Swaziland Sugar Association

Annual Integrated Report 2011/12

Quality Management
ISO 9001:2008

contents

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	Swaziland Sugar Millers Association
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YEAR UNDER REVIEW	1 April 2011 - 31 March 2012

President's Statement

PRESIDENT - NICK JACKSON

INTEGRATED REPORTING FRAMEWORK

In the past, Swaziland Sugar Association (SSA) Annual Reports covered the key elements of sales performance, management commentary, financial performance, outlook and governance. Council has decided that these key elements should now be reported in a holistic and integrated manner with the objective of enabling stakeholders to appreciate the key determinants of SSA's performance as well as the factors which have a material impact on the sustainability of the industry into the longer term.

The report contains an abridged version of the financial statements; with the detailed version being posted on the SSA Website www.ssa.co.sz.

RESPONSIBILITY

The SSA Council acknowledges its responsibility to ensure the integrity of the integrated report and has accordingly applied its collective mind. In its opinion, the Report addresses all material issues and presents fairly the integrated performance of SSA. The Report has been prepared in line with best practice pursuant to the recommendations of the King III Code on Corporate Governance and Council authorised its release on 27 June 2012.

INDUSTRY OVERSIGHT BODIES

Council is the highest policy-making body and is chaired by a person without any direct or indirect interest in either sugarcane growing or milling. This, plus the equal representation between sugarcane growers and millers, makes it an equitable forum. It exercises its oversight function through seven main bodies (Marketing, Audit, Finance, Remuneration, Extension, Cane Testing and IT Policy), each of which has an equal representation of growers and millers. There is also a Quota Board, chaired by an independent person with no interest in sugarcane growing or milling, which is responsible for issuing sugarcane growing quotas.

OUTLOOK

The planted area has grown from 52 255 hectares (ha) in 2007/08 to 54 876 ha in 2011/12 (an increase of 2 621 ha over five years).

Sugar produced has increased from 631 236 tons in 2007/08 to 646 781 tons in 2011/12; an increase of 15 545 tons. Preliminary forecasts indicate that planted area will grow in the next five years to 63 857 ha in 2016/17 whilst sugar produced will grow to 802 338 tons in 2016/17 (an increase of 155 557 tons over five years).

ORGANISATIONAL REVIEW

On a periodic basis, the sugar industry reviews its structure to determine whether there are changes to be made in the light of the environment within which it operates as well as major national and international developments expected to impact on it. Currently, the structure is under review (the review process having begun in early 2011). The outcome and the way forward will be considered and decided by Council before the end of 2012.

APPRECIATION

On behalf of the sugar industry, I wish to express my appreciation for the work done by SSA Council and Management over the year under review. In particular, it was pleasing to note the continued improvement as reflected in the adoption of the integrated reporting framework so that our stakeholders are better informed.

NM Jackson

Business Model

CHIEF EXECUTIVE OFFICER-
DR MIKE MATSEBULA

The main objective of SSA (a legal entity capable of suing and being sued) is to promote the development of the sugar industry through cooperation between millers and growers on all matters of mutual interest. SSA markets all sugar and its by-products to the best advantage of millers and growers.

In addition, it provides technical services required by the industry. Its activities are governed by the Sugar Industry Agreement and Constitution. The business operations of SSA are through a secretariat led by the Chief Executive Officer.

SSA has two offices – one in Mbabane (the head office) and the other in Simunye (housing Technical Services). It owns the sugar warehouses located at each of the sugar mills, the conditioning towers at the Mhlume and Ubombo mills as well as the sugar warehouse at the Mlawula siding.

It is also a 25% joint-shareholder of the sugar terminal in Maputo (together with the sugar industries of Mozambique, South Africa and Zimbabwe).

The current SSA model provides that all sugar and molasses which passes over the production scale becomes the property of SSA. SSA then pays for the production on a weekly basis. The price payable is determined by Council on the recommendation of the Finance Committee. This price is based on forecasts informed by a combination of budget assumptions and the actual execution of sales. At the same time as the determination for the sugar price is made, the price for the sucrose delivered by growers is also determined.

The millers, per the dictates of the Sugar Industry Agreement, pay the growers on the basis of their weekly cane deliveries (whose sucrose content is measured through the Cane Testing Service). Since production is paid for before the actual sale, SSA takes on loan facilities to execute the weekly payments to the mills.

The sugar and sucrose prices payable are, in turn, determined on the basis of an agreement negotiated between millers and growers.

Each miller pays its growers a mill-specific sucrose price dependent on the sucrose content in the sugarcane delivered to the mill in question.

SSA has performed quite well in the 2011/12 year – attaining the highest sales revenue ever and the highest price payment per ton. It has also met a majority of the strategic objectives assigned to management for the year. The forecast for the 2012/13 year indicates that the 2011/12 sales revenue record will be surpassed. This improvement in the performance of the sugar industry is expected to spill over into the rest of the Swazi economy as a result of strong sectoral linkages.

Dr M Matsebula

Operating Environment

INDUSTRY MILLING CAPACITY

Because of expected growth in area under cane in the South, the Ubombo mill has installed additional milling capacity over the period 2010-11. This has increased the milling capacity from 410 to 500 tons of cane per hour. As a result, the total milling capacity for the industry has increased from 1 170 to 1 260 tons of cane per hour. This capacity is envisaged to be sufficient to accommodate the forecasted increase in cane production over the next five years.

SUGAR MOVEMENT AND STORAGE

SSA's bulk export sugar sales are moved by road trucks from the mills directly to Maputo sugar terminal or to the sugar siding at Mlawula and thereafter by rail to Maputo. All bagged sales (both export and local) are moved by road trucks from the mills. The road trucks, rail locomotives and rail wagons can quite easily be increased if necessary to handle increased sugar movements. Going forward, this will however need to be monitored and managed closely when the final markets for the forecasted increased production have been identified, to ensure the efficient movement of the sugar.

The need for additional storage will also need to be reviewed once the final markets have been identified, as currently there is sufficient storage available for bulk sugar, but that may not be the case for bagged sugar.

SUGAR MARKETS

SACU market

The Southern African Customs Union (SACU) market, which is considered a domestic market for Swaziland given its characteristic of a common market (i.e. free movement of sugar), is and shall continue to be an important market for Swazi sugar. The prices obtaining in this market have generally been higher, and are expected to continue being higher than world market prices. One of the main threats to SSA's sales into SACU is imports, which over the last year have grown by 37% from 104 000 tons in 2010 to 142 000 tons in 2011. These sugar imports into SACU are subject to an import tariff, which is currently determined by the South African International Trade Administration Commission (ITAC) after consultations with the various stakeholders. The protection effect of the current import tariff has been eroded by adverse movements in the Rand/Lilangeni exchange rate and the world market sugar price. Since the grounds for a protective tariff have not changed, there is need to review it.

Export Markets

The world sugar-trading environment has stabilised with production increasing to meet rising demand and replenish stocks, which were depleted during the previous two deficit years. At the same time, world sugar prices have maintained relatively high levels, averaging 25,74 USc/lb during the financial year (as shown in Figure 1) versus an average of 23,53 USc/lb in the previous financial year. As expected, European Union prices (EU) (see Figure 2) increased in order to attract world and African Caribbean Pacific (ACP) sugars. They have increased by 23% over the past year to an average price of €600 per ton. While EU market prices have increased, the United States (US) market has not exhibited similar movements; and the prices have in effect fallen in the US.

Figure 1: World Sugar Market Prices 2011/12

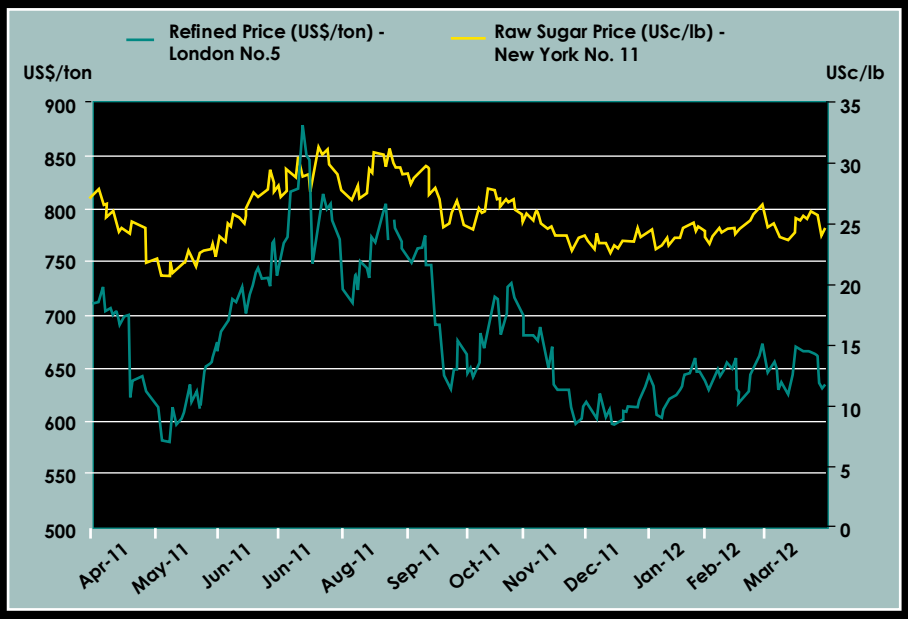
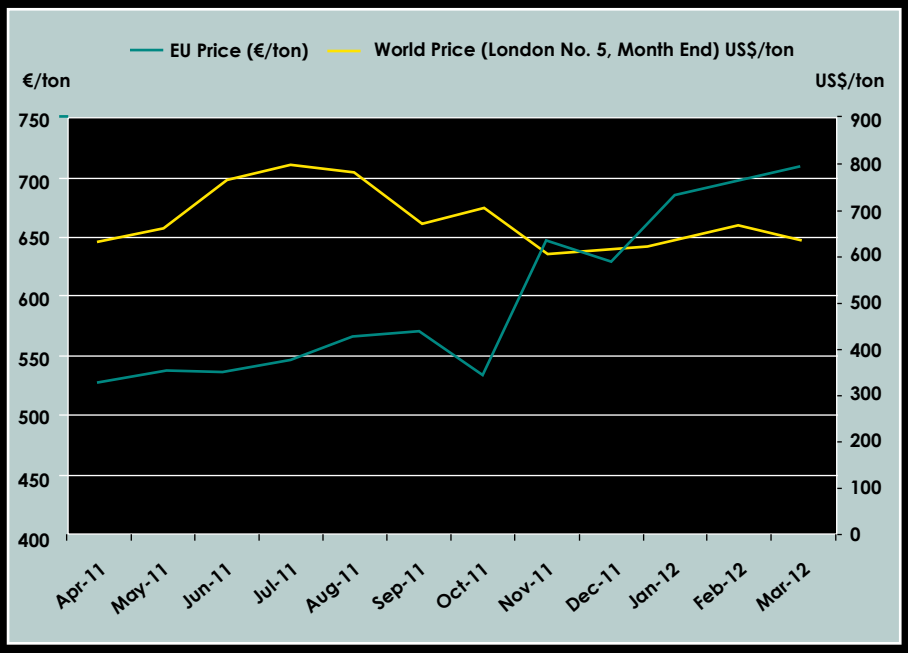


Figure 2: EU Price Movements versus World Price 2011/12



OTHER EXTERNAL FACTORS

Exchange Rate

SSA's export returns are highly influenced by movements in foreign exchange rates as well as prices in those foreign markets. Whilst SSA's exports were destined only to the EU market during the year under review, the sugar was sold in both Euro and US Dollar contracts.

The Lilangeni (which is at par with the South African Rand) weakened against the Euro from E9,60 in April 2011 to E10,26 in March 2012; whilst against the US Dollar it weakened from E6,75 in April 2011 to E7,70 in March 2012. At the same time, prices in the EU market improved. The combination of favourable foreign exchange rate movements and improvements in EU prices resulted in higher export returns.

Sugar Policy

Within the current EU Sugar Regime, there were no major developments in terms of changes to its structure. The only change expected in October 2012 is the abolition of the price guarantees that were provided in case EU prices fall below a certain threshold. The high EU prices (relative to the threshold prices) during the period meant that the price guarantees were never triggered. The loss of this guarantee is therefore not expected to have any meaningful impact on suppliers (including Swaziland) since the market prices have generally always been above the reference prices and this is forecasted to continue into the medium term.

The discussions within the EU are towards a further reform of the EU Sugar Regime post its current life, which is due to expire in 2015. The European Commission has tabled a proposal in this regard which is currently under consideration by different structures. The key feature of the proposal is the abolition of production quotas, which exist under the current Regime. Whether this proposal will succeed is unclear at this stage. For that reason, the potential impact on ACP suppliers, including Swaziland, has not been fully understood as yet. SSA will continue to participate in the relevant discussions, either directly or through the Swaziland representative on the EPA-EBA London Sugar Group.

SSA will make appropriate representations to the Swazi Government and EU officials.

In the US, the sugar price (which is normally higher than the world market prices) is supported through the Sugar Programme under the US Farm Bill. The current Farm Bill is due for review in 2012. No major changes are envisaged, thus it is expected to allow continued preferential access for Swazi sugar. Since the US sugar prices are dependent on world market price developments, which are volatile, it is not yet clear how the US market would fare in importance going forward for Swazi sugar. A continuous exercise of monitoring relative market attractiveness will need to be maintained.

STAKEHOLDER RELATIONSHIPS

SSA values its relationships with its various stakeholders and has embarked on several initiatives to ensure continued support. In the context of the organisational framework, SSA treats these stakeholders as customers in order to ensure that they are treated with utmost consideration of their partnership value. The main avenues can be summarised as follows:

- CUSTOMERS: Biennial sugar conference, customer satisfaction survey, customer audits and continuous dialogue (through visits or meetings).
- SUPPLIERS: Biennial sugar conference, supplier audits and continuous dialogue (through electronic and telephone communication) and meetings.
- GOVERNMENT: Biennial sugar conference, meetings (including briefings and consultations) and joint participation in external forums.
- PARLIAMENT: Biennial sugar conference and visits to different areas where sugar industry activities are located.
- COMMUNITY: Social Corporate Responsibility programme encompassing rural primary schools, non-governmental organisations and junior sporting events.
- EMPLOYEES: Continuous consultations with employees (through representative bodies and individually) and social events (charity walks and family fun day).

RISKS AND MITIGATION

At the beginning of each year, all material risks pertaining to the business and mitigation measures are identified and logged into a Risk Register (RR). The implementation of the mitigation measures is closely monitored during the year. As part of the risk management process, new risks are identified during the year and the RR updated accordingly. The high risks in terms of impact value from RR 2011/12 are summarised in Table 1. Virtually all the corresponding risk mitigation measures were implemented. Those mitigation measures whose implementation could not be fully accomplished during the year were carried over to RR 2012/13. The implementation of the mitigation measures assisted SSA management in successfully achieving its objectives during the year.

TABLE 1: HIGH RISKS

1. Reduced value of EU market post-2015.
2. Dust explosion in conditioning towers.
3. Losses due to poor fire reticulation systems and fire fighting capabilities at sugar warehouses.
4. Reduced value of EU market pre-2015.
5. Foreign exchange exposure.
6. Losses due to poor fire reticulation systems and fire fighting capabilities at Mlawula siding.
7. Losses due to poor fire reticulation systems and fire fighting capabilities at Maputo Sugar Terminal.
8. Inability to extract payment from EU customers.

Organisational Performance

MANAGEMENT TEAM

SSA's commitment and responsiveness to its diverse stakeholders is accurately captured in its Quality Policy Statement:

"SSA is committed to the implementation and continual improvement of its Quality Management System as a useful instrument for enhancing operational efficiencies. This commitment underlies SSA's fundamental quality policy which is to meet consistently the requirements and expectations of its customers as well as other stakeholders..."

This commitment underlies the performance programme covering all key operational areas. The stakeholders' requirements and expectations are consistently met in a focused and balanced manner through programmes designed to meet the following broad quality objectives:

- To maximise returns to sugar industry principals in a sustainable fashion.
- To consistently meet the requirements and expectations of customers and other stakeholders, taking into account market trends and international standards.
- To provide competitive employment opportunities under fair labour practices and to develop human resources directly in line with SSA interests.
- To nurture mutually beneficial relationships with brokers, suppliers and service providers.
- To continue being a reliable supplier of high quality products and services.
- To achieve continuous improvement and innovation in business performance under sound management practices.
- To provide a relevant and meaningful social responsibility programme.

For purposes of providing focus towards the attainment of these objectives, a management performance framework defining key performance indicators and targets has been developed through a management review process. The management review process also assesses and allocates the necessary resources including ensuring adequacy of job skills to implement the management performance programme for each year.

Table 2 presents the management objectives for 2011/12 and is the reference point for the discussion of outcomes and trends presented in the subsequent operational performance reports.

TABLE 2: MANAGEMENT OBJECTIVES AND PERFORMANCE

Overall Objective: To maximise returns to members as measured by the resultant net price per ton of 96° pol sugar. The targeted price for the 2011/12 financial year was set.

NOTE: This overall objective was achieved through targeting performance on the various key variables influencing it which are captured in the matrix below.

Overall Performance: The resultant net price per ton of 96° pol sugar was 10% above target.

OBJECTIVE	PERFORMANCE INDICATOR	PERFORMANCE TARGET	ACTUAL PERFORMANCE **NOTE: Comments included where target not met.**
1. To optimise sales for sugar and molasses.	Sales of Sugar.	638 991 MT.	625 412 MT. [Due to reduced sugar production].
	Sales of Molasses.	199 850 MT.	231 609 MT.
	Price of Sugar for Each Market	SACU (PT*) EU Bulk (PT*) EU Bagged (PT*) US (PT*)	3,2% above target price. 3,3% above target price. 19,7% above target price. 2,9% above target price.
	Price of Molasses	PT*	0,5% above target price.
	Exchange Rate Achieved.	€1,00 = E9,59. US$1,00 = E7,23.	€1,00 = E10,10. US$1,00 = E7,22.
2. To minimise sugar losses.	Sugar Losses on Transit at Mlawula Siding and STAM.	0,225% .	0,130%.
3. To minimise logistics costs.	Total Logistics Costs	PT*	9% below target.
4. To ensure customer satisfaction.	Customer Complaints Closure.	All Corrective Action Requests (CARs) Closed Within Agreed Timelines.	100% of 15 CARs closed within agreed timelines.
	Customer Satisfaction Index	Not Less Than 80%.	84%.
5. To secure adequate facilities to meet weekly payment requirements and minimise interest costs.	Adequacy of Facilities for Weekly Mill Payments.	Meeting All Weekly Mill Payments.	All payments were made on time.
	Financing Costs	PT*	18,8% below target. [Due to reduced sugar production].

OBJECTIVE	PERFORMANCE INDICATOR	PERFORMANCE TARGET	ACTUAL PERFORMANCE **NOTE: Comments included where target not met.**
6. To maintain SSA costs within budget.	SSA Cost Variance Against Budget.	Total Actual Costs < Total Budgeted Costs.	Saving of 5,7% achieved.
7. Improve the performance of employees.	Overall Employee Work Performance.	Increase in Average Employee Performance by 5% from Previous Year.	Performance increased by 1%. [Most of the under-achievement is due to factors of a structural nature which were not considered in setting the target].
8. To improve the viability of smallholder sugarcane growers (SSGs), including farmers associations.	Yields for SSGs.	Increase of 2,5 Tons Cane per Hectare per Annum (tch/an).	Average yield increased by 6,66 tch/an.
	Information on Production Costs.	Disseminate Information on 2010/11 Grower Production Costs by 30 September 2011.	Results presented in October 2011 [Due to postponement of grower meetings].
	External Assistance for Cost-Reduction Measures.	Secure a Minimum of E100 million on SSG Cost-Reduction Assistance.	Secured E540 million under EU assistance and E2 million from Centre for Development of Enterprise.
		Spend a Minimum of E100 million on SSG Activities.	E94 million spent by March 2012. [Largely outside management control].
9. To reduce sugarcane disease infection levels.	Industry Average for Smut Infection.	Reduction of Infection Levels by 5% from Previous Season.	Industry Average Smut Infection reduced by 9,8%.
10. To improve the integrity and reliability of the DAC laboratories.	Testing Efficiency.	Proportion Tested out of Total to be at Least 75%.	Mhlume – 78% Simunye – 77% Ubombo – 73% [Problems at Ubombo were IT-related and have since been addressed].
	Accuracy of Measurement (Pol Factor).	98,5 – 100,5%.	Mhlume – 99,62% Simunye – 99,77% Ubombo – 99,11%
11. To improve the effectiveness of the quality management system.	Maturity of the Quality Management System (QMS).	Maturity Level of 3 in Initial Self-Assessment. [Equivalent to mid-point of range between unstable (1) and very mature (5)].	Achieved a maturity level of 3. This represents a QMS with a stable and formal approach.

PT* Target not presented for confidentiality reasons. However, performance was calculated with respect to target in question.

Marketing and Logistics

COMMERCIAL DIRECTOR - SHARON DE SOUSA

Despite the increased production during the year, total sales reduced from 643 720 tons in the previous year to 625 412 tons. This was mainly due to the replenishment of closing stocks (from 43 015 tons in the previous year to 73 159 tons) a d the fact that the previous year's sales were also high because of high closing stocks in 2009/10 (at 104 730 tons).

In addition, sales are dictated by the schedules of customers to whom the sugar is contracted as some would uplift the sugar over a period overlapping two SSA financial years.

Total gross sales returns from all markets improved by 13% from E2,774 billion to E3,142 billion.

Sales into SACU have remained virtually unchanged at 309 945 tons from 309 483 tons in the previous year.

COMMERCIAL TEAM

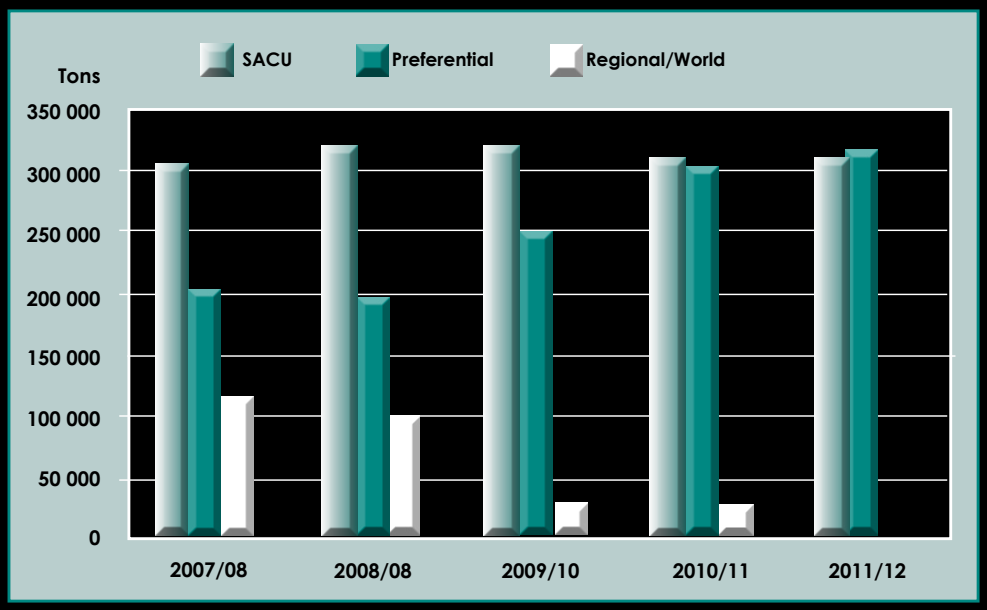
This was mainly due to the commitment of the extra production to the EU market which provided better returns for the industry. Returns from the SACU market improved by 13% (from E1,313 billion to E1,484 billion) owing to price improvement, which was supported by higher world sugar prices.

The commitment of extra production to the EU market is reflected in higher EU sales which increased to 315 387 tons from 279 357 tons in the previous year.

Returns from the EU market improved by 16% from the previous year (from E1,112 billion to E1,297 billion). This was due to a combination of improved EU prices (as a result of higher world prices) and the weakening of the Rand/Lilangeni against the Euro.

SSA seeks to optimise the usage of road movements as it is more efficient in terms of costs compared to rail movements.

Figure 3: Sales by Market 2011/12



However, the tight shipment programme demanded that more sugar be moved by rail than by road during the year under review. A system to optimise on the two modes of transport is in place and will continue to be implemented, taking into account the customers' shipping requirements.

Losses of sugar in transit from the mills to the Mlawula siding and to the Maputo Terminal reduced, with total losses amounting to 0,13% compared to 0,18% in the previous year. These losses are still well within the international tolerance level of 0,25%.

Molasses sales increased sharply during the year in line with the high increase in molasses production. Total production increased by 17% from 200 134 tons to 235 041 tons. The SSA strategy is to sell all molasses produced during the year. However due to logistical reasons, a small portion of molasses was left in stock at the end of the financial year.

As a result, total sales were 231 609 tons (resulting in closing stocks of 1 901 tons, after taking into account the losses). In terms of revenues, these increased by 28% from E71 million to E91 million as a result of the increased sales volume and price adjustments.

Human Resources & Corporate Social Responsibility

HR & ADMIN MANAGER - MUSA P DLAMINI

HUMAN RESOURCES

The total staff complement was 77 permanent and 25 seasonal employees. The internal industrial relations climate was reasonably calm. Only one dispute was lodged against SSA and the case is still pending at the Industrial Court.

Training and development of employees was progressed in accordance with the process driven by the quality management system and shop-floor identified competence requirements.

HR & ADMIN TEAM

CORPORATE SOCIAL RESPONSIBILITY

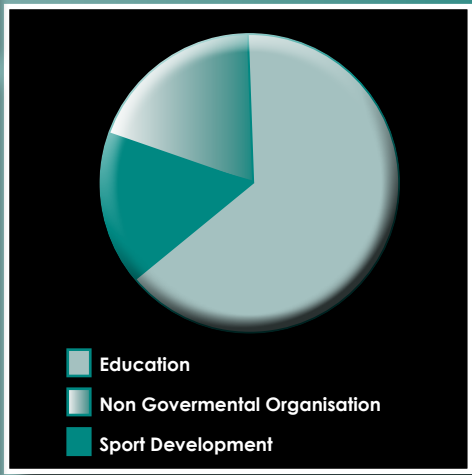
SSA's corporate social responsibility is based on the contribution that it can make to the economic and social development of communities.

Used computers to the value of E50 000 were donated to a rural school and a total of E500 000 in cash was donated to rural primary schools, charity organisations and sporting development associations. The breakdown of the contributions was as follows:

a) Black Mbuluzi Nazarene Primary School Computers valued at	E50 000
b) Mabhensane Primary School	E150 000
c) Enyokeni Primary School	E150 000
d) Hope House	E37 500
e) Cheshire Homes	E37 500
f) Gogo Nde Orphanage	E37 500
g) Athletics Association of Swaziland	E67 000
h) Swaziland National Tennis Association	E17 600

Figure 4 highlights the distribution of the sponsorships by category. The distribution and individual allocations are reviewed on an annual basis.

Figure 4: Donations by Category



Extension Services

SLA MANAGER - EXTENSION
JABULANI SIFUNDZA

GROWER PERFORMANCE

The overall industry (all grower categories) average yield increased by 6,1 tons cane per hectare per annum (tch/an) from 97,8 tch/an in 2010 to 103,9 tch/an (see Table 3) in 2011. Yields declined by 0,7 tch/an in the Big Bend area and increased by 10,2 tch/an and 10,8 tch/an in the Mhlume and Simunye mill areas, respectively. The improvement in the Northern mill areas is attributed mainly to the intensified ploughing out and replanting by growers. The decline in the Southern mill area is attributed to management issues in the medium size grower category.

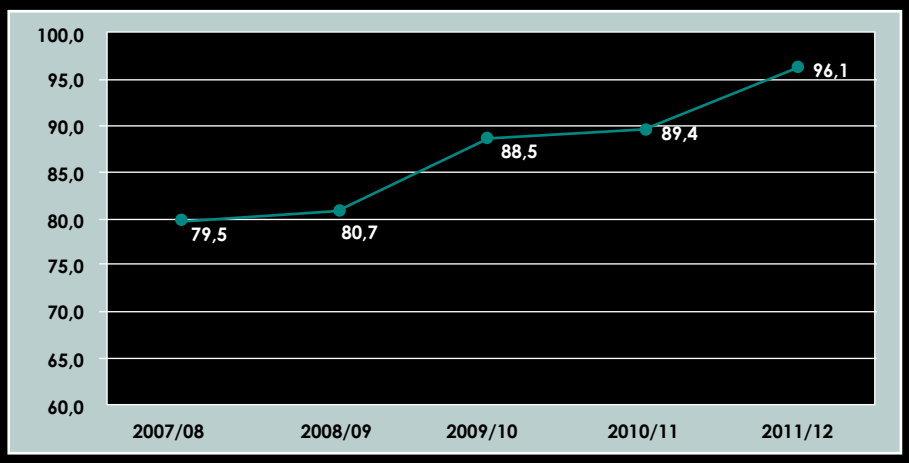
Table 3: Grower Performance by Mill Group and Category (tch/an)

	Smallholder			Medium Scale			Large Scale			All Growers		
Mill Group	2010	2011	Change	2010	2011	Change	2010	2011	Change	2010	2011	Change
Big Bend	93,1	98,8	5,7	104,1	93,8	-10,3	100,1	100,4	0,3	99,7	99,0	-0,7
Mhlume	89,5	97,3	7,8	100,4	104,9	4,5	95,1	107,1	12,0	93,3	103,5	10,2
Simunye	81,5	84,0	2,5	88,1	92,9	4,8	102,8	115,2	12,4	100,0	110,8	10,8
Industry	89,4	96,1	6,7	99,2	95,1	-4,1	99,9	107,5	7,6	97,8	103,9	6,1

Smallholder Growers

The average yield for smallholder growers (individual growers with less than 50 ha of area under cane and all farmer associations) increased by 6,7 tch/an from 89,4 tch/an in 2010 to 96,1 tch/an (see Table 3). Mill area average yields increased by 5,7 tch/an, 7,8 tch/an and 2,5 tch/an for Big Bend, Mhlume and Simunye, respectively. Smallholder grower yields have increased by an annual average of 3,3 tch/an over the past five years (see Figure 5).

Figure 5: Annual Average Yields (tch/an) of Smallholder Sector: 2007/08 – 2011/12



This is attributed mainly to the intensified ploughing out and replanting of old ratoon crops as well as favourable climatic conditions and crop potentials. Improvement in collaboration between extension service providers and financial institutions in assisting growers with appropriate finance for the timely and adequate supply of farm inputs also contributed to the improvement in yields.

EXTENSION SERVICES TEAM

Medium Scale Growers

For individual or estate growers with 50 to 1 000 ha of area under cane, the industry average yield decreased by 4,1 tch/an from 99,2 tch/an in 2010 to 95,1 tch/an (see Table 3). Average yields in the Big Bend mill area decreased markedly by 10,3 tch/an. This is attributed to farm management challenges in some of the estates in the South. Average yields for growers in the Mhlume and Simunye Mill areas increased by 4,5 tch/an and 4,8 tch/an, respectively as a result of intensified ploughing out and replanting of old ratoon crops as well as good crop growing conditions.

Large Scale Growers

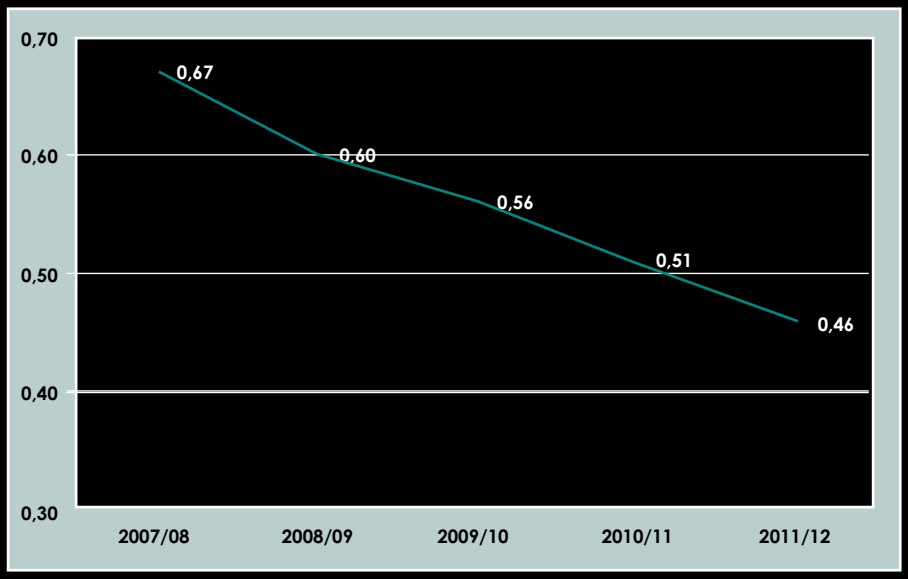
The average yield for growers with more than 1 000 ha of area under cane increased by 6,1 tch/an from 97,8 tch/an in 2010 to 103,9 tch/an (see Table 3).Yields in the Mhlume, Simunye and Big Bend Mill areas increased by 10,2 tch/an, 10,8 tch/an and 0,3 tch/an to 103,5 tch/an, 110,8 tch/an and 100,4 tch/an respectively. The marked increase in average yields in the North is attributed to intensified ploughing out and replanting of old ratoons as well as favourable climatic conditions.

SMUT SURVEYS 2011/12

Industry smut infection levels decreased by 9,80% from 0,51% in 2010/11 to 0,46% in 2011/12. Smut levels declined by 69,23%, 18,31%, 15,38% and 5,19% at Mhlume, Nsoko, Big Bend and Sidvokodvo areas, respectively.

Infection levels remained the same in the Malkerns area. Disease levels declined by 31,34% over the last five years from 0,67% in 2007/08 to 0,46% in 2011/12 (see Figure 6). The decline in smut levels is attributed to intensive roguing efforts and the decline in the area under the highly susceptible variety, NCo376. For the first time in ten successive years, there was no excessive smut infection and thus no compulsory plough out orders issued.

Figure 6: Industry Annual Average Smut Infection (%) : 2007/08 – 2011/12



THE CLIMATIC CONTEXT FOR THE 2011/12 CROP

The potential size of the 2011/12 crop was determined primarily by summer growing conditions between November 2010 and May 2011. Potential sugarcane yields are determined largely by radiation and temperature, and therefore comments on growing conditions refer to these important climatic variables.

Potential yields for the 2011/12 season were superior to the previous two seasons in the North, and to the previous six seasons in the South. Close to average growing conditions were recorded in the Lowveld during late spring/early summer (September 2010 to November 2010). Potential yields were forecast to be close to the long term mean (LTM) for all three mill areas at the end of November 2010. The all-important mid-summer period between December 2010 and January 2011 was characterised by below-average radiation and forecast yields declined in response. In the South, season-average potential yields declined from 142,0 tch/an at the end of November 2010 to 138,5 tch/an at the end of January 2011.

In the North, potential yields declined from 139,0 tch/an to 134,0 tch/an at Simunye and from 134,0 tch/an to 131,0 tch/an at Mhlume.

Better than average conditions in February and March 2011 saw forecasts regain much of the potential lost during December and January. However, these better than normal conditions did not persist. Potential yields dropped markedly in April in response to poor growing conditions. By the end of the 2011 pre-season forecast period in May, potential yields were forecast to be 139,0 tch/an, 135,0 tch/an and 131,5 tch/an at Big Bend, Simunye and Mhlume respectively.

Conditions in the South during the remainder of the harvest season were equal to, or poorer than the LTM and the potential yield declined to 137,0 tch/an by mid-December 2011. In the North this decline was more marked. Season-average potential yields declined to 130,0 tch/an and 126,4 tch/an at Simunye and Mhlume, respectively, by the end of the 2011/12 season.

OUTLOOK FOR THE 2012/13 SEASON

In the South, an average start to the spring and early summer growing period resulted in a forecast yield similar to LTM. By the end of November 2011, the season-average for the potential yield at Big Bend for the 2012/13 season was forecast to be 139,5 tch/an, equal to the LTM. Poorer growing conditions between December 2011 and March 2012 have seen forecast yields decline. As at the end of March, the potential yield was forecast to be 136,5 tch/an, similar to the potential yield calculated for last season (i.e. 2011/12).

In the North, a similar average start to the season was followed by better than average conditions between January 2012 and March 2012. Potential yields at the end of March 2012 were forecast to be 137,5 tch/an and 133,5 tch/an at Simunye and Mhlume, the highest in four seasons for both areas.

CROP NUTRITION PROGRAMME

Two trials to determine the amount of nitrogen to cut when applying potassium (K) through stillage showed that it was possible to reduce the nitrogen by 10% without significantly reducing sucrose yields.

It was also concluded that nitrogen can be reduced by up to 30% without reducing yields when fertigating. This confirms research results by a Mauritian study, "Assessing Nitrogen Fertigation Strategies for Drip Irrigated Sugarcane, by Ng Kee Kwong et al, (1999)".

EXTENSION SERVICE

The role of extension service involves the transfer of research findings to the farmer to facilitate the quick adoption of improved agricultural practices. This is achieved by:

- Providing an advisory service on all aspects of sugarcane husbandry.
- Conducting regular farm visits.
- Arranging group activities such as seminars, field demonstrations, etc

- Publishing newsletters, reports and recommendations.
- Identifying sugarcane production problems.
- Conducting special projects to resolve production problems.

This service is provided under a partnership agreement, the Extension Service Level Agreement (SLA), with the millers. The objective of the SLA is to improve yields for smallholder growers and ensure their sustainability through providing technology and advisory services on all aspects of sugarcane growing up to and including the cutting stage of the crop cycle.

Both parties to the SLA ensure that the service levels continue to meet the needs and aspirations of the industry. Monitoring and reporting under the SLA is as follows:

- The miller representatives report to the SSA Extension SLA Manager on services provided under the SLA.
- The Extension SLA Manager reports to the Extension Committee on technical and administrative issues and to the Audit Committee on Governance and policy issues.
- The Extension Committee considers and makes final decisions on technical issues and standards on extension services.
- The Audit Committee considers and tables before Council recommendations on matters presented to it by the SLA Manager on governance and policy issues arising out of the SLA.

The SLA expires in March 2013 and discussions on its review have begun. The review exercise includes compiling pertinent sugarcane production and extension data, analysing the data to enable an assessment of scope and strategic direction of the extension service. It is anticipated that the review will be concluded by September 2012.

Cane Testing Service

This is managed through the Cane Testing Section in the Technical Services Department. The actual provision of this service has been outsourced and is managed through an SLA with each of the three milling companies.

The objective of the SLA is to provide a comprehensive cane testing service to the industry in order to ensure the accurate and impartial determination and distribution of sucrose for cane payment purposes.

The SLA is monitored against a defined schedule of operational key performance indicators (KPIs) and targets which are approved by the Cane Testing Service Technical Committee (CTSTC) prior to the start of the milling season. These KPIs seek to advance the objective of improving the integrity and reliability of the cane testing facilities at the mills.

The two areas of focus in the reporting period were the pol factor and the testing efficiency.

SLA MANAGER - CANE TESTING
SIPHO R DLAMINI

The average pol factor for the year has remained within the target range at all three facilities. Figure 7 confirms the stability and consistency of the measurement processes over the last five years.

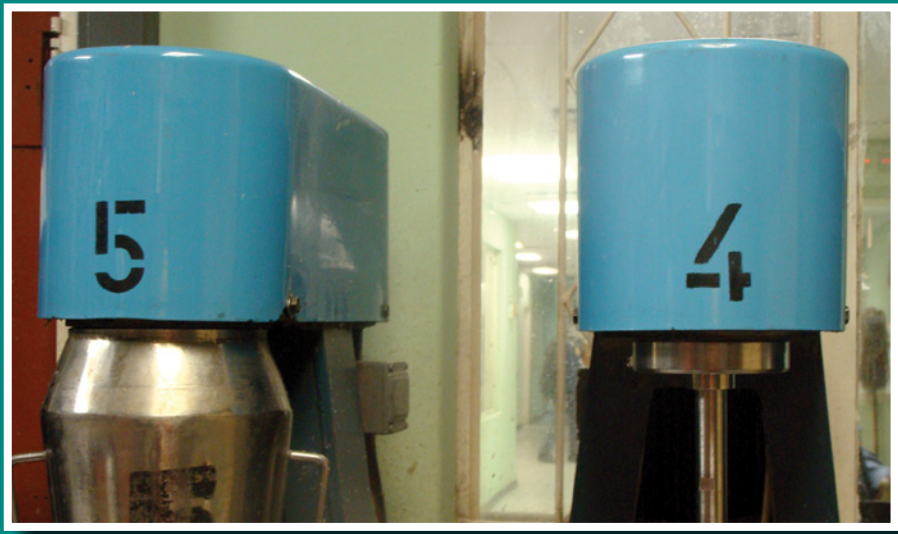
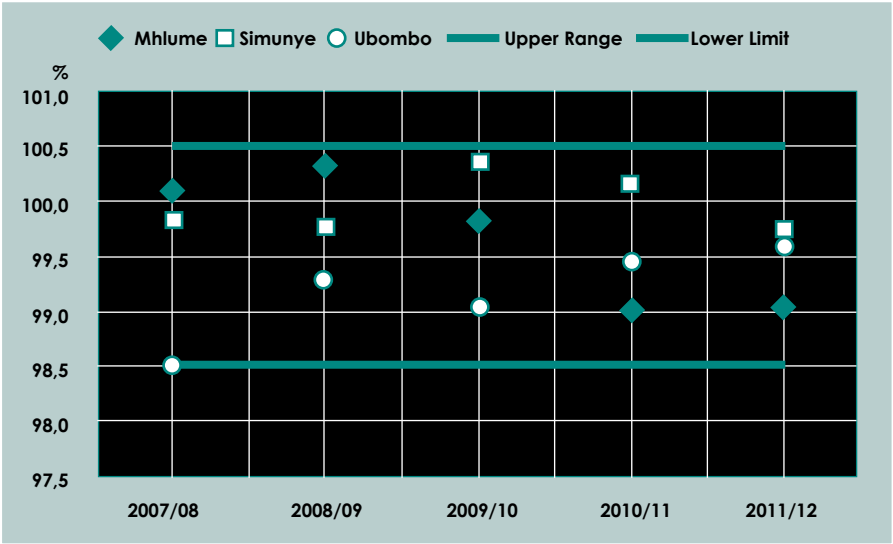


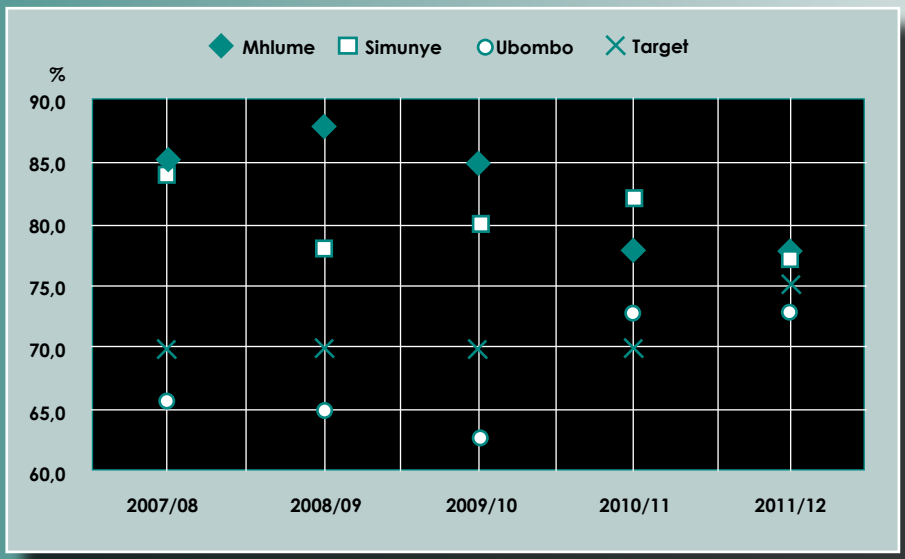
Figure 7: Year-To-Date Pol Factor: 2007/08 - 2011/12



According to the Sugar Industry Agreement, the cane testing service shall endeavour to sample and test each and every individual cane consignment delivered to the mill. For practical reasons, this is not always possible and the CTSTC increased the target for testing efficiency from the previous season's 70% to 75% in recognition of the installed capacity of each laboratory. The Ubombo laboratory was however slightly below the target due to various IT-related problems. Figure 8 shows the performance of the three laboratories over the past five years.

CANE TESTING SERVICE TEAM

Figure 8: Year-To-Date Testing Efficiency: 2007/08 - 2011/12



The SLA expires at the end of the 2012/13 milling season and negotiations for a renewal will commence at least six months before the expiry date. The SLA has provided a solid foundation for improving the relationship between all stakeholders involved in ensuring the accurate measurement and distribution of sucrose throughout the industry.

Challenges related to the use of lead in the analytical processes have increased and have persuaded the industry to explore more acceptable alternative methods of analysis which have no hazardous and environmentally damaging impacts. An investigation to establish the feasibility of alternative technology and the implications on current agreements will be conducted in the ensuing year.

Finance

REVENUE

There was a significant improvement in financial performance in the 2011/12 year as compared to the previous year. This performance has resulted in record proceeds and has led to the highest payment for sugar and sucrose per metric ton in the history of the sugar industry.

The major reasons for the improved performance are as follows:

- Significantly better selling prices achieved in the EU market compared to the previous year.
- Extraction of better value in the SACU market because of sustained higher world prices.
- Higher returns received as a result of the depreciation of the Rand/Lilangeni against the US Dollar and the Euro, combined with the effective execution of SSA's hedging policy.
- Higher closing stock levels, which have been valued at higher net realisable selling prices.

FINANCIAL DIRECTOR - BIMAL DE SILVA

OPERATING COSTS

SSA achieved its objective of keeping its administrative costs well within the budgeted amount, which resulted in savings amounting to E2,4 million. Administration costs for SSA have remained relatively flat through the application of vigorous cost control measures. The cost of sales also remained relatively flat even though sales volumes were lower in the year.

FINANCE TEAM

Total distribution costs decreased, driven mainly by lower sales volumes and lower freight rates obtained in the year.

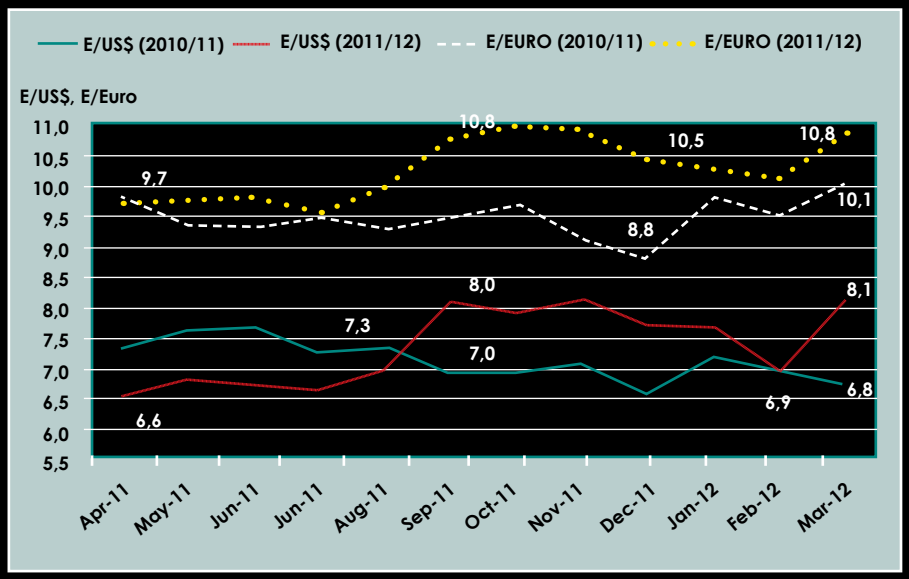
FINANCING COSTS

SSA achieved its objective of keeping the financing costs per ton low. This was achieved mainly through retentions from the mills and a lower prime lending rate which was originally forecast to increase but did not change during the year. However, the total financing costs increased marginally compared to the previous year as a result of higher production and an increase in the actual lending rates offered by the financial institutions.

FORWARD EXCHANGE RATE COVER

SSA used its Hedging Policy to achieve its objective of managing its exposure to fluctuations in exchange rates for foreign currency-denominated sales. This was further assisted by the depreciation of the Rand/Lilangeni against foreign currencies, especially the Euro and US Dollar whose behaviour is shown in Figure 9.

Figure 9: Performance of the Lilangeni against the Euro and US Dollar



Internal Audit

Its main purpose is to provide an internal audit service by ensuring the adequacy and effectiveness of internal controls, risk containment as well as the integrity of operations and systems. The main areas of focus (discharged to varying degrees of detail) are as follows:

- INTERNAL CONTROLS: Audits conducted to establish the existence of adequate and effective controls in critical SSA operations.
- RISK CONTAINMENT: Monitoring of risk mitigation measures through timeous interaction with responsible officers in line with timelines in the Risk Register.
- INTERFACE WITH EXTERNAL AUDIT: Compiling, in conjunction with the leader of the external audit team, an Interface Programme comprising areas of common interest and ensuring closure of audit recommendations made by external auditors.
- CORPORATE GOVERNANCE: Monitoring compliance with SSA Guidelines for Good Corporate Governance.
- SPECIAL INVESTIGATIONS: Assistance to Heads of Department in the identification and review of key policies which are important for enhancing SSA's operational efficiencies as well monitoring the implementation of special investigation reports.
- INTEGRATED AUDIT PLAN: Conducting the internal audit function according to a Plan approved by the Audit Committee on the basis of the areas above.

INTERNAL AUDITOR - NOTHANDO DLAMINI

Sustainability

BEST PRACTICE STANDARDS

SSA recognises that the sustainability of its business is pillared on its commitment to best practice in food safety, corporate behavior, human and labour rights as well as social and environmental issues. Accordingly, SSA endeavours to pursue initiatives, policies and guidelines which promote compliance in all these areas of best practice.

The adoption of the integrated reporting framework (as a tool for informing its stakeholders of its performance, operating environment and how its future sustainability may be affected by various developments) is in line with the quest for best practice. Movement in this direction will be gradual; the first step having been taken in terms of the present report. Going forward, the report will be developed further and its scope increased gradually.

KEY DRIVERS

The key drivers for SSA operations focused upon in past annual reports have been sugar yield per hectare, volume of sugar sales and value of gross proceeds from both sugar and molasses sales. These drivers underlie the matrix of management objectives presented earlier in this Report. The sustainability dimension of this Report will be brought in by asking the question: What are the major factors likely to impact on these key drivers in future and what is SSA doing to anticipate them?

The approach to answering this question is disciplined by the Quality Management System (QMS) under which reviews are done by management twice a year. This section will start by highlighting the current status of the QMS, then present the behaviour of the three key drivers over the past five years and finally highlight the major factors likely to impact on these key drivers going forward as well as the appropriate strategies being contemplated by SSA.

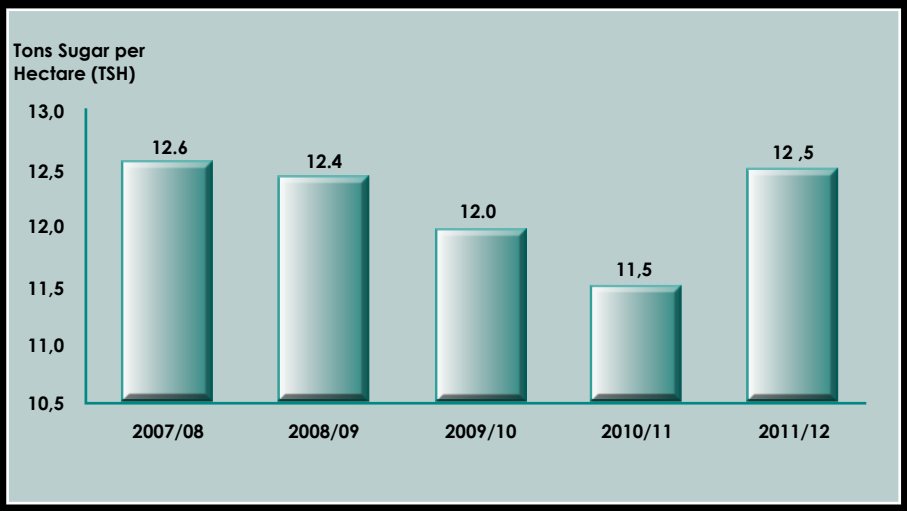
QUALITY MANAGEMENT SYSTEM

The SSA QMS has matured over the years to play a pivotal role in continuously improving business operations throughout the value chain. Significant achievements include a refined process for defining management objectives as well as an improved management review process for identifying and responding effectively to any external risks which could negatively impact the attainment of business objectives.

In August 2012, an external re-certification audit will be conducted to confirm compliance with the ISO 9001:2008 standard.

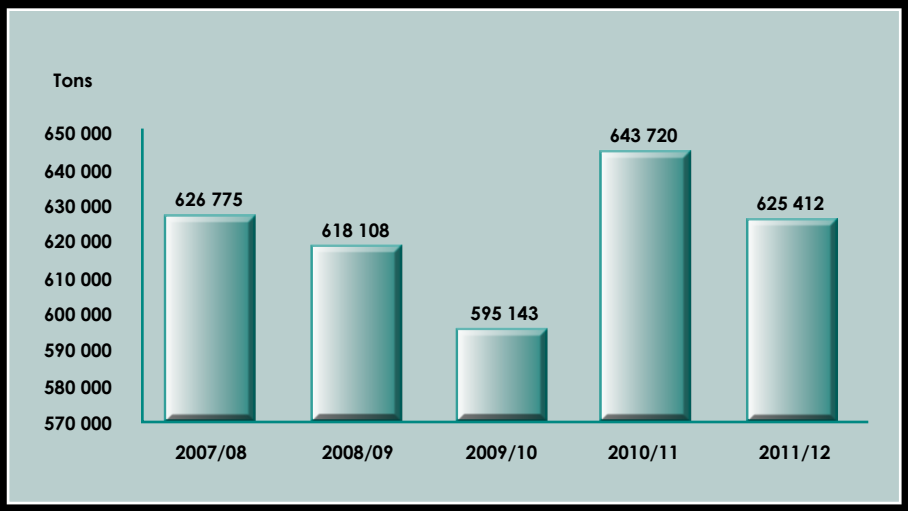
Figures 10-12 show the behaviour of three key drivers for SSA operations in 2011/12 as compared to the preceding four years.

Figure 10: Sugar Yield (TSH) 2007/08 – 2011/12



The sugar yield in Figure 10 is a convenient summary of the independent effects of cane yield and sucrose content.

Figure 11: Sugar Sales 2007/08 – 2011/12



The decrease in the sugar sales tonnage shown in Figure11 is mainly a result of replenishing year-end sugar stock holdings.

Figure 12: Gross Sales Proceeds 2007/08 – 2011/12

The gross proceeds in Figure 12 represent the performance of SSA operations which determines what growers and millers receive. It includes revenues from both sugar and molasses sales.

OPPORTUNITIES, CHALLENGES AND STRATEGIES

Going forward, the sustainability of the sugar industry can be enhanced by sharpening the strategies for addressing the main determinants of these three key drivers alluded to above. The strategies, in turn, depend on the identified opportunities and challenges.

Sugar consumption in Africa is projected to grow faster than anywhere else in the world in the next 10-20 years. This presents an opportunity for Swazi sugar.

Through national efforts as well as through coordinated efforts under the SADC Regional Sugar Strategy, action plans have been compiled to enable profitable access into various regions in Africa where domestic consumption exceeds production. At the same time, the duty-free quota-free access into the EU continues to present a great opportunity for Swazi sugar. Through its Strategic Marketing Plan for 2012-14, the sugar industry provides for these opportunities and more.

On the other hand, the cost of water, climate change and complex SADC EPA negotiations present significant challenges. The main strategies to deal with these challenges are collating all necessary data pertaining to the setting of water tariffs; increasing efficiencies in water usage; engaging in studies to generate the kind of information which can help in reacting appropriately to climatic changes; and serving as technical advisers to government negotiators.

ADAPTATION MEASURES

In preparation for an expected reduction in sugar prices under the current EU Sugar Regime (a market which has historically returned lucrative prices for Swazi sugar), the industry embarked on a concerted effort to increase its cost efficiencies through various adaptation measures (focusing on enhancing industry competitiveness and promoting smallholder growers). Since 2005, the industry has spent over E2 billion on these measures.

Under EU Accompanying Measures, a total amount of €66,152 million was made available over the period 2005-10. It has been allocated to road transport infrastructure, smallholder grower support, diversification and coordination of the National Adaptation Strategy. For the period 2011-13, an amount of €54,3 million has been allocated for similar activities plus assistance to medium-scale growers and provision of social services.

The Centre for Development of Enterprise has agreed to fund selected sugar industry adaptation initiatives focusing on productivity and market growth. The funding amounts to €180 000 to be implemented in two phases over the period February 2012 - October 2013. Since SSA is co-financing the programme at 33%, the total project cost is forecasted at €266 949.

The objective of the project is to strengthen capacity for sustainable competitiveness and productivity in the sugar industry. The outcome is expected to provide increased financial returns for the sugar industry through enhanced production, productivity and improved marketing (including enhancing market share in strategic/niche markets).

All the adaptation measures highlighted above are expected to enhance the competitiveness and, therefore, sustainability of the industry.

EXTERNAL RELATIONS

Within the country, the sugar industry interacts continuously with all stakeholders (customers, input providers, government, Members of Parliament, international development partners, etc.). The intention is to strengthen the relations and address issues which may hamper the short and long term operations of the sugar industry.

Outside the country, the sugar industry participates in discussions through a number of international forums – including, SACU, SADC, COMESA and International Sugar Organisation. It receives information on sugar-related issues from the World Sugar Research Organisation, Food and Agriculture Organisation and World Trade Organisation, and cooperates with other crop production research institutes.

Council Members

Seated (L – R): S. Cleasby, A.T. Dlamini, N.M. Jackson, T. Dlamini (Chairman), R.J. Hulley, M.I. Maziya, G.C. White

Standing (L –R): M. Mkhaliphi, E.J. Nxumalo, J. Khumalo, B. James, P. Ginindza (SCGA Executive Director), S. Potts, A.T. Ngcobo, P. Myeni, S. Geldenhuys, M. Mndzebele, G. Scheepers

Corporate Governance

SSA is committed to adhering to good corporate governance and has in the past year assessed its compliance level to the corporate governance standards recommended in the King III Code of Corporate Governance Report.

- Three principles were found to be not applicable to SSA.
- For the applicable principles, SSA was found to be 83% compliant.
- An action programme to increase the degree of compliance was adopted and is being implemented.

COUNCIL

Council is the highest governing body of the Association. It 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 who were in office at the date of this Report are listed in the Abridged Financial Statements. Each of the seven committees indicated below reports to Council on the allocated areas of responsibility and has an equal representation of millers and growers. SSA management services Council as well as the committees.

AUDIT COMMITTEE

It is responsible for overseeing the integrity of SSA's financial statements, integrated reporting, financial reporting processes, internal accounting and financial controls, annual external audit of financial statements, risk management, and other financial management aspects of SSA. It is chaired by an independent non-executive member, and comprises members with audit and accounting background. Members of the Audit Committee at the reporting date are listed in the Abridged Financial Statements.

REMUNERATION COMMITTEE

It is responsible for recruiting senior executive management, determining remuneration for the management team, approving annual increases in remuneration for all staff, implementing the incentive bonus system for all staff, and approving the management succession plan. Its equal representation of millers and growers is achieved through the President, Vice President, other Miller Managing Director who is neither President nor Vice President and Tibiyo Managing Director. It is chaired by the President.

MARKETING EXECUTIVE COMMITTEE

It is chaired by an independent non-executive Chairman. Its role is to take decisions on the purchasing, marketing, pricing and sales of sugar as well as molasses in line with a general marketing policy approved by Council annually.

FINANCE COMMITTEE

Its responsibility is to review the annual budget, monthly management accounts and quarterly estimates before they are submitted for approval by Council, oversee the implementation of foreign exchange cover policy and recommend amendments of this policy to Council when necessary.

EXTENSION COMMITTEE

Its responsibility is to provide overall direction of Extension Services and to advise on all matters relating to Extension, Research, Pest & Disease Control, and any matter ancillary thereto.

CANE TESTING SERVICE TECHNICAL COMMITTEE

It is chaired by an elected industry member on a rotational basis. This committee is responsible for the supervision of the cane testing service at the mills and advises Council on all matters relating to the testing of cane.

INFORMATION TECHNOLOGY POLICY COMMITTEE

It is responsible for the oversight of the industry's IT systems. Its main function is the provision of strategic guidance on all IT matters, with a view to ensuring that the IT systems deliver the required output and are harmonised throughout the industry.