



**SWAZILAND SUGAR ASSOCIATION
ANNUAL REPORT 2007/08**

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Members & Officers of the Swaziland Sugar Association

MEMBERS

Swaziland Cane Growers' Association

Swaziland Sugar Millers' Association

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VICE-PRESIDENT

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CHAIRMAN OF COUNCIL

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CHIEF EXECUTIVE OFFICER

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COMMERCIAL DIRECTOR

Hugh T James

EXTENSION MANAGER

Jabulani Sifundza

CANE TESTING MANAGER

Sipho Dlamini

HR & ADMIN MANAGER

Musa P Dlamini

YEAR UNDER REVIEW

1 April 2007 - 31 March 2008

Statement from the President



Mandla Hlatshwayo- SSA President 2007/08

Sugar Industry Review

The sugar industry continued to review various structural issues pertaining to the improvement of cost and productivity efficiencies as well as optimising sales into the different market segments where Swazi sugar is sold. The following developments can be highlighted in this connection:

- A review of the SSA management structure was initiated with two primary objectives in mind. One was to enhance the long-term sustainability of sugarcane production. The other was to create more commercial depth within SSA and to assess strategic marketing alliances for accessing some of the foreign market segments.
- The report from the study on an optimal transport model (covering sugarcane harvesting and sugar movements) was discussed extensively and a process of implementing the relevant recommendations was started.
- The implementation of the action programme compiled in the previous year to improve the viability of the smallholder sugarcane grower (SSG) sector continued in earnest. Because of the involvement of agencies outside the sugar industry on SSG issues, three national stakeholder workshops were held to review progress. It is to be noted that whilst significant progress was made in addressing some of the constraints facing the SSG sector, there are still areas where lack of progress has resulted in some growers deciding to suspend sugarcane production.

International Developments

Since the bulk of production is destined for markets outside Swaziland, it is an important strategic issue to monitor relevant international developments. They are covered in the CEO's Report. There are two

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developments to highlight at this stage. First, representatives of the sugar industry attended various international meetings and conferences, in some of which they made formal presentations. Second, the sugar industry retained its seat on the ISO Administrative Committee as well as its membership to the World Sugar Research Organisation.

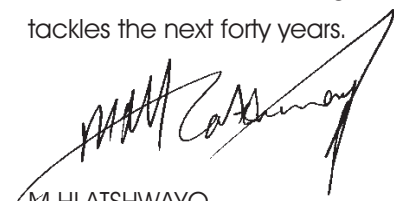
Forty Years of Existence

SSA completed forty years of existence. Over these four decades, it has grown from a modest base focusing on simple marketing and regulatory functions to a sophisticated entity dealing with complex commercial issues as well as providing a wide range of technical services to the sugar industry. The sugar handled by SSA has grown phenomenally both in terms of tonnage (rising by a factor of three) and value (rising by a factor of forty-four).

Throughout the forty years, the sugar industry has been an important part and driver of the Swazi economy. It has developed tremendously from one mill to three mills collectively producing sugar and molasses sold through SSA for over E2 billion currently. The positive ripple effects accruing to the rest of the economy have been due to the multi-functional role of the sugar industry as well as its strong direct and indirect linkages with other sectors of the economy from both the input and output sides of operations.

Appreciation

All of those who have had a hand in the SSA evolution over the past forty years (including past Presidents and the various officers) should justifiably feel satisfied and proud. To the current SSA Management Team, I wish to express my appreciation for the commendable effort they have exerted during the year under review and encourage them to continue with the good work in the coming years as the organization tackles the next forty years.



M HLATSHWAYO



Report from the Chief Executive Officer



Dr Mike Matsebula - Chief Executive Officer

Quality Management System

SSA's fundamental quality policy under the ISO 9001:2000 system is to meet consistently the requirements and expectations of its customers as well as other stakeholders. This policy has continued to be the guiding light in setting and achieving management objectives. The resulting key departmental objectives are highlighted in the next four sections of this Annual Report. They are followed by a further three sections covering corporate governance, group financial statements and ten-year crop results.

Overall Performance

Whilst the area under cultivation decreased slightly from the previous season by 0,4% to stand at 52 255 hectares (ha), the area harvested decreased by 0,3% to 50 245 ha (the second highest level ever). At the same time, cane yield increased by 3,3% to 101,02 tons per ha. The increases in area harvested as well as cane yield were significant enough to offset the declines in average sucrose content (from 14,4% to 14,3%) and sugar recovered (from 12,6% to 12,4%). The upshot was an increase not only in total cane production by 2,9% to 5,1 million tons (the second highest level ever), but also in total sugar production by 1,3% to 631 236 tons.

Total revenues generated from sales amounted to E2,53 billion (compared to E2,02 billion reached in the previous year). Whilst the total quantity of sugar sales decreased by 1,8%, the total value of sales increased by 25,1%. This was a consequence of shifts in the quantity of sales out of the three lower-priced market segments (namely, SACU, US and world) into the highest-priced market (namely EU). Favourable foreign exchange rate movements, buttressed by vigilant application of prudent forward pricing and hedging policies, helped in realizing the full gains of the shift in market composition.

There are four main international agreements impacting on SSA's core business of selling sugar. These are the SADC Sugar Cooperation Agreement (under which non-SACU SADC sugar producers are allowed

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duty-free quota access into the SACU market, which is otherwise SSA's domestic market); ACP-EU Sugar Protocol (under which Swaziland sells a certain amount of sugar duty-free into the EU, to be replaced by Economic Partnership Agreements); US Sugar Programme (under which Swaziland has a tariff rate quota); and COMESA derogation (under which Swaziland receives a reduction on sugar import duties levied by non-SADC COMESA countries). Developments under the first three agreements are highlighted below.

SADC Sugar Cooperation Agreement

There are two developments to be highlighted. First, the SADC Regional Sugar Strategy Document was approved by the SADC Technical Committee on Sugar (TCS) and recommended for adoption by the SADC Committee of Ministers for Trade. Second, a conference of the Federation of SADC Sugar Producers was held in August 2007 to focus on the EU market access offer which was announced in April 2007 as part of the Economic Partnership Agreements (EPAs) being negotiated between the European Commission (EC) and ACP countries.

ACP-EU Sugar Protocol (SP) and SADC EPA

In September 2007, the EC gave notice for the termination of the SP by 31 September 2009. From Swaziland's perspective, the SP was to be replaced by the EPA whose negotiation between the EC and the countries in the SADC configuration seriously got under way after April 2007. By December 2007, Swaziland (along with Botswana, Lesotho, Mozambique and Namibia) had initialled an interim EPA. The other two members in the SADC configuration (namely, Angola and South Africa) had not initialled. The intention is to conclude the comprehensive EPA by 31 December 2008.





Swaziland continued to implement the accompanying measures which the EC had offered as a means to enable the sugar industry restructure and adapt to the negative implications of the EU sugar sector reform (the termination of the SP being one major element). Significant developments to highlight are as follows:

- The Restructuring & Diversification Management Unit to coordinate the implementation of the accompanying measures was fully established (having operated on an interim basis in the previous year).
- A total of €14,895 million (about E180 million) was allocated for support to smallholder sugarcane growers in the areas of land preparation, irrigation equipment and business management.
- A total of €18 million (about E220 million) was earmarked for the rehabilitation of roads and bridges to move sugar industry outputs.

US Sugar Programme

It has been governed by Farm Bill 2002 whose life was to terminate in 2007. A review of the Farm Bill was initiated through the US legislative structures and had not been completed by year-end.

Outlook for 2008/09

Potential yields in about two thirds of the sugar industry were significantly below long-term means between November 2007 and May 2008 (critical period for determining the potential size of the 2008/09 crop). This is expected to reduce average industry yields and total sugar production is projected to increase only marginally above the 2007/08 level.

On the marketing side, EU sugar prices will continue their pre-announced declines (by a further 9,7% in the case of raw sugar). The expected negative impact on revenues can only be offset by favourable movements in foreign exchange rates (given that a change in product mix is more of a medium-to-long term phenomenon). Due to the overhang from global surplus sugar stocks, world market prices are expected to be under pressure.



M S MATSEBULA



Marketing and Logistics



Hugh T James - Commercial Director (Consultant)

The Commercial Department of SSA deals with the marketing, storage and movement of all sugar produced by the Swaziland sugar industry.

Key Objectives

The department's key objectives, in line with SSA's overall strategic objectives, include:

- Meeting SSA's sales targets, both in regard to quantity and value, in order to maximise the revenue generated for the benefit of the growers and millers of the industry.
- Ensuring that product quality and food safety standards are met.
- Monitoring and controlling the efficient use of storage, and the movement of the sugar to those markets where the sugar is sold on an FOB or CIF basis.

Sales

Total sales for the year amounted to 626 730 MT, which was 1,8% less than the sales for the previous year. The quantity of sugar available for sale to certain market segments is governed by quotas, and the opportunity to increase sales to such market segments is therefore limited. While sales to certain market segments, such as the EU increased, there was a decline in certain segments, such as the SACU market.

Figure 1 shows the sales over the past five years into the SACU market, while **Figure 2** shows the sales broken down into the market segments of Preferential sales, SACU sales and Regional/World sales.

Figure 1: Total Sales for the past five years (2003/4 to 2007/8)

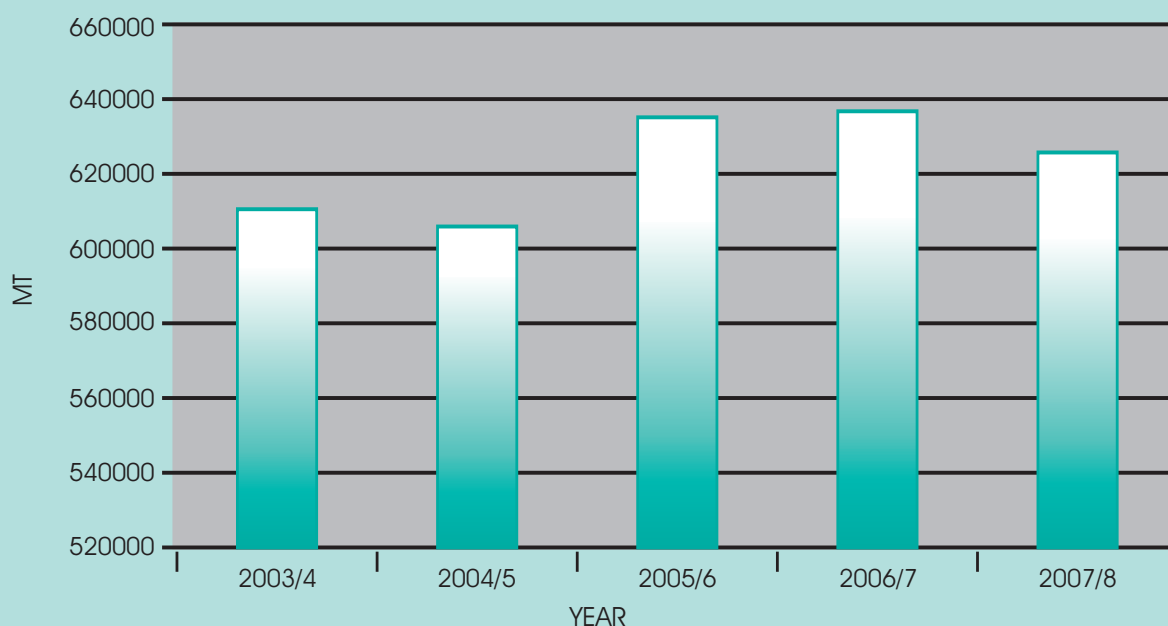
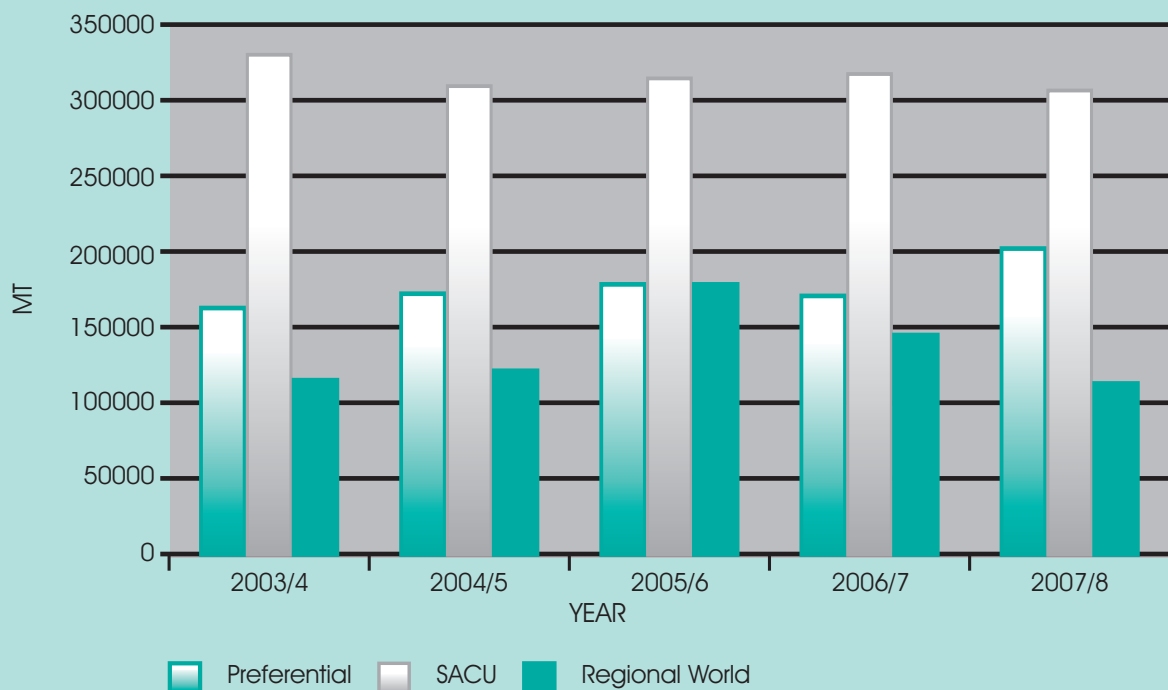


Figure 2: Sales by Market Segment (2003/4 to 2007/8)



With regard to value, the net proceeds generated from sugar sales increased by 9,8 % to E2,088 billion, when compared to sales for the previous year, while the net proceeds generated from sugar and molasses sales increased by 9,7% to E2,131 billion.

Quality

Driven by SSA's objective of selling higher value products into certain market segments where SSA is facing declining prices, there have been a number of capital projects at the mills to improve the quality of sugar being produced, and of bagging increased quantities of sugar. Being an organisation certified in terms of ISO 9001:2000, SSA continues to strive towards improving not only the quality of its product but the service it offers to its customers. In addition, increased efforts are being made to ensure that there is full compliance with food safety standards and traceability of product in all market segments.

Storage and Movement of Sugar

In line with SSA's objective to move up the value chain in certain market segments, SSA has invested in increased bag storage at two of the mills. This will provide SSA with greater flexibility in the sale of bagged product to these market segments.

As a result of SSA's objective to add more value to the sugar it sells, there was a decline by 14% to 165 140 MT of the total quantity of bulk sugar moved by rail and by road to the port of Maputo, when compared to the quantity moved in the previous year.



ISO 9001:2000 Quality Management System



Since the registration to ISO 9001:2000 in 2001, SSA has continued to utilize the quality management system to improve its business processes in order to advance the organisation's mission and strategic objectives. The major tools from the system have been the internal and external audits, the corrective action and customer complaint systems as well as the management review process.

Two surveillance audits were conducted by the certification body and both found that the quality management system was effectively implemented and complied with the requirements of the ISO 9001:2000 standard. This impressive result was due to an effective internal audit and corrective action system.

The annual management review was conducted as scheduled in October 2007. Amongst the major outcomes of this review was a renewed effort to identify and align the key performance indicators (KPIs) with the organisation's quality policy and objectives. In the year ahead, a great effort will go towards implementing this system for the measuring and monitoring of the organisation's performance across all departments and sections.



Human Resources



Musa Dlamini, HR and Admin Manager

Human Resources

Staff complement stood at 81 as at end of March 2008 following the retrenchment of 32 permanent employees at Mlawula. Management took the decision to align the conditions of service of employees at Mlawula with the nature of the operation, i.e. engage mainly seasonal employees save for the Supervisor and Admin Clerk positions which remain permanent.

Training focussed on safety issues, and consequently all employees who were not previously trained on Safety, Health and Environment (SHE) issues were trained. In addition the Occupational, Safety and Health (OSH) Committee members were also trained on general OSH issues (including fire-fighting) coupled with statutory requirements prescribed by the OSH Act of 2001.

Only one dispute was lodged at CMAC as opposed to last year in which we had three. It was amicably resolved.

The year's end of year function was different and more colourful since it was also combined with the celebration of SSA's 40 years of existence.

Corporate Social Responsibility

On instruction from Council, E210,000 was spent in assisting on the drought relief effort. Expenditure focussed on assisting with water and food in the rural areas bordering the sugar belt.

Assistance to rural primary schools and charity organisations was increased from last year's E129,000 to E150,000 this year.

Extension Services



Jabulani Sifundza, Extension Manager

Sugarcane and Sucrose Production

The total area harvested increased by 93 hectares (ha) from 50,400 ha in 2006 to 50,493 ha (0.2% increase) in 2007. Total sugarcane production also increased by 3% from 4,930,938 to 5,075,693 tons for the same period. Average sugarcane yields (tons cane per ha harvested) increased by 3% from 97,84 to 100,52. Total sucrose production increased by 6.9% from 711,882 to 760,769 tons. However, the sucrose content (as a percentage of sugarcane produced) declined by 1% from 14.43 to 14.28% (Table below).

Table : Sugarcane and Sucrose Production

	2005	2006	2007	% Var.
Area harvested	50,610	50,400	50,245	(0.3)
Increase/decrease in area harvested		(210)	(155)	-
Cane production (tons)	5,164,748	4,930,938	5,075,693	3
Cane yield (tons /area harvested)	102,50	97,84	101,02	3
Sucrose production (tons)	745,984	711,504	724,715,00	2
Sucrose Content (% Cane)	14,44	14,43	14,28	-1

Grower Performance

Smallholder growers' (growers with less than 50 ha harvested) sugarcane industry average yield per harvested area declined by 9,69% from 88,03 in 2006 to 79,50 tons cane per hectare (TCH) in 2007 (Table below). The highest decline (24,42%) was at the Mhlume Mill area mainly due to the closure of water supply to about 200 growers in Vuvulane as a result of their failure to settle water bills from previous years. The lowest yield recorded among the smallholder growers' category was 3,8 TCH. Smallholder growers' average yields in the Big Bend and Simunye Mill areas declined by about 2.5%.

Industry average yields for medium scale growers'(growers with 50 to but not greater than 1000 ha harvested) growers increased by 3,05% from 88,97 in 2006 to 91,68 TCH in 2007. However, average yields for medium scale growers in the Simunye Mill area declined by 9,93% from 84,42 in 2006 to 76,04 TCH in 2007. Lowest average yield (10,4 TCH) in this group was recorded in the Malkerns area where a number of farms appear to be abandoned. The most improved yields (15,22%) were in the Big Bend area where the average yield increased from 85,90 in 2006 to 98,97 TCH in 2007. This was as a result of improved irrigation water availability in the area in 2006/07.

Large scale growers' (growers with equals to or greater than 1,000 ha harvested) industry average yields were the most improved. The average yield increased from 100,47 in 2006 to 105,56 TCH in 2007 (5,06%). However, yields in the Big Bend area remained similar between the two years. The Simunye Mill area average yield was the most improved from 103,13 in 2006 to 115,19 TCH in 2007 (11,69% increase).

Table : Grower Performance

Mill Group	Smallholders Growers			Medium Scale Growers			Large Scale Growers		
	2006	2007	% Var.	2006	2007	% Var.	2006	2007	% Var.
Big Bend	92,72	90,40	(2,50)	85,90	98,97	15,22	103,97	103,72	(0,24)
Mhlume	86,83	65,63	(24,42)	96,58	100,03	3,57	94,31	97,76	3,66
Simunye	84,54	82,48	(2,44)	84,42	76,04	(9,93)	103,13	115,19	11,69
Industry	88,03	79,50	(9,69)	88,97	91,68	3,05	100,47	105,56	5,06

New Variety

A new variety, N46 was imported from SASRI in September 2007 and planted at the Simunye trial site for bulking up. This variety has purportedly similar characteristics to N25 but has better milling characteristics. Following the industry decision to reduce the time taken to release new promising varieties to growers this variety was immediately put in Category 2 of the varieties' schedule and will be released to the Highveld Seedcane Scheme in spring 2008. It will be available to growers for planting in secondary nurseries in 2009.

Smut Surveys

About 78% of the total area under sugarcane in the industry was inspected during the 2007/08 season against a target of 70%. There was a slight increase in average smut infection percentages (0,41 to 0,46%, 0,77 to 0,92% and 0,63 to 0,69% at Mhlume, Simunye and Nsoko areas, respectively) in the Lowveld with the exception of the Big Bend area where disease levels for both years remained similar (0,69%). There was an increase in the number of fields listed for plough out due to excessive smut infection (five fields were listed in 2007 compared to two in 2006).

Highveld Seedcane Scheme (HVSCS)

Total production at the HVSCS amounted to 5,135 tons of which 4,582 were sold as seed and 289 were used for re-establishment in the 2007/08 season. The balance of 264 tons was milled as surplus. This was against a total of 4,600 tons ordered. Orders received in 2007 for delivery in 2008 totaled 5,560 tons. The increase in orders is attributed to LUSIP who are expected to plant their first crop in 2008/09. A further increase is expected in the orders in 2008 for 2009/10 primary seed.



Cane Testing Services

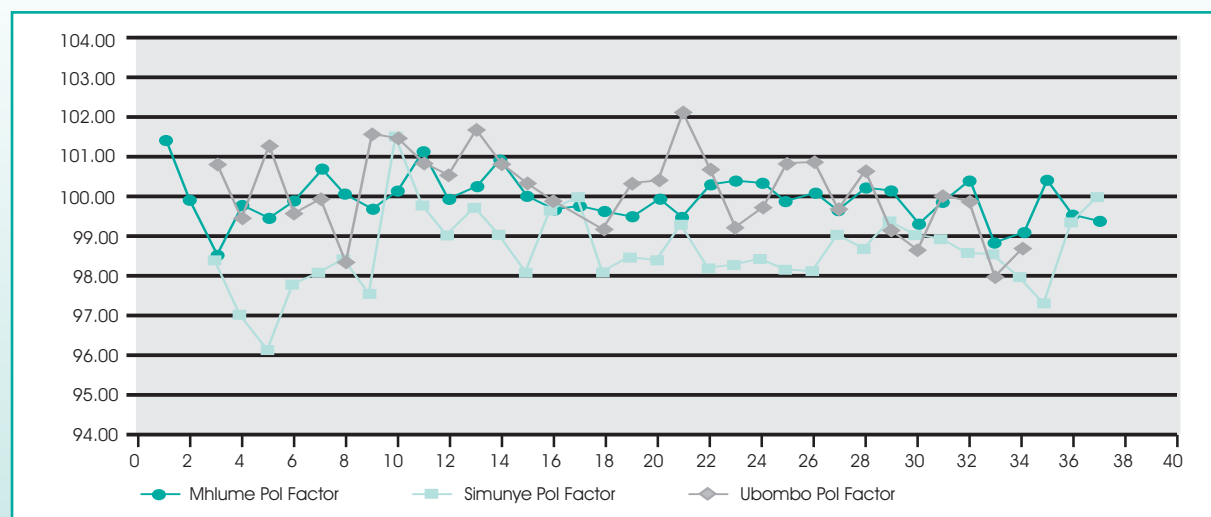


Siphso Dlamini, Cane Testing Manager

The primary purpose of the cane testing service at each mill is to determine the "sucrose content of cane supplied by growers, including the miller-cum-planter, in accordance with the procedures detailed" in Schedule C of the Sugar Industry Agreement. SSA provides an audit role to ensure compliance with the sampling and analytical procedures. This is done through formal system audits of all operations, regular inspections and review of data and exception reports from the laboratory information management systems (LIMS).

Through the laboratory audit programme, a total of thirty-four (34) non-conformities were raised from nine scheduled audits during the year. At the end of the year, fifty (50 %) percent of these were resolved and closed. Whilst this programme has been effective in identifying any deviations and system failures, there was still a need to strengthen the corrective action systems to avoid recurrence of problems. In this regard, training of laboratory personnel on this aspect will be a priority in the ensuing year.

The graph below shows the weekly pol factors for the entire season at each mill. Whilst some weeks look abnormal, on average the season was generally reasonable.



Corporate Governance

SSA has a unitary Council of delegates that is balanced between millers and growers. The Council is ultimately responsible for ensuring that the business is a thriving concern, and to this end effectively controls the group and its management and is involved in all decisions that are material for this purpose.

Chairman

The Chairman is a non-executive and independent member of Council. The roles of the Chairman and the Chief Executive Officer are separated.

Financial Statements

The SSA Council is responsible for ensuring the preparation of Annual Financial Statements and other information presented in reports to stakeholders in a manner that fairly presents the state of affairs and results of business operations. The external auditors are responsible for carrying out an independent examination of the Annual Financial Statements in accordance with International Standards on Auditing and reporting their findings.

The Annual Financial Statements are prepared in accordance with International Accounting Standards. They are based on appropriate accounting policies which have been consistently applied, except when otherwise stated in which case full disclosure is made, and are supported by reasonable and prudent judgements and estimates.

The members of Council have no reason to believe that the business will not continue as a going concern in the year ahead. The auditors concur with the opinion of the members of Council. Where the closure or discontinuation of an operation is anticipated, provision is made to reduce the carrying cost of the relevant assets to net realizable value if this is below cost. Provision is also made for any future operating losses incurred from the date of discontinuance of the anticipated disposal of such assets.

Council, Finance Committee and Audit Committee

The members of Council hold regular quarterly and annual meetings. In addition, there is provision in the SSA Constitution for decisions taken between meetings to be confirmed by way of Council resolutions.

SSA has a Finance Committee which comprises an equal number of millers and growers. The external auditors have unrestricted access to this Committee whose main task is to ensure the maintenance of and, where necessary, review of the effectiveness of internal controls in SSA in the light of findings by the external auditors. Other areas covered include the review of important accounting issues, pending litigation, specific disclosures in the Annual Financial Statements and a review of the major audit recommendations.

The Audit Committee assists Council in fulfilling its fiduciary responsibilities by overseeing the integrity of SSA's financial statements, financial reporting processes, internal accounting and financial controls, annual independent audit and other aspects of financial management at SSA (including compliance with applicable standards, laws, regulations and policies)

Internal Control

SSA maintains internal controls and systems designed to provide reasonable assurance as to the integrity and reliability of the Annual Financial Statements and to adequately safeguard, verify and maintain accountability for its assets. Such controls and systems are based on established policies and procedures and are implemented by trained personnel with an appropriate segregation of duties. The effectiveness of these internal controls and systems is monitored in a number of ways, as set out below, dependent upon the particular circumstances:

- Aid of internal control checklists;
- Establishment of defalcation reporting procedures; and
- Adherence to performance standards.

Nothing has come to the attention of Council, senior management or the external auditors to indicate that any material breakdown in the functioning of the abovementioned internal controls and systems has occurred during the year under review.

Executive Management

The Executive Management meets on a monthly basis to review operational performance, capital programmes and other relevant issues. In addition, consideration is given through well-defined structures, to major investment and capital expenditure proposals as well as issues of strategic importance to the group, for recommendations to the members of Council. Furthermore, the regular involvement of the industry members with operational executives ensures the interactive nature of the overall management reporting structure.

Remuneration Committee

The Remuneration Committee, is responsible for the assessment and approval of a broad remuneration strategy for SSA, the determination of incentive pay structures for SSA executives, the positioning of senior executive pay levels relative to local and international industry benchmarks, and the assessment and authorisation or specific reward proposals for SSA officers.

Management Reporting

SSA has established comprehensive management reporting disciplines which include the preparation of annual budgets by all operating entities. Monthly results and financial status of operating entities are against approved budgets and compared to the prior year. Profit and cash flow projections are reviewed regularly whilst working capital and borrowing levels are monitored on any ongoing basis.

Ethics

Members of Council and SSA employees maintain the highest ethical standards ensuring that business practices are conducted in a manner which, in all reasonable circumstances, is beyond reproach. In any instance where ethical standards are called into question, the circumstances are investigated and resolved by the appropriate executive.

Employment Equity, Social investment, Environment and Risk Management

SSA's strategic policies, actions and achievements in respect of these matters are covered in the Review of Operations covered on pages 4 to 16.

group financial statements



Sharon de Sousa, Financial Director

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