outlines the oversight and assurance responsibilities, either directly by management or through the Internal Auditor. The Risk Register is a 'live' document as it gets reviewed and updated during the year by adding new significant risks identified or removing risks that fall away during the year. A critical risk identified during the year was inadequacy of water storage capacities. The process is depicted in the diagram below.



The Top Ten Risks for 2015/16

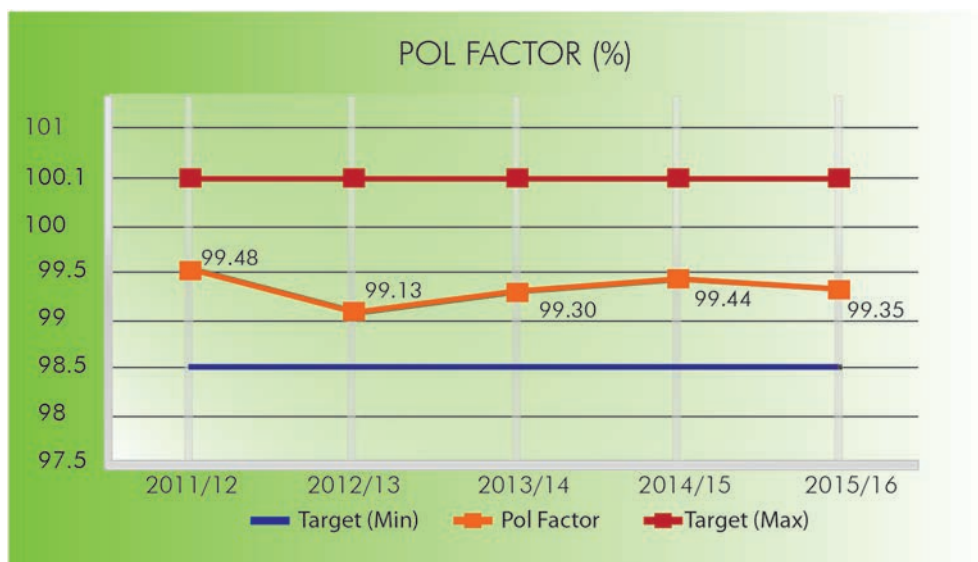
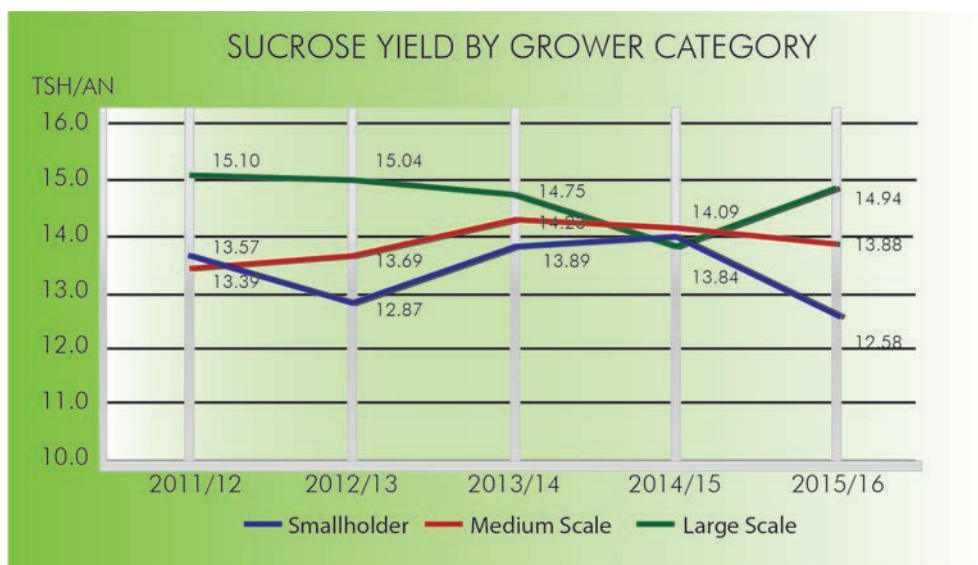
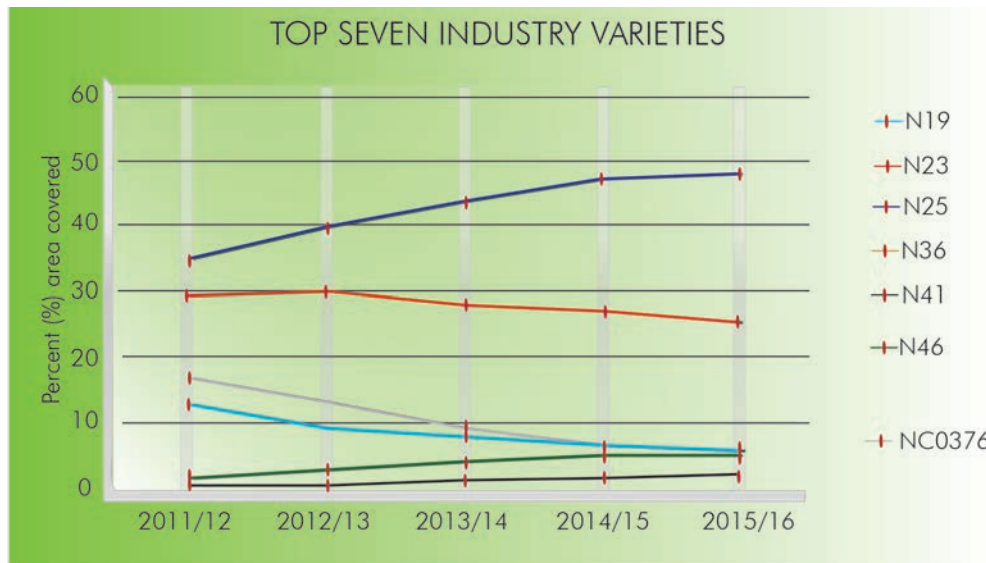
The following risks are the top ten risks, in no particular order, from the 2015/16 risk register. These (and others) were monitored and reported to Council on a quarterly basis.

Risk Issues	Key Impact	Response to Risk	Relationship to Material Matters
<i>EU Sugar Regime</i>	Loss of market and/or reduced value of preferential markets	Explore and exploit opportunities for sale of higher value products (e.g. specialty sugars, pre-packs).	Access to Preferential markets
<i>Reduction in SACU Tariff Protection</i>	Inability to achieve SACU sales budget, due to reduced sales tonnage or having to discount sugar	Monitor effectiveness of SACU tariff and make appropriate recommendations. Pursue promulgation of Bill for setting up a national ITAC.	Access to Preferential markets
<i>Foreign Exchange Exposure</i>	Failure to achieve budgeted rates and value creation	Adhere to the existing Finance Risk and Hedging Policy.	Foreign Exchange
<i>Water Shortages</i>	Production decline due to unreliable rainfall and water availability for irrigation	Develop industry guidelines on water conservation and storage.	Climate Change and Water Availability
<i>Pests and Diseases</i>	Decline in yields due to infestation of pests and diseases	Keep abreast of pest and disease issues to be able to take appropriate preventative action where necessary to control spreading. Advocate for the adoption and implementation of the SADC Bio-security Plan.	Climate Change and Water Availability Cost Pressures
<i>Fire Reticulation Systems in Warehouses</i>	Loss of business due to inability to meet customer/market requirements	Ensure that fire-fighting systems comply with established standards and that procedures are adhered to.	Customer requirements and Product Liability
<i>Dust Explosion in Conditioning Towers</i>	Loss of business due to inability to meet customer/market requirements	Confirm that silos comply with dust explosion standards and that procedures are adhered to. Conduct dust explosion audits biennially and ensure implementation of action plans.	Customer requirements and Product Liability
<i>Product Liability</i>	Failure to recall out of specification or contaminated sugar and claims due to supply of product out of specification.	Ensure mills have valid food safety certificates. Fully implement the RFID bag traceability system. Ensure product liability cover is adequate.	Customer requirements and Product Liability Logistics
<i>Loss of Skills and Experience</i>	Loss of Skills and Experience	Continue implementation of recruitment and retention strategy.	People Skills and Experience
<i>Non-compliance with Competition Act, 2009</i>	Adverse publicity and financial loss as a result of a fine being imposed.	Seek legal opinion on whether SSA trading practices and contracts comply with the Act.	Customer requirements and Product Liability.

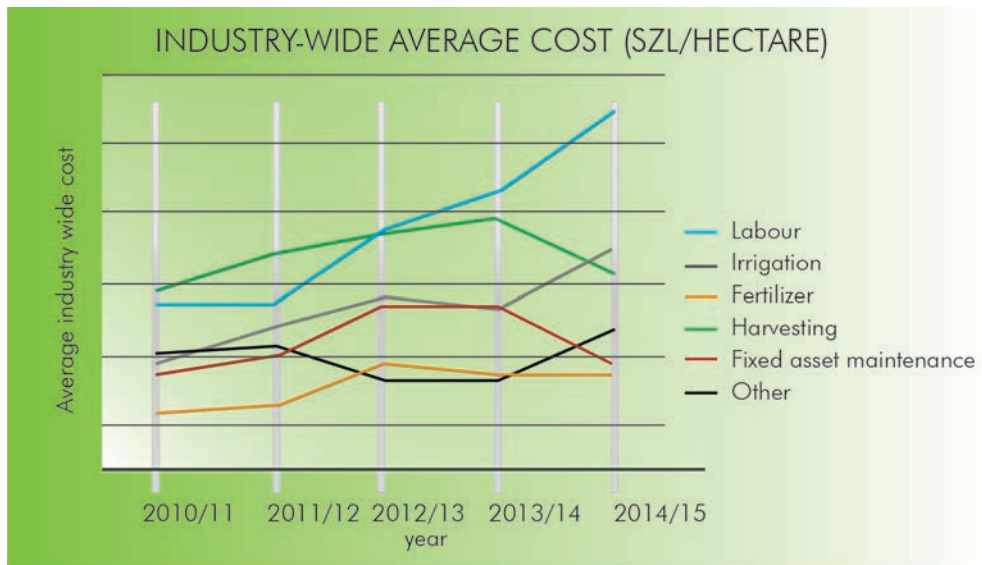
The SSA performance in many of the key objectives and deliverables is reported on the basis of each strategy's contribution to supporting a sustainable framework for present and future value creation. The performance is monitored through an annual framework that defines KPIs which are approved by Council. Generally, the performance targets are set by

taking into consideration the previous year's results. However due to the high impact of factors such as climate change and exchange rates to some of the metrics, previous year's performance is not always a useful tool to set performance targets and in such cases, the annual budget is used.

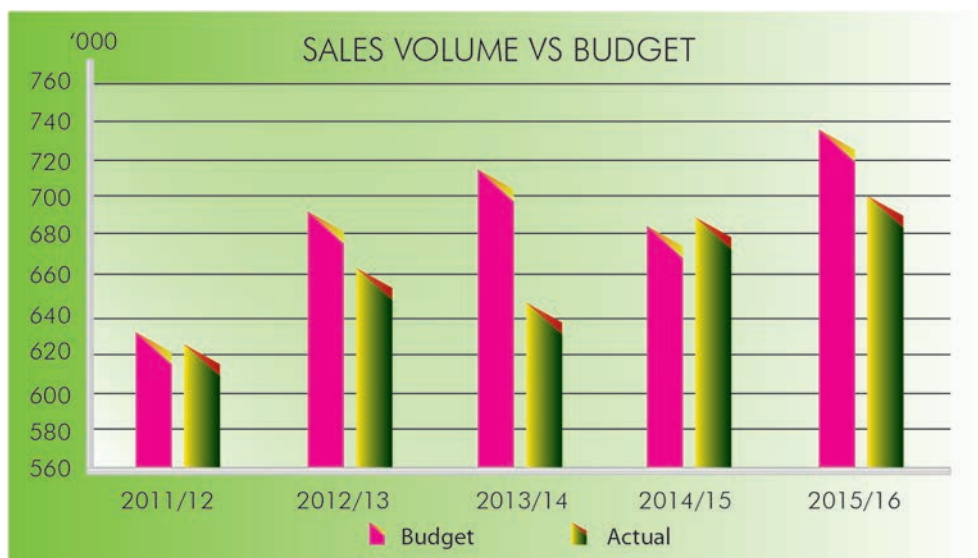
Variety Testing and Performance	<p>Continuous monitoring of variety performance remains the cornerstone of supporting sustainable yields in the industry.</p> <p>The industry target is to release, on average, at least one sugarcane variety per year. Variety testing results were released and shared with growers, to allow them to make informed decisions about future planting decisions. During the year under review, four sugarcane varieties were approved for promotion to category one (varieties approved for general cultivation) from category two (varieties approved conditionally for cultivation on declared and identified acreage). The partnership with the South African and Mauritian industries in the variety testing programme continues to bear significant positive results in the variety testing programme of the Swaziland sugar industry.</p> <p>Future focus will be on shortening the testing period and accelerating the rate of variety release so that the economic gains that come with the tested and approved varieties are realised much earlier.</p>
Grower Yields	<p>Activities in this area were focused on minimising effects of diseases and optimum application of inputs to ensure maximum yield results. These activities were pursued through pest & disease surveillance and training sessions (groups and individuals) through extension services. Field inspections for pests and diseases exceeded targets during the year, despite the addition of eldana as a focus area.</p> <p>The industry average yield was 13,91 tonnes sucrose per hectare per annum (TSH/AN) which is a decline of 0,26 TSH/AN when compared with the previous season's yields of 14,17 TSH/AN. The decline in yields was mainly due to restricted irrigation due to the prevailing drought, old ratoons, harvesting young cane (less than 12 months), poor drainage and old irrigation infrastructure. Insufficient working capital and conflicts within some smallholder grower associations also contributed to the decline in yields as inputs were not applied in some cases.</p> <p>Industry efforts are mainly focused on the smallholder sugarcane growing segment as these exhibit the most vulnerabilities while there is significant scope for improvement in yields amongst this segment. Smallholder yields were 12,58 TSH/AN, a reduction of 10,7% from the yields of 14,09 TSH/AN achieved in the previous season. This decline in yields was mainly due to the prevailing drought and grower associations' governance issues.</p> <p>In order to support recovery of yields, SSA is working with the growers to identify and replant old fields that were worst affected by the drought, install drainage systems where needed and evaluate the state of irrigation systems and their efficiencies. Governance and business training courses are conducted to capacitate the growers and create appropriate frameworks through which to address the conflicts that are sometimes observed among some of the smallholder associations.</p> <p>During the year, the industry conducted thirteen training workshops focusing on business management (record keeping and corporate governance). The intention is to wean smallholder growers from external support in a period of 10 years (from 2015, when the new Extension Strategy was adopted).</p> <p>Adequacy of water storage and harvesting infrastructure, complemented with optimum irrigation systems, forms the major focus of industry activities in this regard. This shall help create a sustainable framework to ensure adequate water availability with a view to manage future drought conditions better.</p>
Cane Payments	<p>To inspire the growers to exert maximum effort in cane growing and to assure the credibility of the cane payment system, the cane testing service plays an important role in providing an independent oversight function to mill-based laboratories who test growers' cane for sucrose quality. The target is to test at least 75% of cane consignments delivered. The sucrose delivered to the mills is measured by two independent methods and the pol factor (which is the ratio of the total sucrose as measured by the two methods) provides a check of the accuracy of the payment method. The target is to attain a pol factor of between 98,5% and 100,5%. During the year under review, the results achieved were 83% for tested consignments and 99,35% for pol factor.</p>



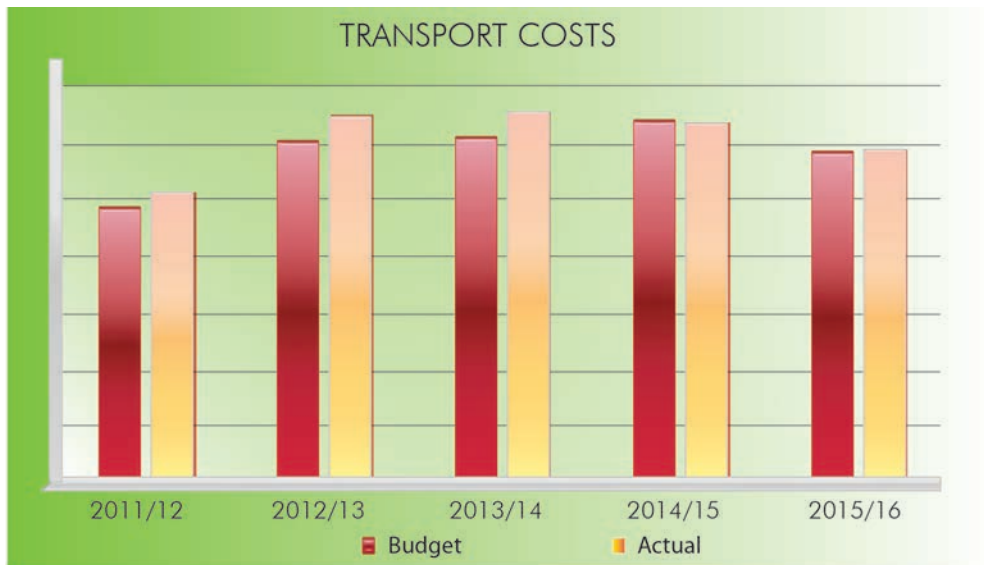
Cost Containment	<p>Given the exogenous nature of the costs that the industry incurs in sugar production, there is limited scope for direct industry interventions in costs management. The major focus is therefore on maximising yield performance in order to compensate for the inevitable cost pressures. However, there are opportunities to affect cost performance in certain areas of the industry, more especially in relation to cost efficiencies. This is geared towards achieving the highest possible return or yield from each cost component.</p> <p>In order to identify the cost elements requiring the most attention, the industry conducts two cost surveys which are then shared with members so that they could react at the individual level as well as through common mechanisms. One survey is on grower costs. It examines annual costs of growing sugarcane among all growers in order to identify areas which require intervention to improve cost competitiveness.</p> <p>The 2015 survey was conducted over the period August to November 2015 and results were issued in January 2016. The findings revealed that the highest cost elements were labour, followed by harvesting & haulage, and irrigation. The latter two costs have slightly reduced in 2014/15 compared to the previous year.</p> <p>The second survey was on global cost-competitiveness and it was conducted by LMC International and its results were validated by stakeholders in 2016. The competitiveness of the Swazi sugar industry, against other world sugar producers, was affirmed. Such competitiveness is mainly supported by higher yields, given that some costs remained outside the industry control. The role of the exchange rate in keeping competitiveness healthy (on a US Dollar basis) creates a challenge in that costs can escalate due to such an unpredictable macroeconomic variable - which is highly exogenous to the industry. Therefore, the rising costs (in local currency terms) need to be curtailed in order not to significantly erode competitiveness should the local currency strengthen against the US Dollar in the near term.</p> <p>From these surveys, an industry response strategy to cost containment will be developed and implemented through partnership with various stakeholders. Such initiatives will be at individual level, industry-wide or national, depending on the nature of the strategy to be pursued.</p> <p>SSA continues to maintain a lean and cost efficient operation, with overhead expenditures consistently increasing by less than the annual inflation rate.</p>
Preferential Market Access	<p>The ability to attain remunerative returns for the products sold depends on the maintenance and creation of new preferential market access opportunities. This is mainly a government responsibility, with the industry providing a supporting technical role focused on the sugar sector. The main activities involve the monitoring of emerging threats, responding to requests for adjustments to existing or envisaged preferences or forming necessary alliances towards pursuing strategic preferential markets.</p> <p>The SSA marketing strategy is to pursue existing markets but allocate sugar sales in a manner that maximizes revenues. Based on the returns available in each market (measured on the net ex-mill price of sugar per tonne), SSA seeks to increase its sales into the domestic SACU market while reducing sales to what was a traditionally preferential market in the EU. Some of these EU sales are diverted to the region where prices have picked up and are forecasted to remain at a premium to those available in the EU. US sales, which are against a small tariff rate quota (of 16 000 tons) are to be made on a spot basis depending on the relative returns available at the time. Prices in the US have been at a premium to those obtainable in the EU in the past three years, thus SSA has been supplying its full TRQ entitlements (sometimes out of diversions from the EU).</p> <p>Within SADC, there have been threats to preservation of existing market preferences which were averted through a two-pronged strategy. The first was to hold countries accountable to their commitments under the Protocol on Trade. The second was to invite SADC to jointly reflect on an appropriate framework for preferential trade in sugar both in the region and beyond. This is necessary from the perspective that most countries are in dual market preferences while also recognising that future opportunities may lie beyond the SADC market, where deficit markets exist.</p> <p>The industry maintains a close monitoring system on the EU market, through the services of a representative based in Europe who closely and continuously represents Swaziland interests and reports back periodically.</p> <p>During the year, through these efforts, Swaziland has been able to retain all its preferences for sugar market access. Opportunities to improve on these preferences are being pursued.</p>
Marketing	<p>The ability of SSA to maximise returns from the sale of sugar and by-products is a key measure of its performance. This is in the form of total sugar sold, total revenues achieved and prices realized from the sale of products.</p> <p>Total sugar earmarked for sale during the year was 714 283 tonnes, an increase from 704 146 tonnes in the previous year. This was mainly due to higher production (sugar production had increased by 8 630 tonnes) and lower closing stocks (stocks were reduced by 5 917 tonnes) compared to the previous year.</p> <p>Total sugar sold during the year was 700 081 tonnes to attain a sales to budget ratio of 95%. Some of the targeted sales were deferred to the next season due to customer requests. Since the sugar was earmarked for supply during the off-crop period it was kept in stock, thus increasing the closing stocks for the year.</p> <p>Closing stocks were 96 496 tonnes, a decrease of 5 917 tonnes from the stocks of 102 413 tonnes held in the previous year. The size of closing stocks is a function of both sales performance and customer off-take requirements prior to the commencement of production in the next season.</p> <p>Selling prices achieved were above budget in all instances. The average selling price (net of rebates) was 12% higher than the budgeted price. Higher prices were achieved in all market segments, on a local currency basis, partly due to an improvement in prices in all major markets coupled with the weakening of the domestic currency vis-à-vis foreign currencies (especially the Euro and US Dollar).</p>



SHARE OF SALES BY MARKET				
YEAR	SACU	EU	REGION	US
2011/12	49,56%	48,83%	0,01%	0,00%
2012/13	45,37%	48,25%	0,00%	0,00%
2013/14	46,56%	49,33%	1,92%	2,19%
2014/15	52,22%	39,06%	3,79%	4,93%
2015/16	57,15%	34,09%	4,73%	4,03%



Logistics	<p>The SSA responsibility to store the products as they are released to its custody after production is an important component of the business model. The major responsibilities are to ensure there is sufficient storage capacity and bagging material for the products. Any inefficiencies in this respect could result in product value being lost (e.g. downgrade of direct consumption VHP sugar to bulk for export) or, in extreme cases, significant industry costs through the shutdown of a mill. SSA sells on various delivery terms ranging from ex-mill to CIF (Cost, Insurance and Freight). SSA is responsible for the delivery of products to designated locations; in which case the efficiency and cost effectiveness of the logistics system is important.</p> <p>During the year, the storage facilities at the mills were sufficient and were used optimally. Despite this, external warehouses had to be secured to support storage of products during peak season to allow SSA to continue supplying customers even when the mills had stopped crushing. In addition, there was no shortage of bagging material to support bagging requirements per supply commitments. At the same time, SSA seeks to keep minimum stocks of bagging material in order to avoid over-financing and reduced storage requirement.</p> <p>Logistics costs have to be kept at a minimum, to ensure that net returns from sugar sales are maximised. During the year, logistics costs were managed within the budget approved, even though the foreign currency denominated costs pushed the costs higher than would have been the case otherwise.</p>
Stakeholder Relations and Customer Satisfaction	<p>Keeping open engagement with stakeholders is an important aspect of value creation for the business, as meeting stakeholder requirements remains the core of SSA's mission and quality objectives. From the 2015/16 year, SSA has developed a structured programme for engaging with its stakeholders in order to identify issues of interest and to supply products and services in line with stakeholder expectations as well as requirements.</p> <p>During the year, SSA engaged with principals, customers, labour unions, the public (mainly through the media, including website) and public officials in order to devise strategies to create a sustainable business. The target engagements were achieved in the majority of cases, with the activities in the Stakeholder Engagement Programme realising an 89% achievement rate.</p> <p>The core of the SSA business is to ensure that it meets customer requirements. Engaging with customers is paramount in order to gauge how the business is doing on this important score. The assessment of customer satisfaction is normally conducted through a survey. However, in response to concerns about fatigue and effectiveness of addressing any emergent concerns, it was decided to conduct this survey on a two-yearly basis. As such, no survey was conducted in 2015. Activities during the year focused on closing out those actions that were identified during the 2014 survey. Additional information was obtained through regular visits and meetings with customers, including the customer complaints process.</p> <p>In terms of performance, 94% of the actions from the 2014 survey were closed. Feedback obtained from customer visits conducted during the year confirmed general continued satisfaction with SSA products and services, although opportunities for improvement were also identified. Specific dedicated actions have been drawn up to address these areas of concern.</p> <p>72% of all customer complaints were closed during the year, compared to 68% closed in the previous year. While the closure rate shows an improvement from the previous year, significant effort still needs to be exerted to improve the closure of customer complaints within the year in which they were opened.</p>
Human Resources	<p>SSA continues to maintain a very lean workforce while focusing on attaining highest productivity levels in a cost efficient manner. Looking after its human resources is therefore an important focus of the business.</p> <p>The total workforce during the year was 77 permanent employees and 25 seasonal employees, unchanged from the previous year. The SSA retention strategy, coupled with a robust backup system, ensures that the risk of disruptions due to the effects of any imbalance created by a departure is minimal. During the year, the total staff turnover was 6.5%, including dismissals and retirements. Employee wellness and safety is another important aspect of SSA's focal areas. This is attained through health and safety inspections of the various workstations to ensure working conditions are at acceptable levels. In addition, SSA has various wellness initiatives for employees to facilitate their optimum well-being including their immediate dependents. A wellness programme was developed and successfully implemented during the year, focusing on various areas of employee interest including HIV/AIDS related services, BP and cholesterol testing, financial management, training of peer educators & counsellors and safety talks.</p> <p>A healthy industrial relations climate is an important aspect of this engagement. During the year, SSA was satisfied with the contents and spirit of engagement with employee bargaining units. Accordingly, no labour disputes were reported to external forums, something which could tarnish SSA's reputation and result in financial losses. Employee surveys, departmental meetings, mass staff meetings, meetings with employee bargaining units, memos from the CEO's office, and exit interviews will continue to be important platforms for ensuring a healthy interaction with staff and to address any emergent issues in an efficient manner.</p>



KEY HR PERFORMANCE INDICATORS			
	2013/14	2014/15	2015/16
Training implementation (%)	86	89	81
Employee turnover (%)	3,9	2,6	6,5
Injuries/fatalities	0	0	0

Business Processes and Risk Management

In order to deliver optimally and in a sustainable manner, SSA relies on various tools. One of these is the ISO 9001:2008 quality management system which comprises policies, procedures and work instructions for an efficient provision of products and services. Various processes and procedures were reviewed during the year to improve operational efficiencies and to better align the work with the SSA's strategic objectives. SSA conducted internal and external audits in which the adequacy of the system to support maintenance of the certification was confirmed.

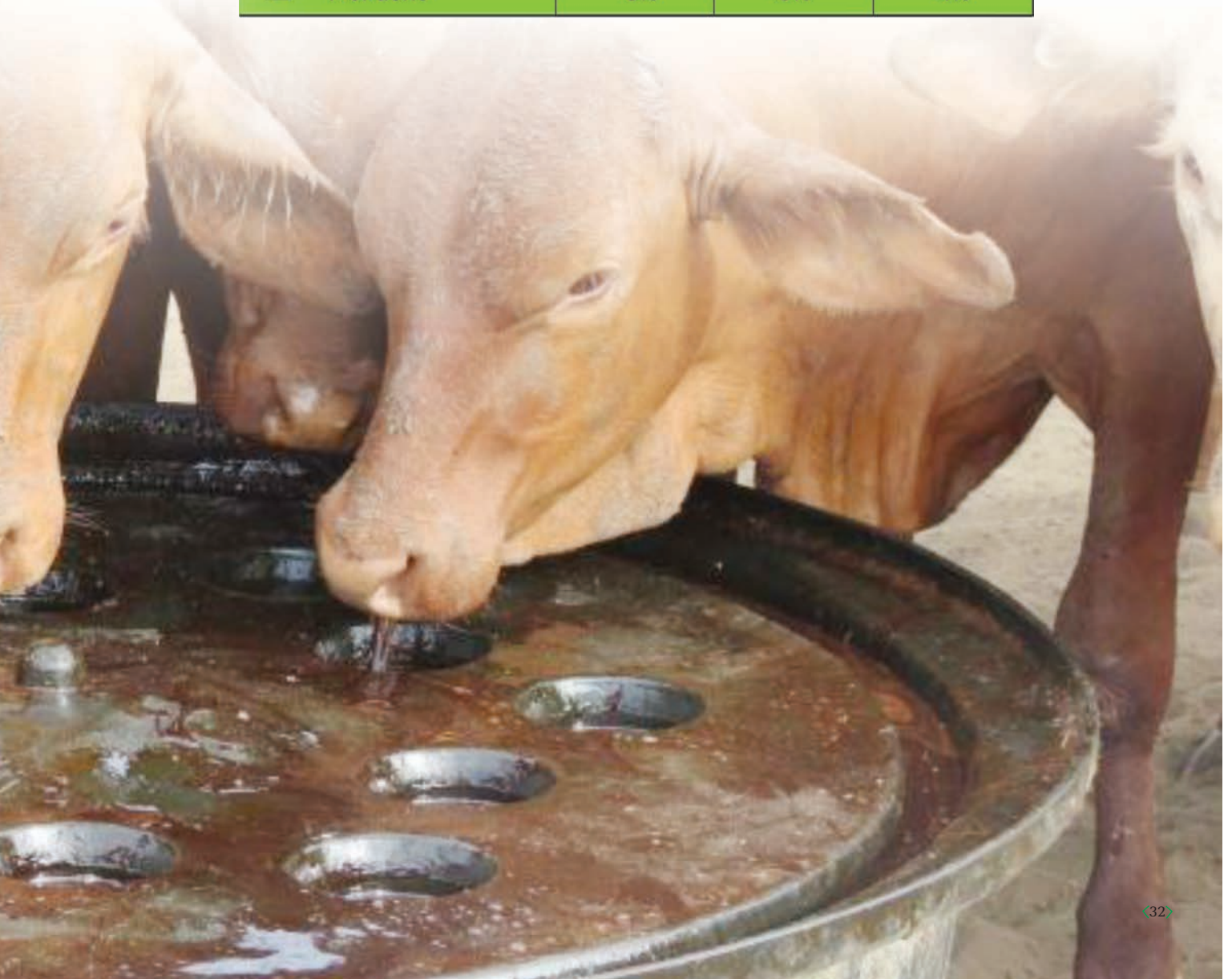
The information technology that supports the business processes is a critical component of the resource base for attaining SSA's objectives. As such, to maintain its efficiency and operational capacity at optimum levels is important. This includes having sufficient back up processes to minimise business interruptions. The implementation of external audit findings from 2014, where the audit had confirmed the adequacy of the SSA systems but suggested certain improvements, was completed during the year.

In order to attain the business objectives, SSA had to implement a comprehensive risk management strategy where risks were classified into high, medium and low. To minimise negative impacts on the business the highest focus is on closing off all actions linked with high risk impacts. The target for the year was to close all high risk activities while also attaining over 80% closure for medium and low risk actions. Closure rates achieved were 85% for high risks, 84% for medium risks and 93% for low risks. The outstanding items were carried through and were prioritized for closure in the next year, including reviewing the approach to mitigating these risks where necessary.

A vigorous quality control is in place to ensure that the products received and supplied meet the agreed specifications. Continuous improvements are made in this area through a corrective action request process. This is based either on the results of independent testing or from customer complaints. Of the 10 requests for corrective actions raised, 7 were closed while the others were due to be closed in the next season. All these are aimed at ensuring that the reputation of SSA in supplying good quality sugar is not tainted, both in the short and medium term as product quality is such a critical component of customer loyalty. This is also important to support the SSA strategy of increasing its footprint in supplying industrial and manufacturing operations throughout the region and abroad.

During the year, SSA succeeded in maintaining its approved supplier status with all its customers, including any new potential customers who assessed the SSA products. Two of the Swazi sugar industry facilities supplying white refined sugar are certified for food safety compliance, while the supply of brown VHP sugar is under conditions meeting good manufacturing practice regimes. A process to get VHP sugar produced under a food safety certified facility is under way, with a view to attaining full compliance in the short to medium term.





SSA is likely to encounter challenges and uncertainties whilst pursuing the value creation objective. These challenges have implications for the business model and future performance. The different metrics underlying the outlook are based on currently available information. The actual outcome may deviate from this outlook if circumstances change considerably along the way. This outlook should be read together with the disclaimer on forward-looking statements under "Basis of Preparation and Presentation".

The focus on the future is considered in the short term (a period of one year or less), medium term (a period of 2-5 years) and the long term (beyond five years). However, for some of the metrics, it is still a challenge to give a good medium term forecast, given the prevailing drought and highly volatile foreign exchange rates. Notwithstanding this challenge, the medium term outlook is depicted to give a picture of the industry if current assumptions do not deviate drastically from available information.

Climate Change and Water Availability

Currently the sugar industry is affected by a drought caused by El Nino effects. Water levels in the dams and rivers are low due to insufficient rainfall. Some rivers have run dry. Nonetheless, the El Nino effects are expected to end and hopefully the coming seasons will become normal.

Short-Term

Highlights for the short-term outlook are as follows:

- Sugar production is expected to decline by 25% from 695 410 to 520 137 tonnes mainly as a result of declining cane yields due to the drought.
- Expansion in sugarcane growing is not likely to take place as some fields that have been affected by the drought will be out of sugarcane production and replanting of ploughed-out fields did not take place in 2015/16 due to water shortage. Already more than a thousand hectares in the South which draw water from the Ngwavuma River will not have cane in 2016/17.
- The El Nino effect is expected to end in the 2016 winter. Although the weather conditions are expected to go back to normal, there is no rain that is likely to fall in winter.
- A high demand for seedcane is expected after

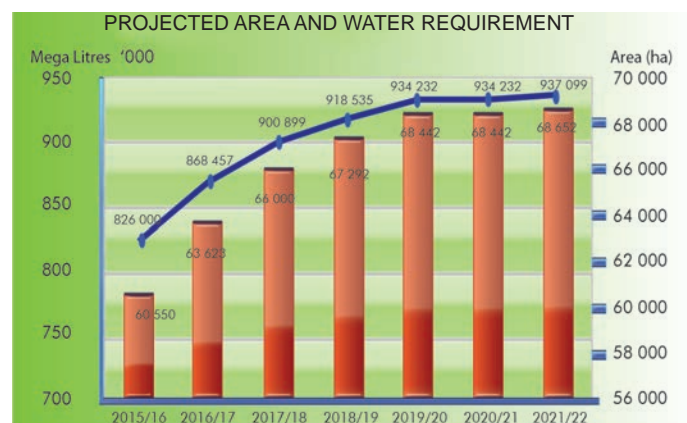
the drought. Growers were advised to re-register secondary nurseries and those who still have water were encouraged to plant nurseries to meet the surge in demand for seedcane after the drought. This will result in a significant increase in the area on nurseries which will in turn require more labour for inspection.

- Adequacy of water storage and harvesting infrastructure, complemented with optimum irrigation systems, forms the major focus of industry activities in this regard. This will help create a sustainable framework to ensure adequate water availability with a view to manage future drought conditions better.

Medium-Term

Highlights for the medium-term outlook are as follows:

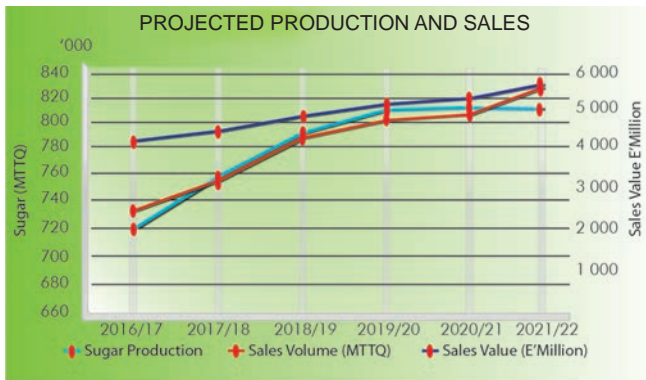
- The total area under sugarcane production was forecasted to increase by 7 892 to 68 442 hectares by 2019/20.
- Water requirement will increase by 68 642 mega-litres (ML) from 868 457 ML in 2016/17 to 934 232 ML in 2019/20 as shown in the graph below. This will only be possible if weather conditions return to normality and interventions such as irrigation scheduling, maintenance of water supply infrastructure, and strict monitoring of flows in rivers and water use in general are undertaken to ensure continued availability of water for irrigation.



White Sugar

Brown Sugar

- Sugar production was projected to increase by an annual average of 3% to stand at 811 522 tonnes by 2020/21 (see graph below). This also largely depends on the weather conditions returning to normality and water availability.



- Continuous expansion in sugarcane growing is expected under the KDDP and LUSIP areas. The flow of donor and/or government funding to subsidise smallholder sugarcane growers (SSGs) with development costs and water availability will be crucial in the expansion programme.
- Training of SSGs in sugarcane business management will continue to improve farm productivity, profitability and sustainability.

Long-Term

It is a challenge to give a good long-term forecast on climate and water availability due to the prevailing drought and prevailing climate change phenomenon. Nevertheless, it is expected that the weather conditions are unlikely to return to normality in the medium to long term. The limitations of Swaziland's water supply have now become apparent as reflected by the fact that all run-off river water has now been fully allocated. This has increased the industry's vulnerability to droughts. Investment in storage holds the key to implementing water-conserving strategies. This will involve collaborating with government on water conservation and storage, and with other regional institutions on long-term water availability.

Preferential Market Access

The access preferences afforded by various markets serves as an important platform on which Swazi sugar attains remunerative returns.

Short-Term

The domestic market (comprising the wider customs union) is not under threat of any break up. However imports into this market and competition from neighbouring countries continue to be a challenge, particularly as the drought condition persists. The challenge from imports is in two categories - namely, duty-free imports from within the

SADC and other sources which pay the normal import duty (including over-quota SADC sugars).

Preferential markets currently comprise those offered by overseas territories of the EU and US. Both offer duty-free access for Swazi sugar, although it is limited to a small quantity in the case of the US. These market preferences are under the soon-to-be-implemented Economic Partnership Agreement (EPA) and Generalised System of Preferences (GSP) respectively. The immediate concern is the signature and ratification of the EPA with the EU in order to secure preferential supplies of Swazi sugar to the EU beyond 30 September 2016. Information available at the time of writing the Report was that this threat was likely to be averted, especially given the allowance for preferences to be afforded to a country even if not all the EPA member states have signed.

There is an expected improvement in selling prices in all the markets. In the short term, the outlook with respect to marketing variables is expected to have the following outcomes:

- Sugar sales volume are projected to decrease significantly.
- Total revenues are expected to decline by 10% from the 2015/16 forecasted revenues even though sales are forecasted to decline by 23%. The amelioration is due to expected improvements in sugar prices and exchange rates.
- The refined sugar prices in the EU are projected to decline further. Access to regional markets is expected to compensate for the price declines in the EU.

Medium to Long-Term

The main challenge in the medium to long term, will be with respect to the maximisation of revenues in a sustainable manner from the various sugar and molasses markets. The SACU and African/Regional markets are projected to continue being a major source of value creation for SSA, whilst value in the EU market will be negatively impacted by uncontrollable market conditions.

There are threats foreseen on the EU preferential market access in the medium and long term, due to the occasional challenges brought about by political governance concerns which EU members raise with Swaziland.

The average EU sugar price is expected to increase in the short term and thereafter it is expected to decrease in the medium term. Even with the decline in sugar prices, the EU market will continue to be vital for SSA due to continued preferential access. In order to maximise revenues, SSA will explore all opportunities to divert sugar from the EU to the more lucrative local or regional markets.

Flexibility with products will continue to be an important part of the marketing strategy especially when prices for one product are earning large premiums over alternative ones.

- Regional markets sales volumes are projected to increase. The actual value earned from SACU sales will depend on the effectiveness of tariff protection.
- Even though EU prices are projected to decrease they are still expected to trade at a premium to the world market prices. Going forward, the EU prices are expected to have a close correlation with world market prices.

Cost Pressures

The continued support by the EU towards viable entry of new SSGs and support for existing growers to improve their efficiencies is expected to bolster growth prospects in sugarcane production. The rise in costs of production and energy continues to dampen growth prospects for SSG profitability. In spite of external assistance for cost reduction measures, costs faced by growers have been increasing over the years.

Short-Term

With respect to sugarcane production, there has been an increase in the major cost components including labour and irrigation. With inflation having increased from 5,7% in 2014/15 to 7,8% in 2015/16, and the outlook on inflation not looking favourable in the short term, this will continue to impact on the overall costs of production.

In terms of productivity, it has reduced over the past season. With the ongoing drought, costs will continue to increase against lower yields until such a time that the drought situation dissipates. The drought effect on cane yield as well as increase in production costs (especially energy) are projected to slow down profitability and dampen sustainability of the industry, especially for SSGs.

Discount rates announced by the Central Bank have increased over the course of the year from 5,3% to 6,5% in March 2016. This translates to an increase in the prime lending rate by the same margin - from 8,8% to 10%. This has put pressure on growers with loans to service, contributing to an increase in costs. The inflationary effects of the drought are expected to increase in the short term.

Medium-Term

Increases in water and electricity tariffs are a significant contributor to irrigation costs for growers and will continue to pose a challenge in the medium term.

Long-Term

The trend has been an increase in production costs. The economic outlook does not foresee a significant growth. This will therefore have an impact on cost drivers such as

input costs, foreign exchange rates, inflation and labour costs.

Foreign Exchange Rates

Volatility of foreign exchange rates has a significant impact on the value created by SSA for the sugar industry. SSA has developed a hedging policy, which is reviewed from time to time for effectiveness.

Short-Term

In the short term, the Lilangeni is expected to weaken against the major currencies to the benefit of the industry. The main trading currencies are the Euro and the US dollar.

Medium-Term

In the medium term, the Lilangeni is expected to strengthen against the major currencies to the disadvantage of SSA.

Customer Requirements & Product Liability

Customer requirements and product liability is becoming an important feature of the business model and value creation. At the centre of this is food safety compliance, packaging for industrial and regional users as well as sustainability compliance.

Short-Term

The refined sugar operations are food-safety compliant. However, challenges still prevail within the VHP sugar production facilities as these are not food-safety compliant. Bagged VHP sugar is predominantly for direct consumption and as such compliance with food-safety standards is becoming mandatory as opposed to being a competitive advantage. The focus will therefore be on compliance with these demanding customer requirements and market regulations.

Sustainability compliance is also becoming crucial for some markets. More and more customers are requiring proof that production facilities are operated under sustainable conditions and where shortcomings have been noted, that an action plan has been developed to address them. Cane growing sustainability will be a concern in particular for SSGs. Fairtrade initiatives that address these requirements will be continually pursued.

Medium to Long-Term

One of the initiatives being pursued under the marketing strategy is shifting sales focus to the regional market as opposed to the EU, especially to industrial users. The regional focus requires that packaging be in 1 metric tonne and 50 kg bags. The bagging infrastructure will have to be reviewed to determine its ability to handle the additional volumes for the regional market. In line with additional bagged sugar, the logistics infrastructure will also require a review.

From a marketing point of view, a review of environmental sustainability was performed and shortcomings identified. These shortcomings will be addressed in the medium term.

People Skills and Experience

At the centre of the execution of SSA's strategic objectives is human capital. The important elements of this capital are the skills and experience required in all areas of the value chain. Having the appropriate balance of human capital is paramount to the success of the industry. The recruitment, development and retention of this human capital and experience is one of the key objectives for SSA.

Medium-Term

The adoption of the Marketing Strategy and its implementation is still being pursued. The expected challenge with its implementation is additional human capital resources required in the medium term. Retention of the right skills will continue to be a challenge. Benchmarking the current human resources strategies with best practices, paying more attention to retention policies, remuneration practices and trends, performance

management as well as training and development will be the focus areas.

Logistics

Significant cost reductions and efficiency efforts are being undertaken across the sugar industry in a bid to improve relative positions on cost and profitability. With the anticipated increase in production in the long term, the logistics infrastructure will be continuously reviewed to ensure its ability to handle the growth.

Short to Long-Term

Customer requirements are changing in terms of delivery and packaging material, with preference being on delivering to customers' premises and in smaller packages. The packaging equipment and logistics supply chain will continuously be reviewed to ensure that they are aligned with customers' expectations

In a bid to stay competitive, cost efficiency initiatives on sugar transportation will be pursued in the short to long term.



SUMMARISED AUDITED GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2016

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Secretary

Mr B Nyamane

Council Members' Responsibility Statement for the Summarised Group Financial Statements

Council Members are responsible for the preparation and fair presentation of the Summarised consolidated and separate financial statements. These comprise the statements of financial position at 31 March 2016, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended and selected notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Swaziland Sugar Act of 1967.

The Council Members' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Council Members' responsibility also includes maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The Council Members have made an assessment of the Association's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the consolidated and separate financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the financial statements

The summarised consolidated and separate financial statements set out on pages 40 to 50 were approved by the Council Members on 7 July 2016 and are signed on its behalf by:


Chairman


Chief Executive Officer

To the members of Swaziland Sugar Association

The accompanying Summarised Group Financial Statements of Swaziland Sugar Association, which comprise the Summarised group statement of financial position at 31 March 2016, and the related Summarised Group Statements of Comprehensive Income, Changes in Equity and Cash Flows for the year then ended and related notes, are derived from the Group Financial Statements of Swaziland Sugar Association for the year ended 31 March 2016. We expressed an unmodified opinion on those group financial statements in our auditor's report dated 07 July 2016.

The Summarised Group Financial Statements do not contain all the disclosures required by International Financial Reporting Standards applied in the preparation of the group financial statements of Swaziland Sugar Association. Reading the Summarised group financial statements, therefore, is not a substitute for reading the group financial statements.

Council' Responsibility for the Summarised Financial Statements

Council is responsible for the preparation of the Summarised group financial statements on the basis described in note 1.

Auditor's responsibility

Our responsibility is to express an opinion on the Summarised group financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing 810, Engagements to Report on Summary Financial Statements.

Opinion

In our opinion, the Summarised Group Financial Statements derived from the Group Financial Statements of Swaziland Sugar Association for the year ended 31 March 2016, are consistent, in all material respects, with those financial statements, on the basis described in Note 1.



Auditors

Council has pleasure in submitting their report together with the summarised consolidated and separate financial statements of the Association for the financial year ended 31 March 2016.

Business activities

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

General review of business operations and results

The state of affairs of the Association at 31 March 2016 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 E4,57 billion (2015: E4,11 billion). The increase in revenue is mainly attributable to favourable selling prices in the Regional and SACU market as well as an increase in the sales volume in these markets. The cost of sales increased from E4,04 billion to E4,14 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 E74,61 million (2015: E26,99 million). The increase is mainly as a result of changes in sales terms as well as the weakening of the Lilangeni against export currencies. The majority of the sales were on CIF terms as opposed to FOB terms in the previous year.

Net financing costs, including foreign gains and losses, decreased from a gain of E16,64 million in 2015 to losses of E278,30 million. This is primarily a result of high volatility of the Lilangeni against export currencies during the year. Foreign exchange losses of E145,43 million were realised compared to foreign exchange gains of E127,24 million in the previous year. Interest paid also increased from E112,43 million to E132,89 million in line with an increase in distributable proceeds and prime lending rate. Administration expenses increased from E60,03 million to E79,59 million as a result of costs incurred for the industry vision review.

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. SSA's policy is to apply hedge accounting in respect of the hedged items 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 fewer outstanding forward exchange contracts compared to the previous year.

Consolidated statement of financial position

The carrying value of property, plant and equipment decreased from E163,61 million to E156,07 million in line with the depreciation charge for the year.

Inventories increased from E618,74 million to E650,95 million as a result of the closing stock being valued at higher net realisable selling prices in all the markets. Trade receivables increased by E30,40 million when compared with the previous year mainly as a result of higher closing foreign exchange rate when compared with the previous year. Trade payables increased by E151,73 million due to an amount retained by mills.

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 Limitada	25%
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Council

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

Mr N Jackson	President
Mr G White	Vice President
Mr T Dlamini	Chairman
Mr A T Dlamini	
Mr E Ndzimandze	
Mr B James	
Mr S Potts	
Mr L Ndzimandze	
Mr J M Sithebe	
Mr G Scheepers	
Mr S Geldenhuys	
Mr M Maziya	
Mr M Mndzebele	
Mr P Myeni	
Mr G Williams	
Mr O Magwenzi	
Mr P Malandvula	
Mr J Matimba	
Mr M Mabuza	
Mr T Nkambule	

Audit & Risk Committee

The Audit & 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 & 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	

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 March 2016

		Group		Association	
	Notes	2016 E	2015 E	2016 E	2015 E
Revenue	2	4 573 905 571	4 107 737 432	4 573 905 571	4 107 737 432
Cost of sales		<u>(4 144 654 392)</u>	<u>(4 040 177 609)</u>	<u>(4 158 833 778)</u>	<u>(4 055 838 016)</u>
Gross profit		429 251 179	67 559 823	415 071 793	51 899 416
Other income		2 186 432	3 830 340	2 186 432	3 830 340
Distribution costs		(74 606 194)	(26 988 744)	(74 587 084)	(26 976 210)
Administrative expenses		<u>(79 591 256)</u>	<u>(60 031 467)</u>	<u>(78 360 035)</u>	<u>(58 878 665)</u>
Operating profit/(loss) before financing costs	3	277 240 161	(15 630 048)	264 311 106	(30 125 119)
Finance income		17 733	155 148 907	14 057 645	168 897 115
Finance expense		<u>(278 313 729)</u>	<u>(138 510 000)</u>	<u>(278 313 729)</u>	<u>(138 510 000)</u>
Net financing (costs) / income	4	(278 295 996)	16 638 907	(264 256 084)	30 387 115
Share of profit/(loss) from jointly controlled entity (net of tax)		<u>1 110 857</u>	<u>(746 863)</u>	<u>-</u>	<u>-</u>
Profit before tax		55 022	261 996	55 022	261 996
Income tax expense		<u>(55 022)</u>	<u>(261 996)</u>	<u>(55 022)</u>	<u>(261 996)</u>
Profit for the year		-	-	-	-
Other comprehensive income					
<i>Items that are or may be reclassified to profit or loss</i>					
Unrealised cash flow hedges		<u>6 516 589</u>	<u>1 395 883</u>	<u>6 516 589</u>	<u>1 395 883</u>
Total comprehensive income for the year		<u>6 516 589</u>	<u>1 395 883</u>	<u>6 516 589</u>	<u>1 395 883</u>
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					

	Notes	2016 E	Group 2015 E	2016 E	Association 2015 E
ASSETS					
Non-current assets					
Property, plant and equipment	5	156 064 508	163 608 273	14 420 995	14 825 942
Unsecured loans receivable		-	29 609	-	29 609
Investment in subsidiaries		-	-	500	500
Jointly controlled entity		32 079 380	25 525 534	32 815 998	27 373 009
Total non-current assets		188 143 888	189 163 416	47 237 493	42 229 060
Current assets					
Loans to subsidiaries		-	-	141 345 867	148 484 691
Unsecured loans receivable		29 621	96 323	29 621	96 323
Inventories		650 952 960	618 736 948	650 952 960	618 736 948
Trade and other receivables		418 699 671	388 297 773	418 699 671	388 297 773
Other financial assets		6 516 589	1 395 883	6 516 589	1 395 883
Taxation refund		194 724	-	194 724	-
Cash and cash equivalents		19 342 018	54 343 660	19 342 018	54 343 660
Total current assets		1 095 735 583	1 062 870 587	1 237 081 450	1 211 355 278
Total assets		1 283 879 471	1 252 034 003	1 284 318 943	1 253 584 338
RESERVES AND LIABILITIES					
Non-distributable reserve		13 022	13 022	13 022	13 022
Cash flow hedge reserve		6 516 589	1 395 883	6 516 589	1 395 883
Total reserves and liabilities		6 529 611	1 408 905	6 529 611	1 408 905
Non-current liabilities					
Long term liabilities	6	250 000 000	250 000 000	250 000 000	250 000 000
Current liabilities					
Bank overdraft		699 321 739	824 186 909	699 321 739	824 186 909
Trade and other payables		328 028 121	176 302 472	328 467 593	177 852 807
Taxation payable		-	135 717	-	135 717
Total current liabilities		1 027 349 860	1 000 625 098	1 027 789 332	1 002 175 433
Total liabilities		1 277 349 860	1 250 625 098	1 277 789 332	1 252 175 433
Total reserves and liabilities		1 283 879 471	1 252 034 003	1 284 318 943	1 253 584 338

STATEMENTS OF CASH FLOWS

for the year ended 31 March 2016

	Notes	Group 2016 E	2015 E	Association 2016 E	2015 E
Cash flows from operating activities					
Cash generated from operations		376 128 854	136 641 360	354 128 294	114 572 249
Interest received		17 733	155 148 907	14 057 645	168 897 115
Interest paid		(278 313 729)	(138 510 000)	(278 313 729)	(138 510 000)
Taxation paid		(385 463)	(127 843)	(385 463)	(127 843)
<i>Net cash flows from operating activities</i>		<u>97 447 395</u>	<u>153 152 424</u>	<u>89 486 747</u>	<u>144 831 521</u>
Cash flows from investing activities					
Increase in investment in jointly controlled entity		(5 442 989)	(3 484 957)	(5 442 989)	(3 484 957)
Acquisition of property, plant and equipment		(2 391 979)	(4 056 603)	(1 570 157)	(2 680 965)
Decrease in loan due from jointly controlled entity		-	32 831	-	32 831
Proceeds from the sale of property, plant and equipment		154 790	34 149	154 790	34 149
<i>Net cash flows from investing activities</i>		<u>(7 680 178)</u>	<u>(7 474 580)</u>	<u>(6 858 356)</u>	<u>(6 098 942)</u>
Cash flows from financing activities					
Decrease in unsecured loans receivable		96 311	87 566	96 311	87 566
Loans to subsidiary companies repaid		-	-	7 138 825	6 945 265
<i>Net cash flows from financing activities</i>		<u>96 311</u>	<u>87 566</u>	<u>7 235 136</u>	<u>7 032 831</u>
Net increase in cash and cash equivalents		89 863 528	145 765 410	89 863 528	145 765 410
Cash and cash equivalents at the beginning of the year		(769 843 249)	(915 608 659)	(769 843 249)	(915 608 659)
<i>Cash and cash equivalents at the end of the year</i>		<u>(679 979 721)</u>	<u>(769 843 249)</u>	<u>(679 979 721)</u>	<u>(769 843 249)</u>

STATEMENTS OF CHANGES IN RESERVES
for the year ended 31 March 2016

	Non-distributable reserve E	Hedging reserve E	Total E
Group and Association 2016			
Balance at beginning of year	13 022	1 395 883	1 408 905
Cash flow hedges realised and reclassified to profit or loss	-	(1 395 883)	(1 395 883)
Unrealised cash flow hedge recognised in other comprehensive income (1)	-	6 516 589	6 516 589
Balance at end of year	13 022	6 516 589	6 529 611
Group and Association 2015			
Balance at beginning of year	13 022	22 210 304	22 223 326
Cash flow hedges realised and reclassified to profit or loss	-	(22 210 304)	(22 210 304)
Unrealised cash flow hedge recognised in other comprehensive income (1)	-	1 395 883	1 395 883
Balance at end of year	13 022	1 395 883	1 408 905

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

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*i) Sugar and molasses sales*

Revenue from the sale of sugar and molasses is recognised in the 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. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or possible return of goods. No revenue is recognised if there is significant continuing management involvement with the goods.

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 Association 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 the profit or loss as a foreign currency gain or loss.

	Group		Association	
	2016	2015	2016	2015
	E	E	E	E
2. Revenue				
Revenue comprises:				
- Sugar sales	4 426 774 939	3 973 537 520	4 426 774 939	3 973 537 520
- Molasses sales	147 130 632	134 199 912	147 130 632	134 199 912
	<u>4 573 905 571</u>	<u>4 107 737 432</u>	<u>4 573 905 571</u>	<u>4 107 737 432</u>
Sugar is sold into the South 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>				
Sugar recoveries	2 353 339	2 433 828	2 353 339	2 433 828
<i>Expenses:</i>				
Auditors remuneration				
- Current year	148 055	139 675	148 055	139 675
- Prior year	470 429	393 601	470 429	393 601
Council emoluments	-	-	-	-
Depreciation	9 780 565	10 163 590	1 819 925	1 842 687
Lease expenses	1 065 784	996 060	1 065 784	996 060
Loss on sale of property, plant and equipment	389	19 305	389	19 305
Management fees				
- Computer related	1 024 852	16 605	1 024 852	16 605
Payroll costs	<u>31 448 347</u>	<u>26 501 102</u>	<u>31 448 347</u>	<u>26 501 102</u>
4. Net financing costs				
Included in net finance costs are:				
Unrealised foreign exchange gains	1 197 476	22 210 304	1 197 476	22 210 304
Realised foreign exchange (losses) / gains	<u>(145 428 651)</u>	<u>127 244 094</u>	<u>(145 428 651)</u>	<u>127 244 094</u>
5. Property, plant and equipment				
<i>Allocation of depreciation</i>				
	Group		Association	
	2016	2015	2016	2015
	E	E	E	E
Direct cost of sales	876 360	919 999	876 360	919 999
Direct analysis of cane	232 472	191 127	232 472	191 127
Extension services	261 258	291 126	261 258	291 126
Administration	449 835	440 433	449 835	440 435
Operating expense	7 960 640	8 320 905	-	-
Total	<u>9 780 565</u>	<u>10 163 590</u>	<u>1 819 925</u>	<u>1 842 687</u>

Property, plant and equipment (Continued)

Reconciliation of the opening and closing carrying amounts

Association

	Opening carrying amount E	Additions E	Disposals E	Transfer E	Deprec- iation E	Closing carrying amount E
Freehold land and buildings	2 426 930	-	-	48 030	(367 928)	2 107 032
Leasehold land and buildings	3 591	-	-	-	(1 925)	1 666
Plant and equipment	4 398 581	-	(28 786)	518 258	(862 475)	4 025 578
Furniture and fittings	626 798	-	(1 939)	-	(62 596)	562 263
Motor vehicles	2 199 995	511 212	(124 454)	-	(525 001)	2 061 752
Capital work in progress	5 170 047	1 058 945	-	(566 288)	-	5 662 704
	<u>14 825 942</u>	<u>1 570 157</u>	<u>(155 179)</u>	<u>-</u>	<u>(1 819 925)</u>	<u>14 420 995</u>

Group

Freehold land and buildings	2 426 930	-	-	48 030	(367 928)	2 107 032
Leasehold land and buildings	3 591	-	-	-	(1 925)	1 666
Plant and equipment	4 398 581	-	(28 786)	518 258	(862 475)	4 025 578
Furniture and fittings	626 798	-	(1 939)	-	(62 596)	562 263
Motor vehicles	2 370 021	511 212	(124 454)	-	(559 034)	2 197 745
Conditioning silo buildings	40 939 060	126 600	-	-	(1 530 410)	39 535 250
Sugar store buildings	59 666 763	-	-	-	(2 304 743)	57 362 020
Conditioning silo equipment	13 046 363	-	-	-	(1 865 117)	11 181 246
Sugar store equipment	25 080 992	695 215	-	-	(1 773 800)	24 002 407
Molasses storage equipment	9 878 327	-	-	-	(452 537)	9 425 790
Capital work in progress	5 170 847	1 058 952	-	(566 288)	-	5 663 511
	<u>163 608 273</u>	<u>2 391 979</u>	<u>(155 179)</u>	<u>-</u>	<u>(9 780 565)</u>	<u>156 064 508</u>

	Group		Association	
	2016	2015	2016	2015
	E	E	E	E
6. Long term liabilities				
This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost.				
Public Service Pension Fund	<u>250 000 000</u>	<u>250 000 000</u>	<u>250 000 000</u>	<u>250 000 000</u>
Total liabilities	250 000 000	250 000 000	250 000 000	250 000 000
Current portion included in current liabilities	-	-	-	-
Non-current portion	<u>250 000 000</u>	<u>250 000 000</u>	<u>250 000 000</u>	<u>250 000 000</u>
<i>Repayment profile</i>				
Current	-	-	-	-
Within 2 years	250 000 000	250 000 000	250 000 000	250 000 000
More than 2 years	-	-	-	-
	<u>250 000 000</u>	<u>250 000 000</u>	<u>250 000 000</u>	<u>250 000 000</u>

Commitment and Compliance to Corporate Governance

SSA is committed to the highest standards of corporate governance as a guiding framework for its business management. Good corporate governance is critical to sustainable and successful business management. It facilitates positive business performance in the short, medium and long terms. This commitment is applicable to all SSA structures, including Council and its subcommittees, management and all employees. As an extension, SSA also promotes dealing with business partners who exhibit good corporate practices in order to create sustainable relationships.

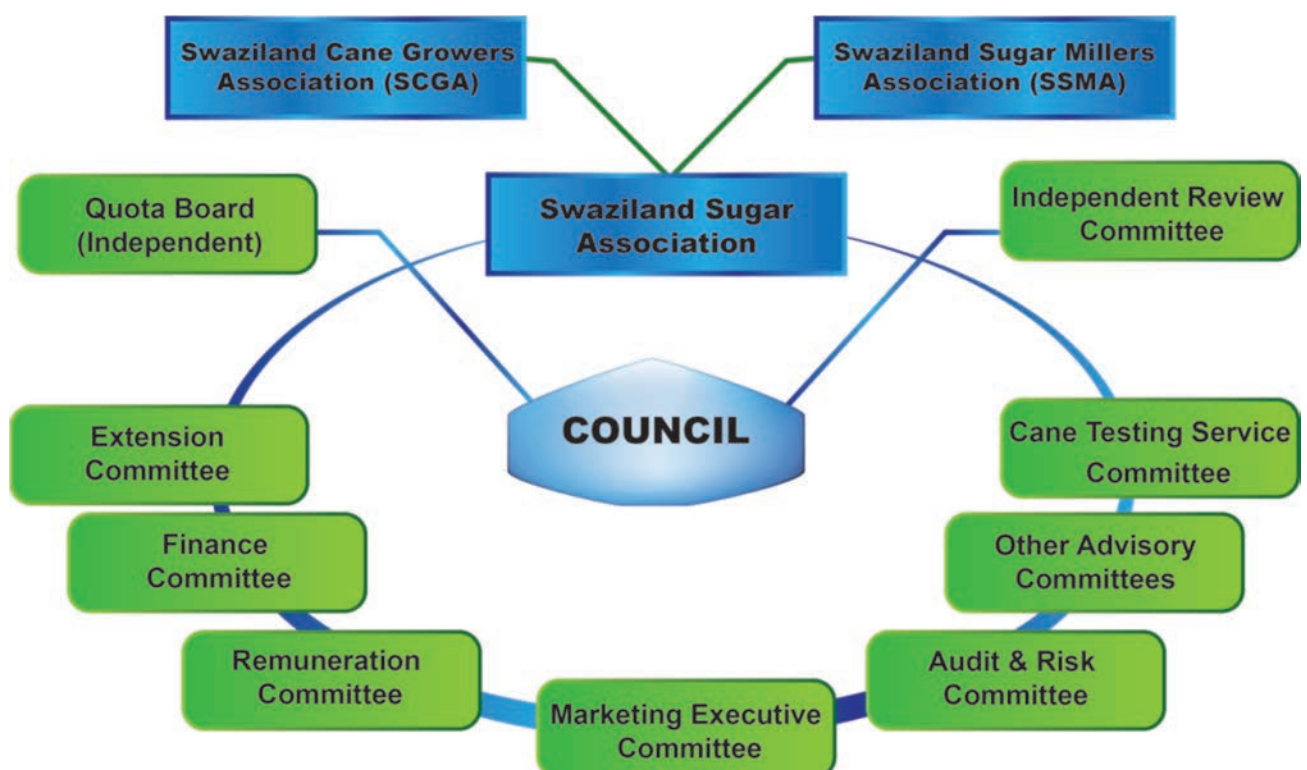
Council adopted the King III Code as the standard to be used by SSA in managing its business affairs. SSA continuously reviews its position to ensure that at all times it continues to adhere to the Code.

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

King III Principle	Explanation
The Board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent.	To the extent that the Council composition is defined in existing statutes, there is no need to define or assess its composition.
Directors should be appointed through a formal process.	The appointment of Council members is defined by existing statutes, and is done independently by its mother bodies (Swaziland Sugar Millers Association (SSMA) and Swaziland Cane Growers Association (SCGA).
The evaluation of the Board, its committees and the individual directors should be performed every year.	This is not done, given the way they are appointed and the duration.

Council is of the opinion that the above are not relevant due to the nature and structure of SSA (as provided for in the Sugar Act of 1967 and the Sugar Industry Agreement).

The diagram below depicts the governance structure of SSA.



Governance Framework

SSA 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, SSMA and SCGA respectively. Their representatives are appointed into the Council as defined by existing statutes. Therefore, these representatives' 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.

In line with the Constitution of SSA, members of Council and other committees are nominated and appointed at the Annual General Meeting (AGM) in September.

All the current members of Council have sufficient experience in SSA operations complemented by extensive experience in the sugar industry in Swaziland.

Leadership Structure and Profile

The leadership of SSA at all levels is through appointments by SSMA and SCGA. 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. Their evaluation and profiling was found to be unnecessary for this Report.

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 SSA 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 has to be an individual of good standing who has no interest directly or indirectly in the growing, milling or disposal of sugarcane or sugar in Swaziland. The Chairman's role is to guide the meetings of Council and MEC. In the event that 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 handled by the Financial Director. He performs duties and functions as prescribed in the

Constitution of SSA and such other functions and duties as the Council may from time to time assign to him. The current Secretary has two years experience within his current role and a number of years in similar positions with other entities.

Key Governance Processes and Activities

Council has established a number of bodies through which it executes its governance processes and activities. Membership to these structures is equal between millers and growers. Decisions are usually arrived at by consensus. The Council standing subcommittees are as follows:

- **Marketing Executive Committee:** The main responsibility is to purchase, market and sell sugar and by-products produced by the sugar industry. It recommends to Council the marketing strategy and product disposal policy as well as the plan to be followed in any given period. The Committee is made up of three representatives from each of the miller and grower constituencies.
- **Cane Testing Services Technical Committee:** Its main function is the supervision of the cane testing service at the mills to ensure its independence and credibility, handling issues of mass determination or computation and advising SSA on all matters relating to cane testing in the industry. The Committee is made up of members with technical expertise in the processing and growing of sugarcane both from the millers and growers.
- **Remuneration Committee:** It deals with staff remuneration, recruitment of senior executives and succession planning. The Committee is made up of senior members from both the millers and growers.
- **Extension Committee:** It supervises the provision of extension services in the industry, including crop production research, irrigation engineering as well as pest and disease control. The Committee is made of technical experts in the growing of sugarcane from both millers and growers.
- **Finance Committee:** Its role is to oversee the financial affairs of SSA, including scrutinizing estimates, budgets and all other issues of a financial nature impacting on payments to producers (i.e., growers and millers). The Committee is made up of members from millers and growers who have expertise in financial matters.
- **Audit & Risk Committee:** It comprises an equal representation of millers and growers. It is chaired by an independent person with no direct interest in the sugar industry. It oversees the efficacy and effectiveness of internal controls as well as the overall risk management function. It also provides the functions required of it in the King III Code. The Committee is made up of members from millers and growers who have expertise in financial matters.

All the subcommittees met quarterly during the year to discharge their duties with an average attendance rate of 95%.

○ **Other Advisory Committees:**

- Technical Committee: for assessing requests for funding, design and implementation (including periodic monitoring) of capital projects.
- IT Policy Committee: for recommending industry information technology (IT) policy, strategy, systems and projects.
- Sugar Industry Committee on National Adaptation Strategy: for discussing all issues related to the implementation of the Sugar Industry Adaptation Strategy, including the EU support programme under the EC Accompanying Measures and support from other donors towards the implementation of the Strategy.

All members of Advisory Committees are technical experts in the various fields that those bodies are set up for.

The various Committees have standing terms of reference which are reviewed at least once in three years.

Independent Industry Committees

- **Quota Board:** Its main purpose is to allocate sugarcane growing quotas to potential growers and make adjustments in cases of non-performance. It is formed of equal representation between millers and growers, supplemented by two independent members appointed by government and an independent Chairman. During the year, the term of the previous Chairman expired and a new appointment was made. The new Chairman has extensive experience to lead the Board.
- **Independent Review Committee:** It comprises independent technical experts from outside the industry to execute specific assessments as instructed by SSA. These experts have no interest or affiliation within the Swazi industry. Their role is to investigate matters mandated by SSA. The Committee deals with the determination of allowances payable to millers for refining sugar beyond the raw state (to either produce VHP or refined white sugar). It has the power to require millers and growers, in confidence, to provide information to enable it to undertake the necessary analysis on matters so mandated and making appropriate recommendations to Council.

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 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
- International Trade Issues, and
- Information Technology.

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

July

- Developing an Eco-Sugar Museum.
- Code of Conduct for members of SSA committees.

September

- Lease and Management Agreements for the Maputo Sugar Terminal export facility.

December

- Benchmarking study for Swazi sugar industry costs of production.
- Industry Five-Year forecast.

March

- Budget and Marketing Plan for the year 2016/17.

Management Composition

Council assigns responsibility for the day-to-day management of the Association to the CEO. To assist the CEO in discharging his duties, there is a management team (MT) which comprises managers in the various departments. The MT meets at least nine times a year to review operations and ensure that the key strategic objectives are pursued vigorously.

Internal Controls and Internal Audit

SSA operates a combined assurance approach that optimises the assurance obtained from management, Internal Audit and external assurance providers on all the risks identified by SSA. Risks are identified, evaluated and managed by implementing risk mitigations such as strategic actions, insurance and specific internal controls.

SSA'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. SSA has set up a whistle blowing 'hotline' which is currently managed by the Internal Auditor.

Governance Policies and Procedures

SSA 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 SSA 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 SSA committees. A Code of Conduct also exists for employees.

Whistle-blower Hotlines and Follow up of Tip-offs

A whistle-blowing 'hotline' has been implemented. 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. The follow-up on all reported matters is co-ordinated by the Internal Auditor and reported to the Audit & Risk Committee.

Remuneration Committee

The Remuneration Committee (REMCO) is made up of four members with equal representation from growers and millers. The CEO is a permanent invitee with the Financial Director being the secretary. It is chaired by the SSA President. The members have extensive experience in strategy, human resources and compensation matters. 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 2015.
- Review of the cost-of-living adjustments for staff and Chairmen's allowances for the year.

A summary of pay components for permanent employees is as follows:

Purpose	Operations	SSA Approach
	FIXED	
Component - Base Salary		
<ul style="list-style-type: none"> ○ It reflects the market value of the role, individual skills, contribution, experience and performance. ○ It is intended to attract and retain key talent. 	<ul style="list-style-type: none"> ○ Paid monthly in cash ○ Reviewed annually with any increases to be effective from 1 April in each year ○ Base salary reviews take outcomes of pay surveys of similar industries, prevailing market conditions and increase provided by larger sugar industry members. 	<ul style="list-style-type: none"> ○ For the CEO and Management, increases are decided by REMCO. ○ For the rest of the employees, increases are negotiated with Union and Staff Association.
Component - Benefits		
<ul style="list-style-type: none"> ○ To provide protection and market competitive benefits to aid recruitment and retention. 	<ul style="list-style-type: none"> ○ Medical insurance. ○ Income in the event of death or disability. ○ Educational assistance. 	<ul style="list-style-type: none"> ○ These are reviewed annually.
Component - Retirement plan		
<ul style="list-style-type: none"> ○ Make ongoing employer contributions during employment. ○ To provide market-related benefits. ○ Facilitate the accumulation of savings for post-retirement years. 	<ul style="list-style-type: none"> ○ Comprises defined contribution plans. 	<ul style="list-style-type: none"> ○ SSA contributes to the Swaziland National Provident Fund. For non-managerial, permanent positions, employees, SSA contributes a certain percentage of salary.
	VARIABLES	
Component - Annual cash incentive		
<ul style="list-style-type: none"> ○ Focus participants on targets relevant to SSA's strategic goals. ○ Drive performance. ○ Motivate employees to achieve specific and stretch short-term goals. ○ Reward individuals for their personal contribution and performance. ○ Annual bonus aligns interests with members. 	<ul style="list-style-type: none"> ○ All measures and objectives are reviewed and set at the beginning of the financial year. ○ Payments are reviewed and approved at year-end by REMCO based on performance against the set targets. ○ Threshold is required to be met for any bonus payment to occur. ○ Target levels of bonuses vary as determined by the model. ○ Bonuses are paid in cash. 	<ul style="list-style-type: none"> ○ Maximum bonuses payable are capped dependent on grade of employee. ○ The target sugar price for the year has to be met before employees are eligible to a bonus.

- Supervising the Senior Leadership Development Plan.
- Recruitment of a new CEO (process still ongoing at year end).

Remuneration of Employees

The remuneration philosophy is aimed at attracting and retaining appropriately skilled employees at all levels so as to positively influence performance and enable the achievement of SSA objectives. To ensure that SSA remains competitive in the labour market and is able to 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 SSA 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 SSA in line with approved rates which are also reviewed annually.

Audit & Risk Committee Report

The Audit & Risk Committee (hereafter referred to as "Committee") is pleased to present its report for the financial year ended 31 March 2016 to members of Council. This report is in compliance with the requirements of King III.

Mandate

The Committee is governed by a formal audit charter which provides a guide in terms of objectives, authority and responsibilities. The charter and terms of reference were reviewed and approved by Council during the reporting period. The Committee recognizes its important role as part of the risk management and corporate governance processes and procedures of SSA 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 to carry out its fiduciary responsibilities by overseeing the integrity of SSA's financial statements, financial reporting processes, internal accounting and financial controls, the annual independent audit of the financial statements, and other aspects of financial management (including overseeing the establishment and maintenance processes to assure compliance by SSA with all applicable laws, regulations and policies).

External Audit

- To evaluate the independence, effective roles and functions of the external audit.
- 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 SSA, 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 is of the opinion that SSA's system of internal controls is effective and forms a basis for the preparation of reliable financial statements in respect of the year under review. In addition, the Committee was not made aware of any:

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

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

Committee Activities

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

Independently of management, members of the Committee met separately with the Internal Auditor and the external auditors on 17 June 2015. Meeting dates and topics were agreed in advance. Attendance by members during the course of the financial year was as follows:

Member	June	Sept	Nov	March
B Mhlongo (Chairman)	✓	✓	X	✓
S Potts	✓	X	X	✓
A Ngcobo	✓	✓	X	✓
L Ndzimandze	✓	✓	✓	✓
J Msibi	✓	✓	✓	✓

Note: ✓ = Attendance and X = Non-attendance.

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

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

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 SSA'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 Integrated Annual Report 2015/16.

B Mhlongo
Chairman



Swaziland Sugar Association

"ENERGY FOR GROWTH"

SSA SUPPORTS EDUCATION



THANK YOU FOR YOUR SUPPORT



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