



Annual Report 2018

for the year ended
31 December 2018



Milk South Africa
Melk Suid-Afrika



Vision

“ To promote a healthy South African dairy community. ”

Mission

“ To promote the image and consumption of South African dairy products amongst consumers and the broader population, and

To develop the dairy industry through rendering of value-added services to industry participants, consumers and the broader South African population. ”



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Dr Bonile S Jack-Pama

Chairman of the
Board of Directors

Chairman's Report

2018/2019 has been challenging for all of us. The agricultural sector has been impacted by tough climatic and economic conditions, pressure on household finances, ongoing political uncertainty and the issue of land reform. The mood in South Africa has turned sharply pessimistic in recent months. With the elections now behind us and the President's promise of a 'new dawn', I am hopeful that business confidence will return and that the market will begin to show signs of improvement.

2018 was the first year of another four-yearly cycle of the statutory measures, whereby information on more industry variables was collated than before. Levy income has met budgetary expectations and both internal and external audits confirmed that the administration of these measures and the execution of projects complied with good corporate governance requirements.

Milk SA continued to serve the industry with projects and actions which are aimed at improving the competitiveness of the SA dairy industry, broadening the market for dairy products and transforming black industry participants. A wealth of information has been generated, accumulated and shared by Milk SA since its inception in 2002 and our projects continue to empower the industry with knowledge and skills which are aligned with international goals and standards - as you have noticed from the report of the Board of Directors. Our strength lies in our unity and the institutional knowledge within the organized dairy industry.

CHAIRMAN'S REPORT

Milk SA's strengths were mobilized during 2018 in extraordinary challenges such as:

- Debating and contesting of different views within the Dairy Sector Task Team of NEDLAC where Milk SA played a leading role in reaching consensus with Government and Labour regarding actions to improve the industry in various disciplines;
- Interaction with Government and other stakeholders regarding DAFF's appointment of an assignee to enforce Regulation R260 applicable to dairy and imitation dairy products and Regulation 78 applicable to edible ices (still ongoing); and
- Interaction with authorities and industry stakeholders to investigate the feasibility of protection against the importation of UHT milk (still ongoing).

I would like to express my sincere appreciation for the continued contribution of our two members, namely MPO

and SAMPRO in the activities and projects of Milk SA. Indeed, we would not be where we are today without your consistent loyalty and confidence in Milk SA.

I also remain appreciative of our project managers, staff, business partners and industry stakeholders for diligently playing their part and for making 2018 a fruitful year.

Lastly, thank you fellow board members, for your vision and support as we together propel this great organization and vitally important industry to greater heights.



Dr Bonile S Jack-Pama

Chairman of the Board of Directors





Nico Fouché

Chief Executive
Officer

Chief Executive Officer's Report

1. General

Sustainability became extremely prominent on agendas in agriculture, agri-processing and other sectors. In 2018, Milk SA, MPO and SAMPRO endorsed the Dairy Declaration of Rotterdam on behalf of the SA dairy industry. In this way, our industry supports a vibrant dairy sector committed to continuously improving its ability to provide safe and nutritious milk and dairy products from healthy animals to close the nutritional gap, whilst preserving natural resources and ensuring decent livelihoods across the whole dairy value chain. The concept of sustainability ensures that a holistic approach is applied to any activity. The approach to sustainability covers the three pillars of economic, social and environmental sustainability.

The South African economic situation remained under pressure especially as it is choking due to the nine years of severe maladministration and corruption under the previous president's tenure which ended in February 2018. This caused most basic services on all government levels to tumble to almost a standstill, which deprived millions of South African citizens of jobs, education, housing, healthy living standards and prosperity. We also witnessed an increase in illegal immigration coupled with more violent activities and unsolved crime. Sustainability under these circumstances and in every respect, ranges from impossible to severely difficult. Annual real gross domestic product increased by a tepid 0.8% in 2018.

In 2017, the Trade and Industry Chamber of Nedlac established a Dairy Sector Task Team (DSTT) where Milk SA representatives formed part of the business constituency, which addressed concerns tabled by the Labour constituency about industry challenges. The process was finalized in 2018 and the DSTT issued a consensus report. An important action is that a Dairy Sector Round-table must be established under the auspices of DAFF to co-ordinate the agreed actions in respect of animal health, compositional standards and food safety, improvement of the efficiency of the markets for raw milk and dairy products, transformation, international trade, service delivery, promotion of health and nutritional value of dairy products and the environment.

The SA dairy industry has performed fairly well, measured in terms of the production of unprocessed (raw) milk, retail sales volumes and international trade exposure. Year-on-year, unprocessed milk production increased by 3,0% (2017) and 4,8% (2018). Retail sales quantities of most dairy products increased moderately to satisfactorily. The greatest sales performers, namely long-life milk and maas, however took serious price knocks.

The projects of Milk SA, as recorded in the Board of Directors' report, are linked with the activities of the International Dairy Federation and they continued to serve the SA dairy industry objectively with a view to increasing the competitiveness of the SA dairy industry.

The performance of the administration of the statutory measures remained under close scrutiny by the relevant committees and the Board. This function was audited by an independent Internal Auditor which was appointed by Milk SA in 2018, and a reassuring report was approved by the Board.

2. Statutory Measures

The continuation of the following statutory measures (regulations) was approved by the Minister of Agriculture, Forestry and Fisheries who also reappointed Milk SA as Administrator thereof:

- **Notice 1397** Registration of persons involved in the secondary dairy industry.
- **Notice 1396** Records and returns in respect of milk and other dairy products.
- **Notice 1398** Levies on milk and other dairy products.

Both MPO and SAMPRO (as members of Milk SA) were the applicants for these measures, which have been in force since 1 January 2018.

The persons who must comply with the measures remained unchanged and the requirements for compliance also remained unchanged. The role-players and their obligations can be summarized as follows:

- Persons who purchase raw (unprocessed) milk with the purpose of processing it, or to use it for the manufacturing of other products, or to sell it to persons outside the jurisdiction of South Africa, or to move it outside the jurisdiction of South Africa.
- Milk producers who sell raw milk produced by their own dairy animals, to consumers, or for the use thereof for production, or for the manufacturing of other products, or sell it to persons outside the jurisdiction of South Africa, or move it outside the jurisdiction of South Africa.
- Any person who sells raw milk to a retailer.
- Any person importing dairy products which resort under the 04.01 to 04.06 customs tariff classification.

The above persons were compelled to register with Milk SA, submit information per monthly return form and pay levies to Milk SA, which were determined at the following rates:

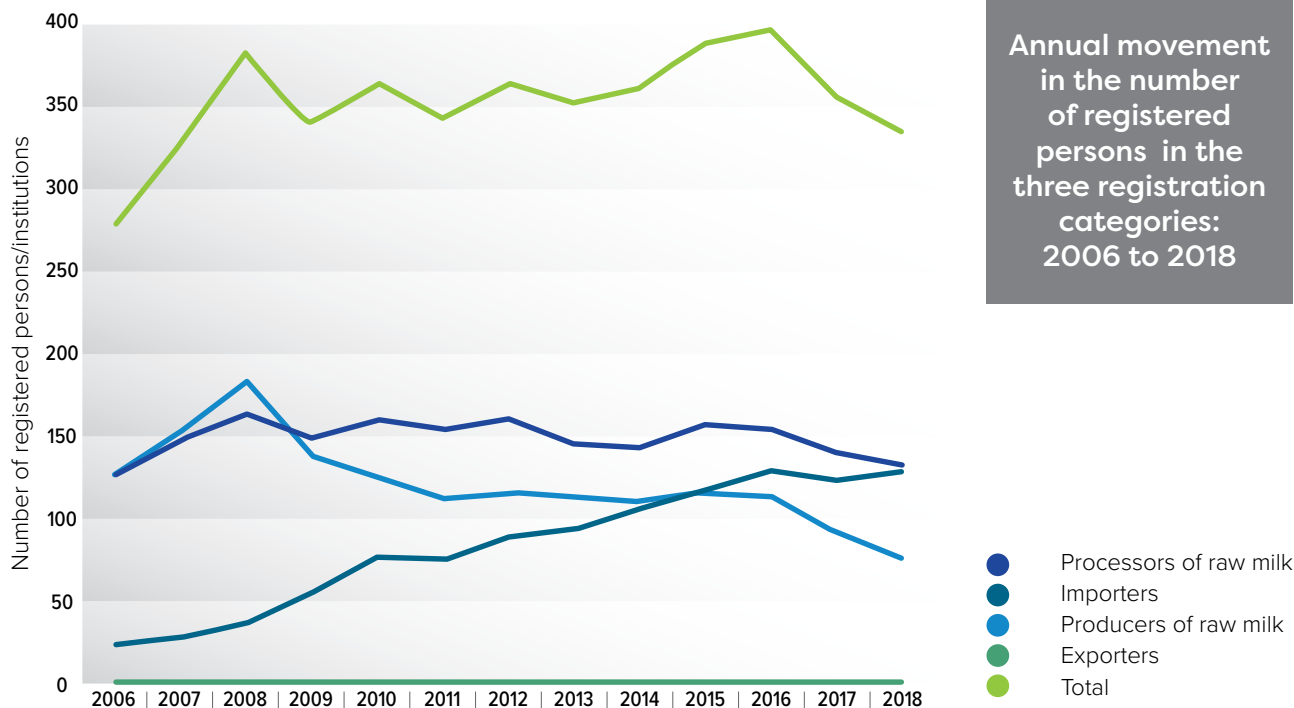


Customs Tariff Classification	Product description	Levy per kilogramme: c/kg (VAT exclusive)			
		2018	2019	2020	2021
04.01	Milk and cream, not concentrated nor containing added sugar or other sweetening matter.	1.37	1.46	1.54	1.64
04.02	Milk and cream, concentrated or containing added sugar or other sweetening matter.	13.25	14.04	14.88	15.78
04.03	Buttermilk, curdled milk and cream, yogurt, kephir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening or flavouring matter or containing added fruits, nuts or cocoa.	4.98	5.28	5.59	5.39
04.04	Whey, whether or not concentrated or containing added sugar or other sweetening matter; and products consisting of natural milk constituents, whether or not containing added sugar or other sweetening matter, not elsewhere specified or included.	4.02	4.26	4.52	4.79
04.05	Butter or other fats and oils derived from milk; dairy spreads.	14.20	15.05	15.95	16.91
04.06	Cheese and curd.	19.82	21.01	22.27	23.60

The Office and the Board of Directors of Milk SA continued to use all statutory powers and other means at their disposal - within the budgetary, human resources and other constraints - to ensure optimal compliance with regard to levy payments and other statutory obligations. This function featured very prominently in the risk management framework which is monitored by the Audit & Risk Committee, while the Statutory Measures Committee contributed to more effective management of especially debtors. The contributions of Ministerially-designated inspectors continued to contribute significantly to the integrity of industry information and the optimal collection of levy funds. Two inspectors were designated by the Minister of Agriculture, Forestry and Fisheries by the end of 2018 to enforce the above-mentioned statutory measures.

An annual report on the administration of the statutory measures was submitted to the National Agricultural Marketing Council (NAMC) and a delegation of the Board met with the NAMC on certain regulatory aspects.

3. Annual movement in the number of registered persons in the three registration categories



In December 2018, the number of processors made up 39,46% / 131 of the total number of persons / institutions registered with Milk SA, followed by importers of dairy products (37,95% / 126), milk producers¹ (22,59% / 75) and an exporter of raw milk (0,3% / 1).

Contributions to the levies by category were as follows in 2018: Milk processors 86,67%, importers of dairy

products 10,92%, milk producers 1,42% and the exporter 0,98%.

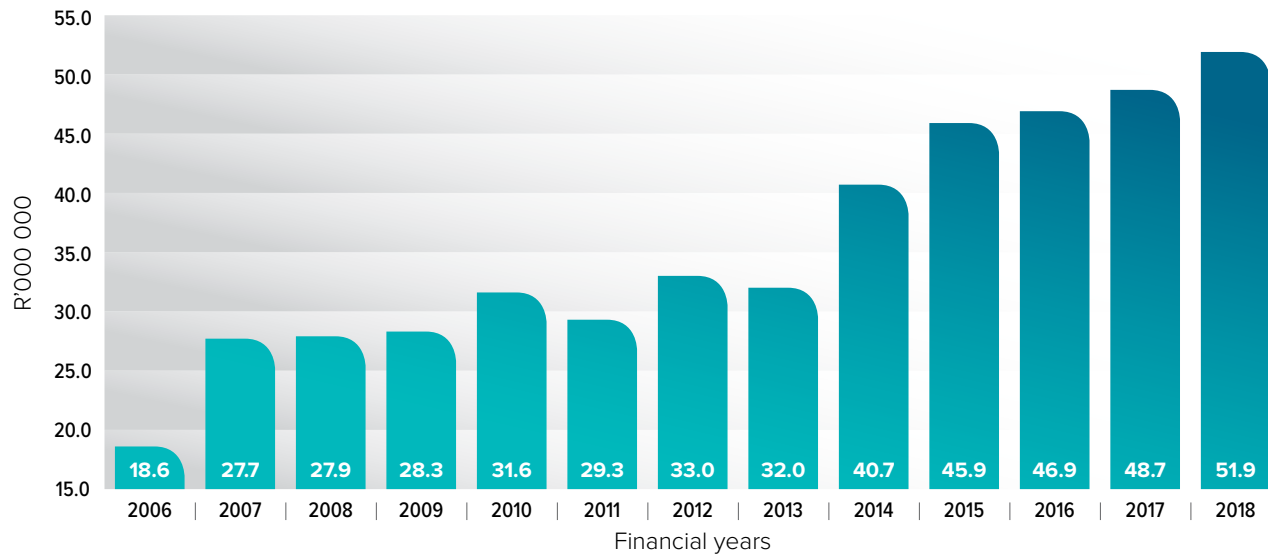
Milk processors contributed 97,30% to the total unprocessed (raw) milk declared to Milk SA, followed by raw milk producers - 1,60% and raw milk exporters - 1,10%.

¹ A milk producer is defined in the Government Notices (Statutory Measures) as follows: "A person who produces milk by the milking of cows, goats or sheep". These persons must - in terms of the statutory measures - register with, submit returns and pay levies to Milk SA.

**Annual movement in the number of registered persons
in the three registration categories: 2006 to 2018**

	Processors of raw milk	Importers of dairy products	Producers of raw milk	Exporters of raw milk	Total
2006	126	23	127	n/a	276
2007	147	27	152	n/a	326
2008	161	36	180	n/a	377
2009	148	54	136	n/a	338
2010	158	75	126	n/a	359
2011	153	75	112	n/a	340
2012	158	88	113	n/a	359
2013	144	93	112	n/a	349
2014	142	106	109	0	357
2015	155	115	114	0	384
2016	153	127	112	0	392
2017	139	122	92	0	353
2018	131	126	75	1	333

4. Levy income, 2006 to 2018



2006 to 2013:

Levy rate = 1,00 cent / kg of milk

2014 to 2017:

Levy rate = 1,30 cent / kg of milk

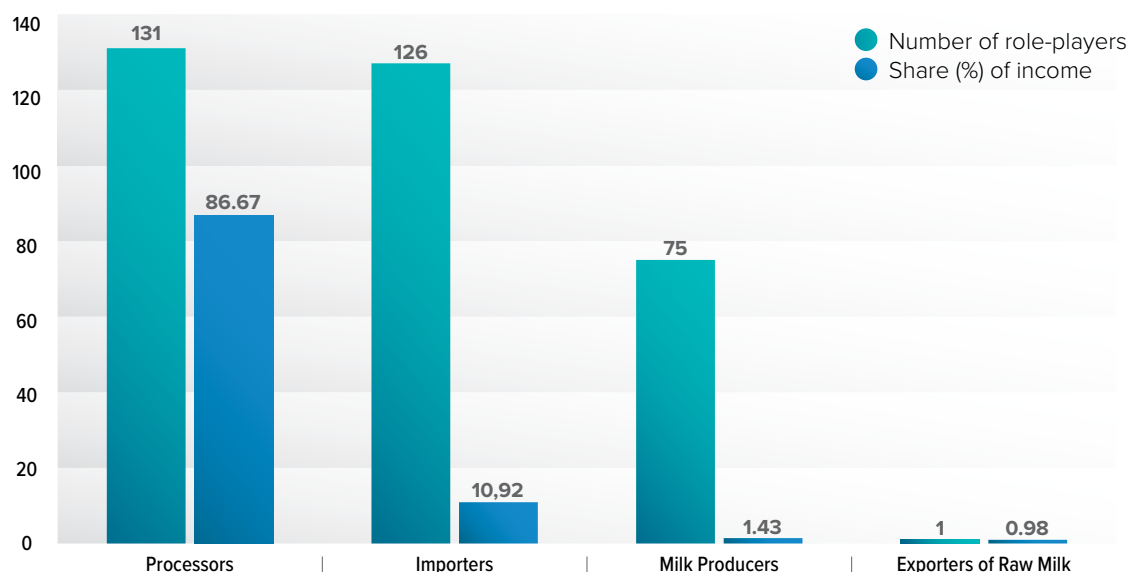
2018:

Levy rate = 1,37 cent / kg of milk

5. Percentage contribution of the number of levy payers to the income in 2008, 2010, 2012, 2014, 2016 and 2018 per category

	2008	2010	2012	2014	2016	2018
Processors of raw milk	92	91	87	91	88	87
Importers of dairy products	6	7	12	8	10	11
Producers of raw milk	2	2	1	1	2	1
Exporters of raw milk	n/a	n/a	n/a	0	0	1

Number of registered role-players per category and contribution to levy income, 2018



6. The web-based information system

The web-based system continued to facilitate successful administration in terms of:

- Capturing and processing of data relating to registrations, returns and levy payments.
- Management reports in respect of the above for the office, attorneys and accountants.
- Submission of project proposals and reports by applicants / project leaders.
- Hosting of project reports, financial and other information relating to Milk SA and its activities for access by different role-players and the public.
- Access of the levy payers, to statutory returns submitted to Milk SA and their invoices.
- Contact details of all relevant role-players.

7. Inspections in terms of Section 21 of the Marketing of Agricultural Products Act, 1996 (Act No. 47 of 1996)

Inspectors

At the request of Milk SA, the Minister of Agriculture designated two inspectors for the 2018 to 2021 period of the statutory measures, namely Messrs Johannes Petrus Ferreira and Malose Samuel Mothapo.

Purpose

The on-site inspections at registered role-players aim to verify the completeness of information submitted by the registered role-players to Milk SA.

Procedures

Inspections are based on normal audit principles in terms of testing on a sample basis and obtaining appropriate supporting documentation where applicable.

Scope of physical inspections during 2018

Due to their ministerial designation at the end of 2018, the inspectors only started to work meaningfully as from 2019.

8. Information supplied by the registered role-players



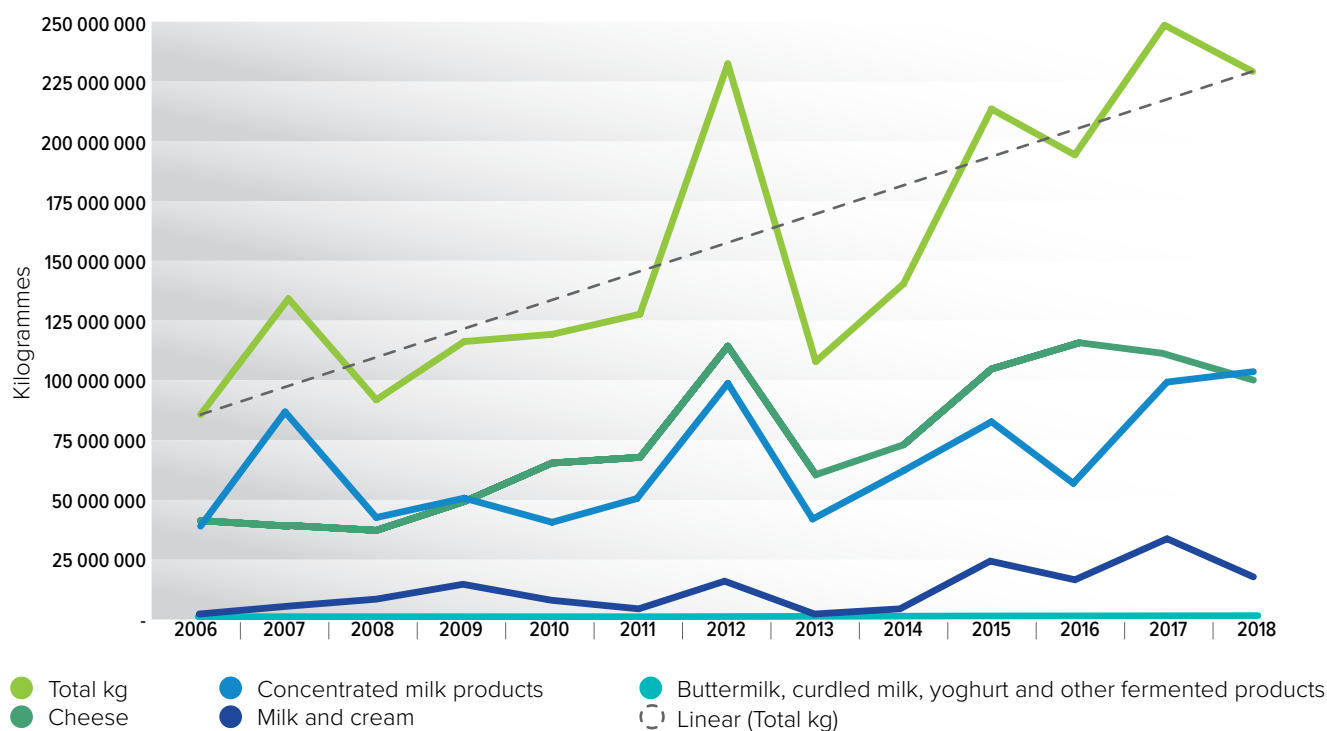
In terms of the 2018 to 2021 statutory measures, role-players must on a monthly basis, provide Milk SA with information regarding raw (unprocessed) milk that was used in the manufacturing of:

- Processed, unsweetened, unflavoured milk: Including pasteurized milk, ultra pasteurized milk, ultra high temperature milk (i.e. longlife milk or UHT milk) and sterilized milk;
- Sweetened and/or flavoured and/or coloured milk;
- Fermented products namely maas, yoghurt, kefir and butter milk;
- Milk powder; and
- Cheese, excluding cottage cheese and cream cheese.

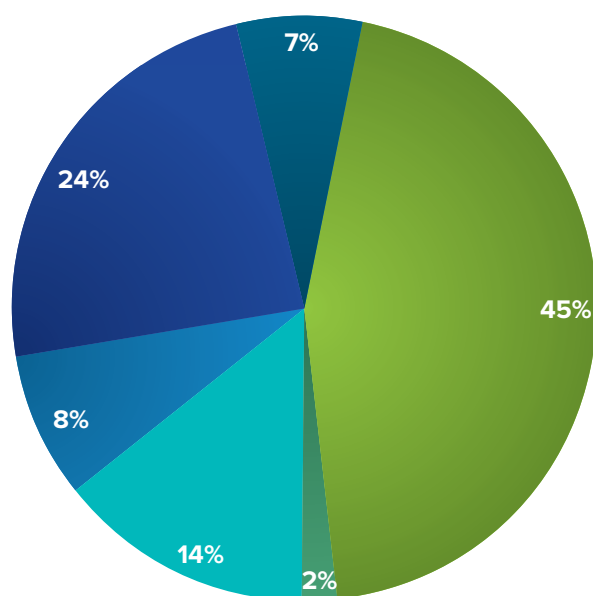
The role-players must also inform Milk SA about the quantity of:

- Whey powder manufactured; and
- Butter manufactured.

Imports of product categories, 2006 to 2018 as reported to Milk SA (Milk equivalent: kilogrammes)



Raw (unprocessed) milk used in the manufacturing of products in 2018



● **Balance of processed products:
details not required by regulations:**
224 755 530 • 7%

● **Processed, unsweetened, unflavoured milk:**
1 529 964 950 • 45%

● **Sweetened and/or flavoured and/or coloured milk:**
80 862 309 • 2%

● **Fermented products:**
461 914 391 • 14%

● **Milk powder:**
272 385 746 • 8%

● **Cheese, excluding cottage cheese and
cream cheese:**
823 677 942 • 24%

• **Whey powder manufactured in 2018:** 16 222 959 kg

• **Butter manufactured in 2018:** 12 248 154 kg

9. Administration of the projects of Milk South Africa

The Policy for Funding of Statutory Projects and the standard contractual terms were reviewed by the CEO.

The content of the projects of Milk South Africa are subject to the requirements of the objectives of the statutory measures and the strategic direction as decided by the Members of Milk SA and reviewed by the Board of Directors, while they are also aligned with the relevant government legislation and initiatives of government institutions and other external institutions.

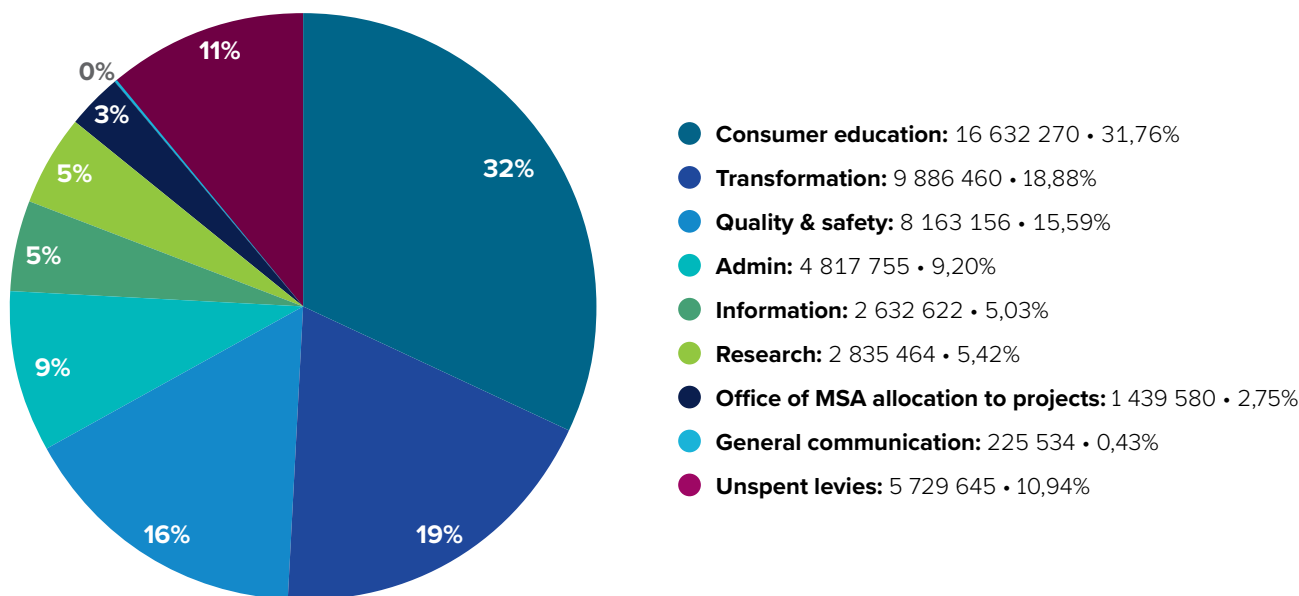
The strategic direction of Milk SA was defined to promote the broadening of the market for milk and other dairy products, to improve the competitiveness of the South African dairy industry and to promote transformation in the South African dairy industry.

Milk SA signed contracts with the project managers in accordance with Milk SA's policy on the funding of statutory projects. Quarterly and annual reports for each project were submitted by the project managers and published on the Milk SA website, except for R&D projects of which results were being awaited. Milk SA entrusted the administration of the Research & Development programme of Milk SA to MPO in 2017.

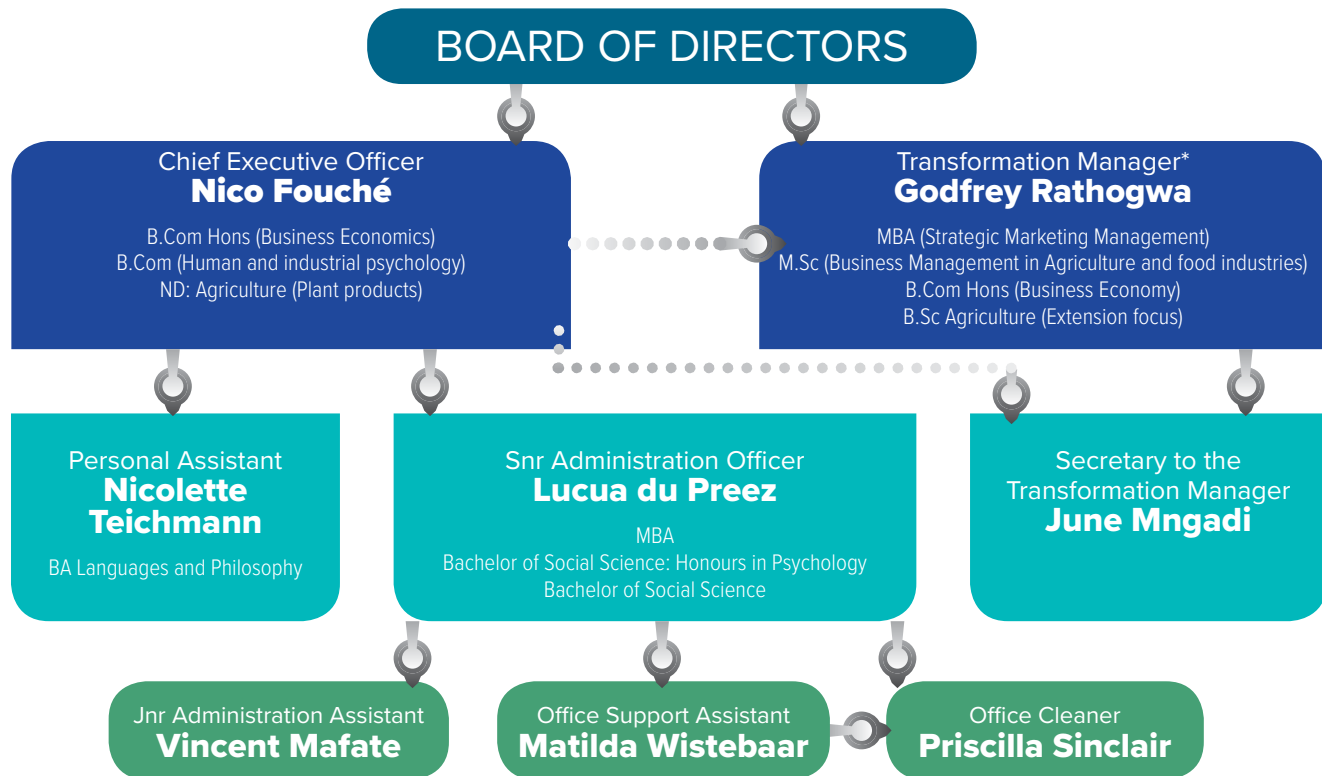
The relevant structures including the Work Groups, Advisory Committees, Audit & Risk Committee, Executive Committee and Board of Directors fulfilled their roles to ensure that the projects were well structured and monitored and that their goals were optimally achieved.

The Board continued to employ an internal auditor to provide independent and objective advice in order to improve Milk South Africa's performance in respect of its administrative and project outputs.

Expenditure of the statutory levies in 2018 Division of net levy income, 2018 - R52 362 486



10. Staff structure of Milk South Africa and external support structure



External Support Structure

- Attorneys: i) Gildenhuys Malatji Inc;
ii) MacRobert Inc
- Web-based systems support: Octoplus
- Accountants: PricewaterhouseCoopers Inc
- Internal Auditor: HP Audit Chartered Accountants & Auditors
- Inspectors of Statutory Measures: Messrs Johannes Petrus Ferreira and Malose Samuel Mothapo
- External Auditors of Milk SA: Fourie & Botha
- External Auditors for the Commercialization Project (as a joint project with National Treasury / Jobs Fund): Faure Bosman



Seated

Nicolette Teichmann, Nico Fouché (CEO), Priscilla Sinclair.

Standing

Matilda Wistebaar, Vincent Mafate, June Mngadi, Lucua du Preez.

Solid Lines: Line authority • Dotted lines: Administrative Authority • * Mr Rathogwa is also a director of Milk SA

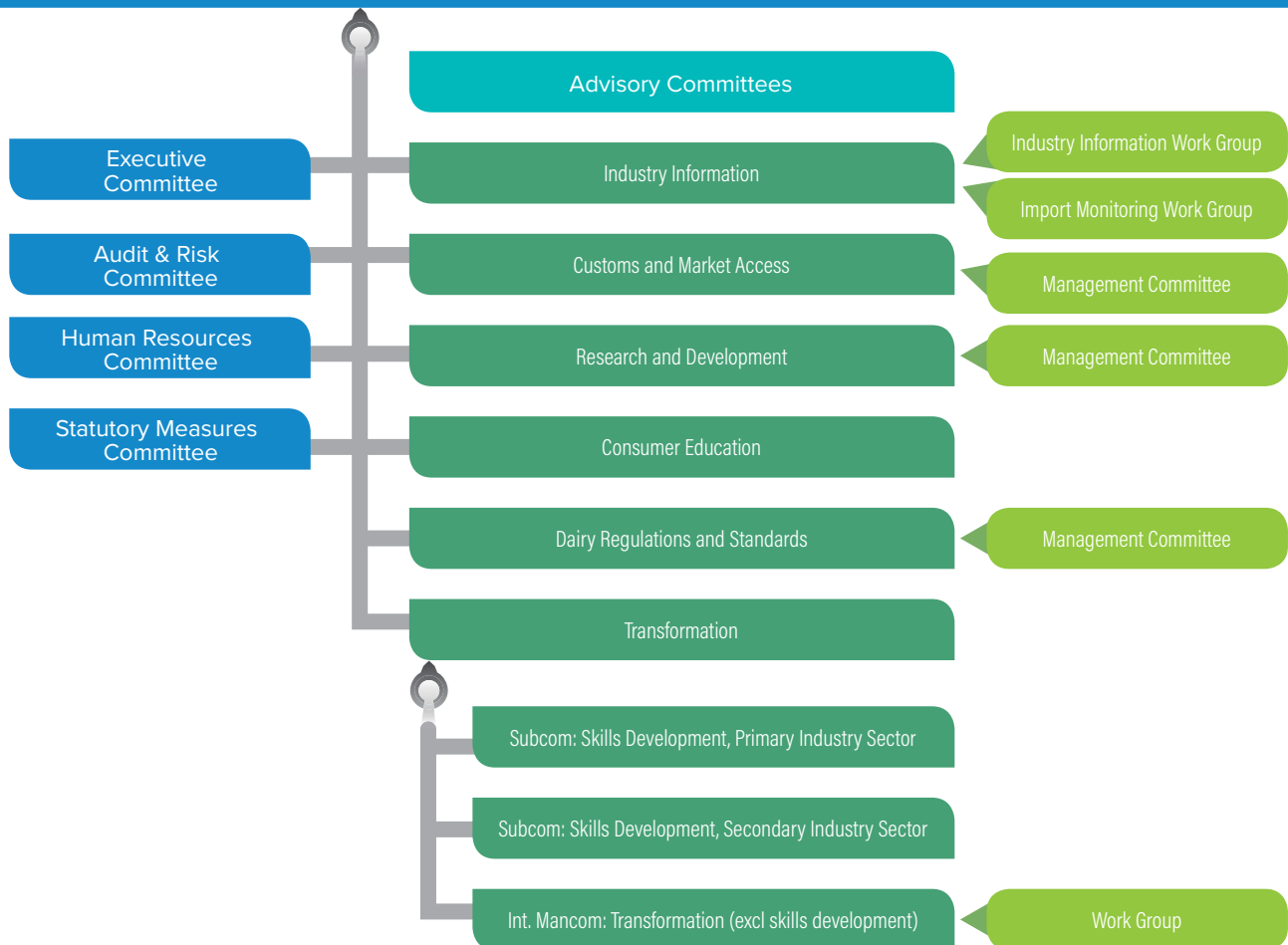
11. Functional structure of Milk South Africa

Members of Milk South Africa NPC

The two members of Milk SA are the Milk Producers' Organisation and the SA Milk Processors' Organisation which are also members of the industry-founded Dairy Standard Agency NPC

Board of Directors

- Four directors nominated by MPO
- Four directors nominated by SAMPRO
- One independent non-executive director as Chairperson
- One expert director
- One director appointed from nominations received from persons who are not members of SAMPRO and who are registered with Milk SA i.t.o. the MAP Act



The structure on the previous page shows that:

- Milk SA is a non-profit company, "owned" by the primary and secondary industry sectors, that pursues goals and objectives which are in the interests of the entire South African dairy industry and community.
- MPO and SAMPRO are not only members of Milk SA NPC, but also members of the Dairy Standard Agency NPC and the SA National Committee of the International Dairy Federation.
- The strategic direction of Milk SA requires a multi-disciplined approach, which enables Milk SA to unlock a wealth of support and co-operation from governmental, semi-governmental and private business sources.
- In respect of the South African dairy industry, collective issues of strategic importance exist which -
 - cannot be addressed through competition in the market;



CEOs of SAMPRO, Milk SA and MPO

Alwyn Kraamwinkel, Nico Fouché and Dr Chris van Dijk.

- should be addressed in the interests of the South African dairy industry, the consumer, and economic development; and
- can, in terms of the Competition Act, be addressed by collective action by the members of the dairy industry.

12. Persons / institutions contracted by Milk SA in 2018

	Contractors	Services
i	PricewaterhouseCoopers Inc	Accountants.
ii	Octoplus (Pty) Ltd	Web-based system support and enhancement.
iii	Internet Solutions (Dimension Data)	Web-based systems hosting & security.
iv	Fourie & Botha Inc	External Auditors (i.t.o. Companies Act).
v	Faure Bosman	External Auditors for the project "Promotion of sustainable commercialization of existing black dairy producers" (joint project of Milk SA and National Treasury).
vi	Gildenhuis Malatji Inc	Attorneys.
vii	MacRobert Inc	Attorneys.
viii	HP Audit Chartered Accountants & Auditors	Internal Auditor.

	Contractors	Services
ix	Messrs Johannes Petrus Ferreira and Malose Samuel Mothapo	Inspectors of Statutory Measures
x	Milk Producers' Organisation NPC	Projects: <ul style="list-style-type: none"> Collection, processing and dissemination of national and international information for the dairy industry of South Africa. Empowerment of previously disadvantaged individuals in the primary dairy sector, through training and skills and knowledge development.
xi	SA Milk Processors' Organisation	Projects: <ul style="list-style-type: none"> Consumer Education. Empowerment of previously disadvantaged individuals in the secondary dairy sector, through skills and knowledge development. Custom duties and Market access.
xii	Dairy Standard Agency NPC	Projects: <ul style="list-style-type: none"> Improvement of the quality of milk and other dairy products and compliance with legal standards; Dairy Regulations and Standards
xiii	University of Pretoria (Onderstepoort)	Projects: <ul style="list-style-type: none"> <i>Fasciola hepatica</i>: Impact on dairy production and sustainable management on selected farms in South Africa. Antimicrobial Resistance on dairy farms: Screening mastitis causing coliforms for the production of extended spectrum Beta-lactamases and colistin resistance. Alternative approaches for analyses of production performance from automatic milking systems in SA. Genetic performance monitoring CNS Potential Bacterial Threat
xiv	University of KwaZulu-Natal	<ul style="list-style-type: none"> Integrated Control of Liver Fluke of Cattle Using Botanical Extracts and Biocontrol Agents. Investigating alternative methods such as bacteriophages and bacteriocins to control mastitis organisms.
xv	University of the Free State	Project: Further studies to determine the effect of proteolytic enzymes in raw milk on flocculation and gelation.
xvi	Dr HH Meissner (Programme Manager: Research & Development: Milk SA)	Project: Co-ordination, support and promotion of needs-driven R&D in the South African Dairy Industry.
xvii	SA National Committee of the IDF	Participation in the projects and activities of the International Dairy Federation through the SA National Committee of the IDF.

13. Communication & Liaison

- The website was updated with project reports and industry statistics.
- The Milk Essay newsletter continued to be a popular medium to inform the industry players quarterly about the performance of projects.
- “Podcast” videos, covering the various disciplines of Milk SA, were also posted on the website on a regular basis.
- Monthly articles about Milk SA’s activities and projects were published in The Dairy Mail.
- The monthly updated raw milk purchase information was disseminated to raw milk producers and levy payers.
- Milk SA had an exhibition booth at the ALFA Livestock Show.
- Milk SA’s activities and successes were also communicated by the MPO and SAMPRO to their members.
- Detailed information with regard to communication of the Company and its projects with government and other institutions, appears in the annual and quarterly project reports and these institutions include:

The following South African institutions:

- Department of Trade and Industry
- International Trade Administration Commission of SA
- Department of Agriculture, Forestry and Fisheries
- Provincial Departments of Agriculture
- Local municipal authorities
- SA Bureau of Standards
- Regulator of compulsory standards
- Department of Health
- National Agricultural Marketing Council
- Agricultural Research Council
- Tertiary academic institutions
- Professional Health Practitioner Associations
- Department of Education
- SA research institutions

- Schools
- Sport associations
- Banks
- Consumer Goods Council
- International Trade Administration
- SA Large Herds Conference
- SA Society for Dairy Technology
- Animal Health Forum
- NEDLAC

The following international institutions:

- Global Dairy Platform
- International Dairy Federation
- International Milk Promotion Group
- SA Research Institutions
- Foreign Research Institutions
- International Farm Comparison Network
- Codex Alimentarius (“Food code”)



Nico Fouché

Chief Executive Officer

Board of Directors' Report

The company continued to deliver on its strategic direction and its obligations in terms of the statutory measures. The results are again a proud demonstration of the dedicated performance by its project managers and everyone else involved in the projects and administration of Milk SA. Strong discipline was maintained in the administration, implementation and enforcement of the statutory measures, as well as in the monitoring and guidance of projects.

Another clean external audit is testimony of the aforementioned and the effectiveness of its structures that were established to support the Board in its statutory responsibilities.

The Board of Directors is proud of the project managers, the Office of Milk SA and everyone else involved, as they applied their expertise and exceeded expectations.

1. Persons who served on the Board of Directors during 2018

- Adams, PH (Ms)
- Gebeda, ZM
- Grobler, FA
- Jack-Pama, BS (Dr) - Chairperson
- Kraamwinkel, AP
- Kuyler, GF - Vice-Chairperson
- Loubser, MJ
- Lubbe, H
- Prinsloo, AW
- Rathogwa, MG
- Van Dijk, CJ (Dr)
- Van Heerden, J - Resigned on 28 November 2018

Alternate directors were:

- Gutsche, AR
- Wellbeloved, CE

Directors



Seated: Porchia Adams, Melt Loubser, Dr Bonile Jack-Pama, George Kuyler, Frik Grobler.

Standing: Godfrey Rathogwa, Jacques van Heerden, Alwyn Kraamwinkel, Willie Prinsloo, Dr Chris van Dijk, Zola Gebeda, Nico Fouché (CEO).

Alternate Directors



Lex Gutsche



Colin Wellbeloved

2. Board and General meetings

The Board held four meetings in the year under review. Two General meetings and one Annual General meeting were held.

3. Project Committees and Work Group meetings

Discipline	No of meetings	Type of meeting
Industry Information	4	<ul style="list-style-type: none"> Advisory Committee x 2 Industry Information Work Group x 2 Import Monitoring Work Group x 0 - meets as required
Customs & Market Access	2	<ul style="list-style-type: none"> Advisory Committee x 2
Dairy Regulations & Standards	1	<ul style="list-style-type: none"> Advisory Committee x 1
Dairy Consumer Education	2	<ul style="list-style-type: none"> Advisory Committee x 2
Transformation: Enterprise Development	12	<ul style="list-style-type: none"> Advisory Committee x 2 Internal Management Committee: Transformation (Enterprise Development): x 4 Work Group: Transformation (Enterprise Development) x 6
Subcommittee: Skills development - Primary Industry	2	<ul style="list-style-type: none"> Advisory Committee x 2
Subcommittee: Skills development - Secondary Industry	2	<ul style="list-style-type: none"> Advisory Committee x 2
Research & Development	7	<ul style="list-style-type: none"> Dairy Research & Development Committee (DRDC) x 2 DRDC Management Committee x 4 Dairy Research Forum x 1

4. Other Board Committees

Number of meetings held in 2018

- Executive Committee 6
- Audit & Risk Committee 3
- Statutory Measures Committee 3
- Human Resources Committee 1



5. Representation on other bodies

During 2018, Milk SA and the organized dairy industry was represented on the following external bodies by the persons as indicated:

5.1	Agricultural Trade Forum	De Wet Jonker
5.2	Executive Committee of the SA National Committee of the International Dairy Federation	CEO of Milk SA
5.3	Animal Health Forum, General Meetings	De Wet Jonker, Dr Chris van Dijk
5.4	Animal Health Forum, Board of Directors	Dr Chris van Dijk
5.5	Dairy Standard Agency, General Meetings	CEO of Milk SA
5.6	The Science and Programme Co-ordination Committee of the IDF	Dr Koos Coetzee
5.7	The International Promotion Group (functioning under the auspices of the IDF Standing Committee on Marketing)	Christine Leighton: Chairperson of the IMP
5.8	The International Dairy Federation (IDF) Board of Directors	Alwyn Kraamwinkel
5.9	IDF Standing Committee on Farm Management	Dr Koos Coetzee
5.10	IDF Standing Committee on Animal Health and Welfare	Dr Chris van Dijk
5.11	IDF Standing Committee on Environmental issues	Dr Heinz Meissner
5.12	IDF Standing Committee on Dairy Policies and Economics	Alwyn Kraamwinkel
5.13	IDF Standing Committee on Hygiene	Prof Elna Buys
5.14	IDF Standing Committee on Harmonization of Microbiological Standards	Prof Elna Buys
5.15	IDF Standing Committee on Nutrition and Health	Maretha Vermaak
5.16	IDF Standing Committee on Marketing	Christine Leighton
5.17	IDF Standing Committee on Dairy Science and Technology	Dr Jan Floor
5.18	IDF Standing Committee on Animal Health and Welfare	Dr Martin van der Leek, Dr Chris van Dijk
5.19	IDF Standing Committee on Standards and Labelling	Niel Erasmus, Jompie Burger
5.20	Dairy Sector Task Team of the Trade and Industry Chamber of Nedlac	Alwyn Kraamwinkel, Dr Chris van Dijk, Godfrey Rathogwa, Nico Fouché

6. Summary of projects and other functions funded in 2018

Function	Service provider	Subtotals spent Rand	Amount spent Rand (VAT Excl)
Transformation			9 886 460
• Enterprise Development	Milk South Africa NPC (Transformation Manager)	5 655 921	
• Skills Development in the Primary industry sector	Milk Producers' Organisation NPC	2 224 548	
• Skills Development in the Secondary industry sector	SA Milk Processors' Organisation	2 005 991	
Industry Information			2 632 622
• Markets and Economies	Milk Producers' Organisation NPC	967 291	
• Customs duties and Market access	SA Milk Processors' Organisation	434 458	
• Participation of the SA dairy industry in the IDF	SA National Committee of the IDF	783 825	
• Information support systems	Octoplus Information Solutions	431 038	
• Liaison with Government	Milk South Africa NPC	16 010	
Research & Development			2 835 465
• Co-ordination, support and promotion of needs-driven research & development in the South African dairy industry	Dr HH Meissner (R&D Programme Manager)	368 000	
• Administration & Secretarial Services	Milk Producers' Organisation NPC	510 062	
• Fasciola hepatica: Impact on Dairy Production and Sustainable Management on Selected Farms in South Africa	University of Pretoria	660 400	
• Integrated Control of Liver Fluke of Cattle Using Botanical Extracts and Biocontrol Agents	University of Kwazulu-Natal	213 083	
• Further studies to determine the effect of proteolytic enzymes in raw milk on flocculation and gelation	University of the Free State	231 582	
• Investigating alternative methods such as bacteriophages and bacteriocins to control mastitis organisms	University of Kwazulu-Natal	548 031	
• Antimicrobial Resistance on dairy farms: Screening mastitis causing coliforms for the production of extended spectrum Beta-lactamases and colistin resistance	University of Pretoria	155 022	
• Alternative approaches for analyses of production performance from automatic milking systems in SA	University of Pretoria	35 438	
• Genetic performance monitoring	University of Pretoria	9 147	
• CNS Potential Bacterial Threat	University of Pretoria	51 500	
• Facilitation: Flocculation	Prof Piet Jooste	53 200	
Consumer education	SA Milk Processors' Organisation	16 632 270	16 632 270
Dairy quality and safety	Dairy Standard Agency NPC	8 163 156	8 163 156
Communication of the project performances	Milk South Africa NPC	225 534	225 534
Milk SA staff support to projects	Milk South Africa NPC	1 439 580	1 439 580
Administration, Implementation and Enforcement	Milk South Africa NPC	4 817 755	4 817 755
TOTAL			46 642 479

7. Project reports



7.1 Project title: Collection, processing and dissemination of national and international information for the dairy industry of South Africa

Responsible Institution: Milk Producers' Organisation NPC

Project Manager: Mr Bertus van Heerden

MAIN GOAL

The main goal of this project is to supply timely, accurate and reliable information to all role-players in the dairy industry value-chain to enable the dairy industry of South Africa to achieve sustainable, competitive growth. During 2018 the project was able to fulfill this goal in various ways.

GOAL 1: Dairy Digits

Dairy Digits was published in all 12 monthly issues of The Dairy Mail in 2018. Dairy Digits has become an important source of market information for dairy industry role-players.

GOAL 2: Quarterly Review of the Dairy Industry

The Quarterly Review provides a review of selected trends in the dairy industry. The four quarterly reviews of 2018 were published and distributed on the Milk SA

website. At the Industry Information Work Group meeting (dated 27/06/2018) the option of publishing the reviews in The Dairy Mail was discussed and evaluated. The meeting concluded that the inclusion of the review would not be practical due to the time lag between the finished review and the publishing thereof in The Dairy Mail.

GOAL 3: Lacto Data

Lacto Data provides a general review of the South African and international dairy sector for role-players in the industry. It is widely used by researchers and policy makers as an overview of the industry. Lacto Data was published in the May and November 2018 issues of The Dairy Mail.

GOAL 4: The Competitiveness of the South African primary dairy industry

The Report on the International Competitiveness of the South African primary dairy industry was completed in December 2018 and the report was sent to Milk SA.

GOAL 5: World Dairy Situation Report

Dr Coetzee attended the World Dairy Summit in November 2018. A report on the World Dairy Situation was supplied to Milk SA and to the SA National Committee of the IDF in December 2018.



GOAL 6: Report on the attendance of the World Dairy Summit

Dr Coetzee attended the World Dairy Summit in November 2018. A report on attendance of the Scientific Program Coordinating Committee, the Standing Committee on Farm management and the Standing Committee on the Environment was provided to Milk SA and to the SA National Committee of the IDF in December 2018. An article on the summit was published in The Dairy Mail in January 2019.

GOAL 7: IFCN Summary report

Dr Coetzee attended the IFCN Conference in June 2018. An article on the IFCN conference was published in the August edition of The Dairy Mail. A report on the conference was furnished to Milk SA in August 2018.

GOAL 8: PowerPoint presentations to members of Milk SA

Presentations were delivered in June and November 2018.

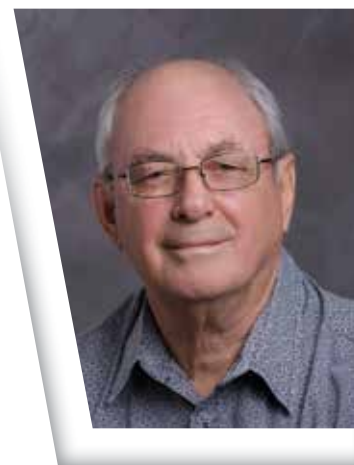
7.2 Project title: Participation of the SA Dairy Industry in the IDF and its Projects via the SA National Committee of the International Dairy Federation (SANCIDF)

Responsible institution: SA National Committee of the International Dairy Federation (SANCIDF)

Project Manager: Edu Roux (also Secretary of SANCIDF)

Six questionnaires were received in 2018 of which four did not require replies and the other two were completed and returned to IDF. No new representatives were appointed during this quarter and five news-mails regarding WDS 2018 were received during the year. All were forwarded to industry leaders, Standing Committee members and associate members of SANCIDF. The first announcement of WDS 2019 was also received and distributed like the others.

Out of Milk SA's budget, two delegates attended WDS 2018. Dr Van Dijk planned to attend the Anti Microbial Resistance (AMR) conference in Morocco in October but was unable to do so. Out of surplus funds from WDS 2012, three persons were delegated to attend WDS 2018. Two attended some of the business meetings allocated to them as well as the conference and one manned the promotional booth for WDS 2020. All of these delegates submitted the reports that were required from them in terms of their contractual agreement with SANCIDF.



During the year, we received two Bulletins, three Standards, three fact sheets, seven news items and the IDF Animal Health Report. These were all sent to industry leaders.

Altogether R16 318 was spent on travelling costs for two Executive Committee members and one Standing Committee member to attend meetings. Eleven standing Committee and one task force member submitted reports on their work during the year. All these reports are attached to the main report.

In his liaison with IDF regarding sustainability and the environment, Dr Heinz Meissner reported extensively and with authority on eight documents sent to him, of which the most important were the White paper on



International Dairy Federation

begins the World Milk Day Celebrations early at a meeting of its global experts in Paris, France.

dairy protein and the LEAP3 Project proposal: activities and deliverables. In these two documents, he also made it clear that, when considering the carbon footprint of the dairy industry, it should not only be about GHG emissions, as carbon sequestration must also be taken into account.

Contributions on the work items of SCENV included comments on a new Work Item, the Objectives of the Standing Committee, cooperation and liaison with other Standing Committees and third parties. Evaluation of WDS 2018's presentations on environment and sustainability also formed part of the work of SCENV and SA had to provide comments and input into these documents. Some good news for the dairy industry emerged during the year. A new analysis from the FAO showed decreased 'emissions intensity' (emissions per unit of product) from 2.8 to 2.5kg CO2 equivalents per kg of product produced. Over the same period, global dairy production grew by 30% to meet consumer demand.



7.3 Project title: Customs duties and Market access

Responsible institution: SA Milk Processors' Organisation

Project Manager: De Wet Jonker

Bilateral and multilateral trade agreements

- The Economic Partnership Agreement (EPA) between the Southern African Development Community (SADC) and the European Union (EU) was successfully concluded and signed on 10 June 2016 and the first year of provisions for dairy quotas (cheese and butter) was implemented in 2017.
- The cheese and butter quotas were divided between the participating SADC members. South Africa received for the 2018 calendar year 69 percent of the cheese quota of 7700 tons and 70 percent of the butter quota which was 500 tons. The BLNS countries received the balance of both the quotas.

- In 2019 South Africa will receive 5 345 tons of cheese and 350 tons of butter. The rest of the quota is divided amongst the rest of the SACU countries.
- The UK (Brexit) is due to leave the EU on 29 March 2019 at 11 p.m. UTC (midnight Central European Time), when the period for negotiating a withdrawal agreement will end unless an extension is agreed to.
- The UK is requesting the participating countries in the EPA agreement for an additional quota of 94 tons of butter and 1 363 tons of cheese. This will be on top of the existing EPA quotas. This additional quota will also be allocated to the participating countries which is at present SACU.
- The EU and the UK have certain requirements for non-EU countries to comply with in order to export food of animal origin, such as dairy and dairy products in this situation. Food imported into the EU must meet the same laws and regulations as food

produced in the EU. It must be safe and contain no prohibited ingredients, and all labelling and packaging must be informative and truthful. The shortcomings must be identified and plans (like split systems) to accommodate and nullify them have to be negotiated and implemented in order for SACU to export dairy products to the United Kingdom.

- It is proposed that the above additional quotas will only come into effect once an agreement is reached between SACU and the UK on the requirements to allow exports of dairy products into their countries.
- In 2018 the focus on trade negotiations shifted from negotiations with first world countries to trade within the Africa continent. The focus was on three sets of free trade areas namely:
- The Continental Free Trade Area (C-FTA) which includes 54 African Countries;
- The Tripartite Free Trade agreement (T- FTA) which includes some trade blocks within Africa; and
- Zimbabwe that was asking for a special derogation.
- Aspects such as market access, scaling down of import tariffs and rules of origin should be handled with caution not to be flooded by cheap import and highly subsidized dairy products caused by government intervention.
- The project manager attended the following Agricultural Trade Forum Meetings (ATF): January to October 2018.

Trade protection and tariff dispensation

Preliminary report on protection against the import of UHT milk

- The Customs Duty and Market Access Project of Milk SA requests all UHT producers to nominate representatives to serve on the work group. All future communication will be between the nominated representatives and the project of Milk SA to obtain the confidential company information to conclude the evaluation.
- The preliminary evaluation will be captured in a non-confidential report for consideration by the UHT Milk Work Group. This report will not contain any information regarding the individual UHT milk producers.
- If the UHT Milk Work Group decides on the basis of the non-confidential report that a formal application should be submitted to ITAC, the Advisory Committee of the Customs Duty and Market Access Project of

Milk SA, will propose to Milk SA that it should make funds available to finance the appointment of an independent consultant to compile and submit an application to ITAC.

Export certification

Perishable Product Export Control Board (PPECB)

- A team of experts has been selected to revisit the Standard Operations Procedure (SOP) and to find solutions for the problems experienced by the dairy industry as far as inspections and certification of product composition is concerned. The SOP was finalized in the first quarter of 2018. Road shows were held in the last two weeks of April 2018. Copies of the SOP can be obtained from the Standards and Regulation Project of Milk SA.
- The Department of Agriculture, Forestry and Fisheries (DAFF) stated that the current VPN 20 is still the official document for the approval of dairy export facilities and it is applicable until the revision is finalized and implemented.

Import and export monitoring

The following monthly import and export tables and quarterly reports were submitted

- January to September 2018
- Quarterly reports:
 - January to March 2018;
 - January to June 2018; and
 - January to September 2018.

Participation in the Animal Health Forum

- The project manager participates in the meeting of the forum and focuses on trade related issues.
- Dr Chris van Dijk was nominated by the Board of Directors of Milk SA to serve as a Director on the National Animal Health Forum.





7.4 Project title: Skills and Knowledge Development in the Primary Dairy Industry

Responsible Institution: Milk Producers' Organisation NPC

Project Manager: Helene Pheiffer

Skills and knowledge development at qualifying black dairy enterprises: Identification of black dairy entrepreneurs

The gap-analysis process aims to identify black dairy entrepreneurs who meet the criteria of the Milk SA transformation guidelines, in order to participate in dairy training interventions that will improve their dairy farm production. The training needs of the dairy entrepreneurs are determined by means of an electronic survey questionnaire, personal interviews and farm visits (in some instances).

Milk SA's guidelines for black dairy farmer support require proof of dairy production; proof of a secured market offset (for a minimum period of one year) at a registered role-player with proof of a Milk SA registration number; proof of land ownership; proof of a fodder flow programme; proof of former and/or existing support from either government or other sources; and proof of personal investment in the dairy business. Further requirements, which can be facilitated by Milk SA include: Participation in official CA and TB programmes (Reg 1256 of 27 Jun 87); a certificate of acceptability (Reg 1256); compliance with milk quality standards (Reg 1555 of Nov 97) and participation in an official milk recording scheme.

The electronic survey questionnaire evaluates dairy production and business practices including financial health and financial management practices; dairy herd

management (cows per person, average milk production, SSC, feed cost and milk production ratio); and dairy management practices (milk recording, herd composition, reproduction, health and feed management).

Based on the analysis, the following dairy training programmes were proposed to the farmers for consideration: Dairy production; Artificial insemination; Calf and heifer rearing, feeding and health care; Dairy animal healthcare; Dairy animal reproduction; Dairy animal feeding; Milk harvesting and in-parlour processing; Team leadership; Dairy code of practice and the Legend(i) ry board game; Dairy farm production management; Farm business management; Pasture management and Biosecurity management. These programmes consist of skills development courses and the modules of the Dairy occupational qualification.

The MPO acquired emerging farmer lists from DAFF and the MPO membership database. A total of 52 farmers was contacted during the course of 2018. A request to use Milk SA transformation data was discussed at the various Skills Development Committee meetings, but no approval has been granted yet. A total of fifteen black dairy entrepreneurs (farmers) completed the electronic survey and indicated a requirement for dairy training.

Black Dairy Entrepreneurs (farmers)					
	Fulfill requirements	Requested Training	Interested in	Training Presented 2018	Scheduled Training 2019
Respondent 1	Yes	Yes	4 Courses	Yes	None
Respondent 2	Yes	Yes	4 Courses	Yes	None
Respondent 3	Not all requirements are met	Yes	1 Course	Yes	None
Respondent 4	Yes	Yes	16 Courses	Yes	5 Courses
Respondent 5	Not all requirements are met	Yes	2 Courses	Yes	None
Respondent 6	Yes	Yes	11 Courses	Yes	None
Respondent 7	Not all requirements are met	Yes	12 Courses	Yes	None
Respondent 8	Yes	Yes	9 Courses	Yes	None
Respondent 9	Yes	Yes	5 Courses	Yes	None
Respondent 10	Not all requirements are met	Yes	13 Courses	Yes	None
Respondent 11	Yes	Yes	4 Courses	Yes	1 Course
Respondent 12	Yes	Yes	16 Courses	Yes	1 Course
Respondent 13	Yes	Yes	16 Courses	Yes	1 Course
Respondent 14	Yes	Yes	9 Courses	Yes	1 Course
Respondent 15	Yes	Yes	6 Courses	Yes	1 Course

Skills and knowledge development at qualifying black dairy enterprises: presentation of skills development programmes and/or dairy occupational based modules

Based on the gap analysis and the training needs of the farmers, fourteen (14) courses were presented to a total of 135 black dairy entrepreneurs (farmers) and their farmworkers. Ten (10) courses were presented in the Eastern Cape, two courses in Mpumalanga, one course in the Free State and one course in the North West province. The courses included the farmworker modules of the dairy occupational qualification, skills development programmes and one management module.

Piloting of the management modules of the dairy occupational qualification

Dairy reproduction management, Pasture management and Bio-security management were developed in 2017. The piloting of these courses in 2018 was facilitated by industry experts:

- Dairy Reproduction management: The course was presented from 23 – 27 July 2018 at Orange Grove Dairy, Dundee. Twenty-five (25) students participated and completed the knowledge component of this module.
- Pasture management: The course was presented from 13 – 17 Aug 2018 at Cedara Agricultural College. Twenty-two (22) students participated and completed the knowledge component of this module.
- Bio-Security management: The course was presented from 22 – 25 Oct 2018 at Woodlands Dairy, Humansdorp. Eleven (11) students participated and completed the knowledge component of this module.
- Evaluation and revision of already developed part, specialized and full dairy occupational qualification.

All dairy occupational qualification modules and skills development programmes were revised and improved during 2018. Revision included evaluation, development



Legenda(i)ry Game
Little Barnet Farm

and improvement of learning material, presentation aids and facilitation administration and methodologies.

Module 8, The Dairy Code of Practice for Milk Producers has been re-designed into a *legenda(i)ry* game for farmworkers. This game uses educationally relevant and experiential learning methods to increase learning, retention and participation amongst the learners. This module also forms part of the dairy farmworker part-occupational qualification, which is still awaiting registration from SAQA and QCTO. The game is currently presented as a unit standard based skills programme. Although formative assessment and revision forms part of the game, a summative assessment had to be developed as part of the requirements for a skills programme. A *legenda(i)ry guide for farmworkers*, covering all the chapters of the Code of Practice for Milk Producers, was developed in 2017 and completed during the first quarter of 2018.

Module 11, Dairy Pasture Management was re-evaluated by industry experts and the content and layout of this module were adapted accordingly. Presentation plans (facilitator guidelines) and PowerPoint presentations were developed in the 2nd quarter, whereafter the module was piloted in the third quarter of 2018. Based on the pilot evaluation report, student evaluation reports with practical evaluation and workplace experience guidelines were developed and forwarded to the farmers, mentors and students. Facilitation guides were also adjusted to include additional practical demonstrations.

Module 12, Dairy Reproduction Management that was developed in 2017, was verified and signed off by industry experts in the first quarter of 2018. The curriculum design document, knowledge and practical assessments as well as the workplace experience logbooks have been developed and completed for registration as a specialized/part qualification of the Dairy Occupational Qualification. Presentation plans (facilitator guidelines) and PowerPoint presentations were developed in the second quarter, where after the module was piloted in the third quarter. Based on the pilot evaluation report, student evaluation reports with practical evaluation and workplace experience guidelines were developed and forwarded to the farmers, mentors and students. Facilitation guides were also adjusted to include additional practical demonstrations.

Module 13, Dairy Bio-security Management, which was also developed in 2017, was evaluated by industry experts and adapted accordingly. The curriculum design document, the knowledge and practical assessments as well as the workplace experience logbooks were completed in the first quarter of 2018. The presentation plans and PowerPoint presentations were developed in the third quarter, whereafter the module was piloted in the fourth quarter of 2018. Revision of the learning material took place after the evaluation of the project pilot.

Dairy occupational qualification supervisor (Module 1 – 8) and management modules (Module 9 – 13).

Presentation plans (training orientation presentations), referring to all the requirements, content and outcomes of the supervisor and management modules were developed. PowerPoint presentations for the facilitation of the supervisor modules (1 – 7) and management modules (modules 9 – 13) were also reviewed and improved. The PowerPoint presentation for Module 8 will only be revised in 2019.

The content of the Dairy occupational qualification was reviewed and consolidated in electronic and printed format. The content includes information letters to farmers and students regarding the content of the course/module, facilitation plans, PowerPoint orientation

and facilitation presentations, learning material, knowledge assessments, practical assessments, workplace experience logbooks and moderation plans.



**Animal
Husbandry
Training**

Skills development programmes were reviewed and improved during the third and fourth quarter. The revision included learner material, assessment documents as well as the development of PowerPoint presentations. These skills development programmes included Dairy production; Artificial insemination; Dairy husbandry practices; Socio-economic empowerment and Occupational Health and safety.

Internal training for the instructors of the MPO Training Institute took place in the first and fourth quarter of 2018:

- 10 - 12 Jan 2018: Training orientation and facilitation of the Legenda(i)ry board game.
- 23 – 26 Apr 2018: Training-the-trainer on Reproduction management and the use of cow cards for record-keeping.
- 10 - 14 Dec 2018: Facilitator orientation on current and new training administration processes, new PowerPoint presentations and training methodologies.

The **training database** development commenced in 2017. The database implementation started with the capturing of data covering the period 2015 – 2018. The capturing process assisted in identifying errors for corrective actions. Corrections have not been completed yet, which delayed the subsequent development of the training data capturing and process flow implementation. The process will continue in 2019.

Interaction on skills and knowledge development with authoritative bodies to develop and maintain industry-training expertise

Background on the Dairy occupational qualification. The Occupational Curriculum document, Occupational Assessment Specifications document and Occupational Qualifications document for the Dairy Farmer Occupational Qualification Design were developed and submitted to AgriSeta in 2012. The process of Dairy occupational qualification evaluation at the QCTO and registration at SAQA has been delayed due to SLA issues between AgriSeta and the QCTO, concerns regarding part and full-time qualifications, as well a lack of commitment from AgriSeta and QCTO (project leader's opinion) to complete the project.

The MPO, however, continued with the development of the knowledge assessment and workplace experience components of the Dairy Farmer curriculum, which consists of three levels: Dairy farmworker, Dairy supervisor and Dairy herd manager. The Dairy farmworker curricula consist of seven modules, the supervisor of eight modules and the herd manager of four modules. The dairy farmworker and supervisor levels are regarded as part qualifications whilst the supervisor and herd manager forms the full qualification. AgriSeta and the QCTO advised the MPO that further development of modules (based on industry needs), should be regarded as specialised modules, additional to the qualification. The development of specialised modules will not interfere with the already delayed registration process.



**Animal
Welfare
Training**

The MPO pilot the farmworker program in 2015 and the supervisor program in 2016.

Portfolios of evidence will serve as proof for recognition of prior learning (RPL) or external integrated summative assessment (EISA) for student qualification after registration of the qualification. The knowledge components of the Production management and Business management modules were piloted in 2016 whilst Reproduction management, Pasture management and Biosecurity management were piloted in 2018. After each pilot session, programmes were reviewed and adjusted accordingly.

A quality management system (QMS) has been developed to the extent allowed before registration of the qualification. The following processes of the Dairy occupational qualification still have to be addressed:

- QCTO evaluation and SAQA registration of the Dairy occupational qualification.
- Revision of the occupational design based on QCTO recommendations.
- Accreditation and registration of the MPO Training Institute as Skills Development Provider (SDP).
- MPO accreditation as Assessment Quality Partner (AQP).
- MPO identification and accreditation of external assessors.
- Identification and accreditation of assessment centres for EISAs (external integrated summative assessments).
- Implementation of a SLA between the MPO and AgriSeta for industry-assisted quality assurance.

- Submission of statements of results to the QCTO for the pilot projects conducted during 2015 – 2018.
- Policy documentation as required by the QCTO.

Current status of the Dairy occupational qualification.

The registration of the Dairy occupational qualification is not yet complete. AgriSeta sympathizes with the delay of the process and pledged their unconditional support to the dairy industry in this regard. The QCTO submitted the qualification to SAQA for registration. Full and part qualifications triggered contention in the registration process. SAQA then referred the qualification back to the QCTO for revision. The QCTO informed the MPO via the AgriSeta that the qualification had been referred back to SAQA for registration in Dec 2018. The MPO will take further action if registration is not concluded by Jan 2019.

Interaction to maintain dairy skills development.

Several meetings to develop and maintain dairy skills development in the primary dairy industry took place during 2018. These meetings included six meetings with AgriSeta relating to issues with the registration of the dairy qualification, two AgriSeta Sector Skills Committee (SSC) meetings concerning the red meat sector profile and an AgriSeta workshop about mandatory and discretionary grants. The MPO also attended seven meetings at Milk SA relating to skills and knowledge development and dairy industry transformation.

- 31 Jan 2018: AgriSeta meeting regarding discretionary and mandatory grants for 2018/19.
- 15 - 16 Feb 2018: The MPO Institute represented the Red meat industry at the Sector Skills Committee (SSC) of AgriSeta. Discussions included research relating to the economic performance and trends of the sector, occupational shortages, emerging skills needs and demands. Dairy specific training for small emerging farmers, cooperatives and commercial farmers have also been identified as an occupational shortage and skills gap in the red meat industry.
- Apr 2018: MPO requested formal feedback from AgriSeta regarding reasons for the delay of the registration process. Received letter of apology for delayed registration process.

- 16 Apr 2018: Secondary Industry Skills Development Committee to discuss first quarterly reports and relevant issues.
- 18 Apr 2018: Primary Industry Skills Development Committee meeting to discuss first quarterly reports and relevant issues.
- 14 Jun 2018: Attended the Milk SA AGM and provided feedback on Primary Industry projects.
- 06 Aug 2018: Milk SA Transformation meeting to discuss NAMC and Milk SA transformation guidelines for 2019.
- 06 Aug 2018: Meeting with AgriSeta concerning the registration of the Dairy Occupational Qualification.
- 07 Aug 2018: Secondary Industry Skills Development Committee meeting – to discuss first and second quarterly reports as well as industry relevant training issues.
- 14 Aug 2018: Primary Industry Skills Development Committee meeting – to discuss first and second quarterly reports, as well as industry relevant training issues.
- 27 Sep 2018: Attended an AgriSeta workshop on Skills development policies and procedures.
- 28 Sep 2018: Meeting with AgriSeta concerning the registration of the Dairy Occupational Qualification.
- 08 Oct 2018: Meeting with AgriSeta concerning the registration of the Dairy Occupational Qualification.

QCTO committed to ensure the registration of the Dairy sector's qualification. AgriSeta informed the MPO on discussion outcomes with the QCTO.

- 16 Oct 2018. A follow-up meeting with AgriSeta to discuss the registration of the Dairy occupational qualification.
- 16 Nov 2018. Attended AgriSeta SSC meeting in Johannesburg to discuss sector profiles.
- 27 Nov 2018. Meeting with AgriSeta concerning the registration of the Dairy Occupational Qualification.
- 29 Nov 2018. Attended Milk SA Members meeting and provided feedback on Primary Industry projects.

Promotion of skills and knowledge development in the dairy industry

The MPO Training Institute contributed the following training articles for The Dairy Mail during 2018:

- Jan 2018 – *"Put your best foot forward with training"*: Infographic on all the projects the MPO Institute were involved in during 2017.
- Feb 2018 – *"The impact of development"*: Focusing on the graduation ceremony of Orange Grove Dairy students who completed partial and full qualifications of the Dairy occupational qualification.
- Mar 2018 – *"Lessons in Legenda(i)ry"*: The Legenda(i)ry board game is a new training intervention focusing on the content of DSA's Dairy Code of Practice for Milk



Little Barnett Farm

Producers to educate dairy farmworkers on all the components in a dairy production facility impacting on food safety standards.

- Apr 2018 - *"Groen is goud werd"*: Focusing on pasture management for sustainable and profitable milk production and the Pasture Management course to be presented by the MPO Institute in 2018.
- May 2018 - *"Die waarde van opleiding"* and *"Our top 5 training courses"*: Focusing on the value of training for the learner and the farmer as well as the most popular courses presented by the MPO Training Institute.
- Jun 2018 - *"P...is for people"*: Focusing on the MPO's three pillars of sustainability – profitability, people and planet.
- Jul 2018 – *"Winter training update"*: Focusing on the MPO Training Institute's activities and scheduled courses.
- Aug 2018 - *"Women in dairy"*: Focusing on women and calf rearing.
- Sep 2018 - *"n Loopbaan in Landbou"*: Focusing on career opportunities in the dairy industry.
- Oct 2018 – *"Biosekuriteit 101"*: Focusing on the importance of biosecurity and biosecurity training on a dairy farm.
- Nov 2018 - *"Hoekom moet jou werkers opleiding ontvang"*: Focusing on the advantages of trained dairy farm employees.

- Dec 2018 - *"Terugblik op 2018"*: Focusing on the training activities of the MPO Training Institute during 2018.

The MPO Training Institute concluded the following radio and television interviews during 2018:

- 6 Feb 2018: Landbou Radio - Dairy training interventions.
- 29 Mar 2018: Grootplaas – The Legenda(i)ry game board based on the Dairy code of practice for milk producers.
- 9 Apr 2018: RSG Radio regarding dairy training interventions and the Legenda(i)ry game board.
- 3 Aug 2018: RSG Radio regarding the dairy industry's programme at the Alfa Livestock Show that will take place from 18 – 20 Sep 2018.
- 29 Oct 2018: Grootplaas TV – Biosecurity and the MPO's new Biosecurity training program.

The MPO Training Institute concluded various visits during 2018 to promote dairy training, benchmark best practices and network with stakeholders and role-players:

- 08-09 Aug 2018: Meeting with WCDoA to discuss cooperation in farmworker programmes and MOU prospects for skills and knowledge development.
- 18-19 Aug 2018: Visited dairy farmers in the Eastern Cape to promote dairy employee and





developing farmer training. Visited the farm of a black dairy entrepreneur for a gap-analysis.

- 24 Aug 2018: Attended the Land Reform Summit in Bela-Bela. The summit focused on current transformation strategies and role-players within the agricultural industry. The dairy industry shared information on successful share-milking and joint venture projects, dairy mentors and student internship programmes on dairy farms.
- 18 – 21 Sep 2018: Attended the Alfa Livestock Show in Parys. Milk SA, MPO, SAMPRO and DSA participated as exhibitors during the event. The MPO and MPO Training Institute were also involved in the following activities:
 - Coordination of demonstrations and discussions focusing on the characteristics of dairy breeds, the clinical evaluation of a dairy cow, calf rearing practices, administration of medicine and vaccines as well as milk safety.
 - Participation in a programme for all role-players in the emergent agricultural sector. Black dairy entrepreneurs were also invited to attend the discussion sessions and activities presented at the show.
 - School milk project.
 - Cheese tasting competition.
 - Participation in a student industry day to give students a realistic perspective on the agricultural

and dairy industry. This event took place in collaboration with the South African Society for Animal Science.

- 09 – 10 Oct 2018. Attended Agri SA Conference at Sun Arena Pretoria.
- 25 Oct 2018. Attended an Animal Health Forum CPD event at Onderstepoort. Discussed bio-security issues and the Bio-security management course presented by the MPO.
- 10 – 12 Oct 2018. Attended Agri-Expo in Stellenbosch. The Expo provided the MPO Training Institute with the opportunity to promote dairy training, present and attend a workshop on bio-security on goat farms, network with industry role players, participate in the school milk event and present a farmworker programme in collaboration with the WCDoA.

The MPO Training Institute's prospectus was developed in 2017, revised in the first quarter of 2018 and distributed to all dairy farmers with the Jun 2018 edition of The Dairy Mail. The prospectus covers a synopsis of all the skills development programmes and modules of the dairy occupational qualification. The prospectus was also emailed to approximately 300 dairy farmers after telephonic consultation by MPO Training Institute. The prospectus was revised and updated in the fourth quarter of 2018. A new prospectus will be distributed during 2019.



7.5 Project title: Transformation: Secondary Industry Skills Development

Responsible institution: SA Milk Processors' Organisation

Project Manager: Gerhard Venter

GOAL 1: Finalization of a pilot study towards the registration of a 'Dairyman' curriculum

All non-assessed (final, summative) learners engaged in the Dairyman pilot study, were adjudicated to select those who had progressed furthest, so as to be eligible for final assessment. It was estimated that between eight and 15 learners would qualify, but the rest had let their own internal processes fall behind to such an extent, that they will never finish. Lists of these learners were dispatched to the training manager or co-ordinator of participating enterprises and mutual planning was done to determine whether or not these learners would eventually be ready for assessment in 2018.

In total ten (10) learners were scheduled and have been assessed and performed successfully (competent). Any further developments in respect of Dairyman will be outside the scope of this project.

GOAL 2: Finalization of a pilot study towards the registration of a Milk Reception Operator curriculum

Six learners were engaged in this pilot study. Two learners have been indicated as actively constructing their portfolios and have already requested the Finishing Modules and sample questionnaires with model answers to prepare for final assessment. The aim was to complete these two in the third quarter.

Four of the six learners engaged in the pilot study have been reactivated to round off their preparations for final assessment, whilst it has been established that the fifth and sixth are at this stage far from completion.

The first of the four was assessed on 3 October, whilst the second and third – thought to be involved in retrenchment but fortunately not – were supplied with the preparatory learning materials. They will probably be assessed early in 2019. The fourth learner has for some time kept contact with vague progress reports and will also stand over until early in 2019 for final assessment. This was followed up with the GM HR of the enterprise and good indications were received as to the preparations of this candidate for assessment early 2019.



Initiating the pasteurization process during
assessments for Dairyman Fresh Products Manufacturing.

GOAL 3: Finalization of a pilot study towards the registration of a Laboratory Analyst curriculum

There was an 18 month delay in developments (apart from the drafting of an Occupational Profile upon which the curriculum is based by the project). A QDF was appointed by the SETA and a first meeting between the Project Manager and SETA staff and QDF took place, which gave new momentum to this endeavour.

Three formal workshops were conducted by the QDF, all of which were attended by the Project Manager with appreciable inputs. The first of these was committed to clarification and updating of the Occupational Profile submitted by this Milk SA project. It can be reported that the rationale was accepted and (what was hoped for) realization that a sector wide qualification was unachievable, so that the QDF advised the SETA to reapply for the development mandate, but curtailed to a Dairy Laboratory Analyst curriculum only.

The second and third workshops were used for determining the theory subjects and topics required, with a start to the practical skills analysis. A fourth workshop on the practical modules was conducted. Two further workshops were conducted during which the theory subjects and topics, the practical skills, the workplace experience requirements and the assessment specifications were finalised. Thus the curriculum document was completed.

A single (but at most two) workshop remains as a joint meeting with QCTO and the sign-off by the community of expert practitioners. This has not been scheduled, but is expected early in 2019.

It is the view of the Project Manager that industry can be proud of the design and development product for this curriculum.

GOAL 4: Maintenance of all learning materials

Aimed for completion by the end of the second quarter, all existing unit standard based learning materials have been reviewed, as well as all Coaching Manuals, all Posters and all PowerPoint Presentations.



Monitoring a cream separator during standardization of milk for assessment in Dairyman Fresh Products Manufacturing.

GOAL 5: Review existing and develop additional Coaching Manuals, aimed at potential new entrants and especially for employees with limited educational education

A (single and one-sided) critical review of the existing Coaching Manuals by the Project Manager convinced him that no further developments in this regard ought to be necessary. The range of Coaching Manuals is such that from most the menial tasks to highly advanced support tasks are covered in the existing manuals, which should cover 'embryonic' and advanced operations.

GOAL 6: Promotion of 'part-qualifications' when full learnerships are not an option; and guidance to industry on the implementation thereof

Such part-qualifications were approved by both the advisory sub-committee and the Dairy Chamber. However, there seems to be a new direction at QCTO and SAQA with registration of curriculum based qualifications and it would be wise to await guidelines from them before finalising the existing (designed) part-qualifications. It is also at this stage uncertain whether or not QCTO (and SAQA) will still require such part-qualifications.

A comprehensive script on this subject was compiled and forwarded to the CEO of the SETA. No dedicated answer has been forthcoming. It will be followed up at the Combined Chamber meeting on 16 July 2018. Nevertheless, it is deemed to be rather in the realm of providers, as the provision of learning depends on a contract between provider and user, which can be done over a period of choosing as mutually agreed upon.

The problematic aspect is whether or not the SETA would allocate grants to a process that employs a longer learning time. As things stand, there are prescribed times allocated to employed (18 months) and unemployed (13 months) learners in which to complete a qualification (most occupational qualifications, excluding apprenticeships).

The same question was reiterated and submitted to the SETA, but no comprehensive answer has been forthcoming apart from a spoken statement that skills sets within the curricula of qualifications are important.

These are the so-called part-qualifications. Fortunately this project has given attention to such and when the time is right for implementation, these collections within both Dairyman and Milk Reception Operator which were designed by the project should form the base for such considerations, if not the actual final designs. It seems not to be a high priority currently.

GOAL 7: Quality assurance for curriculum based qualifications.

All preparatory work is completed, but implementation is reliant on registration and the current problem is the non-registration of both Dairyman and Milk Reception Operator. As for other connected goals, we are awaiting developments in the seemingly new direction that QCTO might be embarking on in respect of the registration of Dairyman and Milk Reception (it is expected that they will request a resubmission as 10 separate qualifications (Dairyman), but no clarity has been given on Milk Reception (which is one of a 21-part parent qualification) yet.

A reminder of the questions posed to FoodBev SETA was dispatched. The only feedback received was that one of the ten separate Dairyman qualifications was eventually registered (Dried Dairy Products Maker). No reason for this could be obtained from the SETA, even though the SETA immediately enquired about this from QCTO. Afterwards it was explained to the SETA by QCTO that Dried Dairy being the biggest (in terms of credits), the evaluation of this part would make the remaining nine easier and they are currently in process.

The SETA further reported that the Milk Reception Operator (actually Liquid Dairy Raw Materials Reception Operator, or abbreviated LDRMRO) was ready for final submission to QCTO, but that some consideration was still being given to the generic component that will need to be attached. Lastly, the name change for the Laboratory qualification (from Food Laboratory Analyst to Dairy Laboratory Analyst) has been approved. However, the main qualification will still be registered as Food Laboratory Analyst and the certificate issued to learners will state Dairy Product Analyst, as the Dairy Laboratory version will be registered as specialization.



Controlling processes

with the pro logic controller during assessments in Dairyman Fresh Products Manufacturing.

As the design of the curriculum has been provisionally agreed upon by the development team working with the QDF, but the formal process with QCTO which ought to entail both a 'kick-off' discussion in which QCTO and the Community of Expert Practitioners agree on the Occupational Profile (which guides the qualification design and curriculum development) and a conclusive discussion which confirms that the strategic goals in the Occupational Profile is fully covered by said design and development, has not yet happened.

The 'first' and 'conclusive' meetings will now have to be held with QCTO as a single event and is dependent on their availability early in 2019. Then only can QMS additions be made to that which currently covers Dairyman and Milk Reception Operator, to prevent re-doing. This is part of development for 2019.

GOAL 8: Remote and on-site advice on skills and knowledge development

Ongoing with no real measurable objectives, but frequent enquiries are handled via e-mail as referred by DSA and CEP, as well as directly from enterprises.

The total dairy technical and training related enquiries recorded for the year amounted to 38. These are all e-mail based and kept in a separate e-mail folder for potential follow up as required. Telephonic queries are not always recorded as e-mails, as some people (enquirers) 'do not do' e-mails.

GOAL 9: Participation in Skills development work groups at FoodBev SETA

The Project manager serves on the Dairy Chamber (with this primary mandate) and also attends the Combined Chamber meetings. He also champions the design and development of the Laboratory Analyst curriculum in close co-operation with the ETQA, Constituency Group and Community of Expert Practitioners and the newly appointed QDF for this curriculum.

GOAL 10: Participation in authoritative bodies such as FoodBev SETA, QCTO and Milk SA Committees to develop and maintain skills development expertise

The secondary dairy industry has representation on the FoodBev SETA Board (Mr Richard Hutton, Woodlands Dairy) but no direct contact with QCTO. Assistance – on request – may be rendered to QCTO, via the FoodBev SETA, to elaborate on and help shape policies on quality assurance of training (as has happened in the case of Dairyman). This project is guided by an advisory sub-committee to which the Project Manager reports at prescribed frequencies.

GOAL 11: Uploading of learning materials onto a website

The enterprise that has taken over the IT support of SAMPRO which includes the web site, eventually 'came to the party' and decided to retain the website support.

Informal discussions by the internal Project Management Committee (Project Manager, CEO and Office Manager/ Business Economist of SAMPRO), have led to a provisional decision that the training website ought to be combined with the SAMPRO web site.

It is planned that a link on the SAMPRO web site should lead to the repository of learning materials (which is the future function of the training website), with a menu of available learning materials AND indices that explain the contents of such learning materials.

However, as the current policy deployed does not allow free access to the learning materials (and only to enterprises in good standing with Milk SA), users who would want to access the learning materials would still have to register for such and be allocated user names and pass words for such faculty. This needs to be cleared with the host. The menu and indices should be completed by end July.

It has been ascertained that the new SAMPRO website will only be constructed in 2019 and planning for training additions to the same have been placed on hold and rescheduled for 2019. In the meantime the current website is functional and new requests for access registration are periodically received (and executed).



7.6 Project title: Enterprise Development, Facilitation and Coordination

Responsible Institution: Milk SA

Project Manager: Godfrey Rathogwa (Transformation Manager of Milk SA)

OBJECTIVE 1: To continue monitoring 17 existing black dairy commercialization enterprises

The Sustainable Commercialization Project came into being as a result of 2006-2009 Milk SA levy surplus funds. Its goal is to promote competitive, profitable and sustainable existing black dairy enterprises by contributing to the reduction of commercial venture constraints. In order to augment the levy surplus funds, Milk SA's Transformation Manager successfully applied for funding from the Jobs Fund programme and secured R10.35M. The main goal of the project is to assist existing black dairy enterprises to be competitive and sustainable by instilling enterprise culture and contributing to address hurdles that negatively affect commercial enterprise.



During the year under review, four Jobs Fund project team members were taken to some project beneficiaries in the Eastern Cape, KZN and Free State provinces to interact with project beneficiaries and to assess project performance on their own. After their visit, they expressed that they did not imagine the magnitude of work that was being done. Furthermore, they requested that a profile of each project beneficiary be submitted with recommendations regarding the utilization of the remaining project funds. At the time of writing this report the matter was still under Jobs Fund consideration.

External auditors visited all project enterprises to conduct a 2017/18 independent annual audit report. The delay in conducting the annual audit was caused by the uncertainty regarding project closure and discussions between Milk SA and the Jobs Fund concerning project balance funds. The audit report is expected to be submitted to the Jobs Fund during the first quarter of 2019 after perusal by the Work Group and the Internal Management Committee.

A total of 358 tonnes of lucerne was delivered to farmers who contributed between 25 and 40% of the cost of lucerne. Normally project beneficiaries are subsidised by 50% for feed but due to the severity of drought and loss of lucerne and grass hay on some farms, Milk SA contributed 75%.

On average, there were 579 cows in milk and farmers supplied 2 688 092 kilograms of milk to processors or consumers. The total number of cows increased by 6% while milk volume went up by 26% during the year under review compared with 2017.

OBJECTIVE 2: To deliver cows among new and existing black dairy enterprises depending on compliance with Milk SA criteria and beneficiary counter performance

Four new potential beneficiaries were identified and given assessment forms. However, heifers could not be delivered to qualifying new project beneficiaries due to a shortage of fodder, surplus milk and low milk prices during 2018. On the other hand, 154 pregnant heifers were delivered to existing project beneficiaries. The livestock broker has been instructed to look for pregnant heifers, which could be delivered during the first or second quarter of 2019 depending on the fodder flow situation. Internal Management to still have to finalise the selection of new project beneficiaries.

OBJECTIVE 3: To capacitate new black dairy entrepreneurs and their workers in fodder flow planning and dairy herd feeding

Five potential project beneficiaries attended the workshop which was held at Harrismith, Free State Province. At this workshop the framework of a business plan was discussed with nine existing project beneficiaries. Detailed business plans for new beneficiaries would be developed once their participation in the project had been approved by the Internal Management Committee.

A farmer's day was also held where experts talked about fodder flow planning and dairy herd feeding. Also, another dairy expert visited some farms to assess farm and animal conditions and produced a report guiding farmers regarding fodder flow planning and dairy herd planning.

It was also agreed among project beneficiaries, presenting dairy experts and Milk SA that in future, project beneficiaries would be tested first on what was presented and discussed the previous year to avoid holding farmers days for the sake of a farmers' day.

Commercialization project near Harrismith



OBJECTIVE 4: To assist black dairy enterprises in business plan development

A workshop was held over a period of two days in Free State during the year under review with existing project beneficiaries and five potential beneficiaries. During the workshop the following aspects were covered:-

- Fodder flow planning.
- Enterprise mission.
- Enterprise mission.
- Short term objectives.
- Long term objectives.
- Strengths of the enterprise

Following up on the workshop, each project beneficiary, depending on their circumstances like commitment to the success of the enterprise, was assisted with a complete business plan including projected financial statements. Business plans would be submitted to each enterprise's bank for a loan and to DAFF for consideration for assistance under 'Blended Funding for Agriculture'. A SWOT analysis for each enterprise was conducted and strategies to overcome weaknesses and threats brainstormed to take advantage of strengths to exploit opportunities

OBJECTIVE 5: To attend four Marketing Forum meetings, coordinate and liaise with relevant stakeholders

During the year under review engagements were made with various stakeholders as indicated below. The emphasis of such engagements was to explore potential partnership and synergy in promoting dairy development in general and transformation in particular.

5.1 Masisizane Fund:

Four meetings were held with the Masisizane Fund regarding financial loans to our project beneficiaries for critical assets and inputs. At the same time, Masisizane wanted us to partner with them regarding a project which they funded and which was facing fodder flow challenges. After assessment of the project it was felt that support should not be given.

At the same time, assistance sought for our project beneficiaries could not be secured because Masisizane had to focus on their existing loanes who were failing to meet their debt obligations.

5.2 Department of Rural Development and Land Reform (DLR&RD):

Engagement took place with the Deputy Director General responsible for Enterprise Development. The Department wanted partnership with Milk SA to support them in their efforts to promote food security and to reduce dependency of project participants on the state for their livelihood.

5.3 National Agricultural Marketing Council (NAMC):

Meetings were held with the NAMC regarding the Transformation Business Plan (BP) and statistics on Black dairy enterprises. The letter from the NAMC requesting Milk SA to keep record of black dairy enterprises and their market share was also attached to the letter sent to the provincial HODs of agriculture requesting such statistics. As far as the Transformation BP was concerned, the message from the NAMC was that 20% of levy income was meant to support deserving commercialization black dairy enterprises.

A workshop was organised by the NAMC focusing on amended Agri BEE codes and the NAMC's new generic transformation guidelines workshop was attended during the period under review.

According to the NAMC 2018 transformation guidelines, at least 60% of 20% of the total levy income meant for transformation should be spent on developing black dairy enterprises.

5.4 Department of Agriculture, Forestry and Fisheries (DAFF):

DAFF representatives were engaged regarding the Agri BEE Fund. It was learnt that application for the Agri BEE Fund should come from the provinces as they have knowledge of what is happening regarding agricultural development. Three Marketing Forum meetings were attended during the year under review. The meetings took place at Elsenburg, Western Cape Province; Glen College, Bloemfontein in Free State Province and Polokwane in Limpopo Province. The purpose of the Marketing Forum is to facilitate marketing of agricultural produce, especially produce of black agripreneurs. Activities to promote marketing of produce include the following:-

- Assisting farmers to be accredited for SA-GAP
- Assisting farmers with the supply of marketing information.
- Assisting farmers to acquire quality seeds
- Assisting farmers to acquire marketing infrastructure through the Comprehensive,
- Agricultural Support Programme (CASP) and Agri-BEE Fund

During the Agricultural Marketing Forum meeting held in July 2018, Milk SA requested time to explain to the audience/ representatives of the provinces about the dairy development promotion in SA. The dairy industry statutory levy and its focus areas for deployment were explained to the audience.

Furthermore, the challenge of getting a reliable database of existing black commercial dairy enterprises from the provinces was accentuated. It was indicated that 20% of the statutory levy was for support of existing black dairy enterprises along the dairy value chain. Milk SA only assists entrepreneurs who venture into commercial dairy on own initiative; and are willing to put their own financial contribution to augment the industry funding. It was also stressed that Milk SA did not want to support government initiated and funded projects where there was no ownership and commitment to the success of the venture. Therefore, provinces were requested to submit names of existing and deserving enterprises for consideration for support by Milk SA.

After explanation of the role of Milk SA and its transformation approach in particular, it was resolved that:

- Each province should submit at least two dairy enterprises to Mr G Rathogwa for possible support by Milk SA by the end of 3 August 2018;
- KZN would provide a database for their dairy entrepreneurs to Milk SA for possible assistance;
- The Eastern Cape province would have internal engagements at the province and revert to Milk SA afterwards; and
- Free State province would provide Milk SA with a database of their dairy producers.
- Limpopo indicated that they did have two known dairy projects and they would like Milk SA to assist their projects with fodder and other related needs;
- DAFF's livestock economist would be availed to assist Mr Rathogwa with the co-ordination process and;
- Contact details for Mr Rathogwa were shared with the provinces for ease of access.

5.4.1 SA-GAP certification programme

A quarterly progress report on the SA GAP certification programme from April 2018 to June 2018 was presented by Mr. Tshepo Mokgothu from the PPECB. The report provided feedback regarding the pre-audits, one on one-farm visits, workshops undertaken, final certification audits and the following was noted with regard to the progress made:

Members appreciated the quarterly progress report on the SA-GAP certification program, adopted the report and requested that PPECB undertake a stock-take of all farms that participated in the programme since 2014 and further assess the status to be reported in the next sitting.

5.4.2 Status report on the SA-GAP benchmarking process

Provinces were advised to ascertain that farm assurers are registered with Global GAP before undertaking any

farm audits on their farms. It was resolved that Global GAP should table quarterly progress on this item to the Marketing Forum until completion; and DAFF would invite Ms Christi Venter from Global GAP to the future Marketing Forum sittings.

5.4.3 CASP support to SA-GAP programme

CASP support to the SA-GAP certification programme was tabled by Mr. Stanford Manthata from DAFF. During 2017, DAFF engaged the CASP office in the provinces to support farmers with infrastructure for SA-GAP.

The provinces were engaged on a quarterly basis to ensure that the process was unfolding successfully. The challenges were indicated to be primarily on chemicals and fertilizer storage and record keeping. Some provinces needed to conclude a MoA with PPECB because at that time, only Western Cape and Limpopo had concluded MoAs. Provinces should note that support and approval for the 2019/20 business plan would be guided by the conclusion of the MoA in order for the provinces to be able to take over the programme.

5.4.4 Progress report on Marketing Capacity Building

The progress report on the Marketing Capacity Building was presented by a representative from the Department of Agriculture, Forestry and Fisheries (DAFF). The programme covers fresh produce, grain and livestock marketing. DAFF indicated that they would be offering a five-day Poultry Marketing and capacity building



workshop for provinces. Provinces were requested to assist DAFF by publicizing the programme at the local level, identifying suitable participants and venues in liaison with organisers and also to ensure that producers arrive at the venue to attend the workshops. Provinces were urged to conclude MoAs with PPECB (so far, only Western Cape and Limpopo had concluded the MoA); and CASP support for 2019/20 would depend on the approval of business plans.

5.4.5 Tourism B-BBEE portal and awareness campaign

Feedback on the Tourism B-BBEE portal and awareness campaign was provided by a representative of the National Department of Tourism (NDT). The NDT had managed to meet a few commodity associations including Milk SA and would continue creating awareness in the provinces.

5.4.6 The Land Bank was also approached and has shown an interest in funding farmers if Milk SA were also involved in such projects.

5.4.7 Meetings were held with two processors regarding possible BEE partnerships through the Department of Rural Development and Land Reform.

OBJECTIVE 6: To visit provinces to update data on black dairy enterprises

Milk SA is required by the NAMC to report on the status of transformation in the dairy industry. Since not all black dairy enterprises are beneficiaries of the commercialization project, Milk SA depends on the provincial departments of agriculture to be kept abreast of transformation progress.

During the year under review, letters were sent to all provincial HODs of Agriculture requesting information on the nature and structure of black dairy enterprises. Some provinces responded with such requested information while others did not.

The matter was further brought to the attention of the Marketing Forum and discussed during the meetings held in July and November 2018. Follow-up letters were sent to the provinces but the response was very poor. As a result of such discussion with provincial representatives, Milk SA was approached by some provinces who in turn were given a dairy enterprise profile form to be filled in by respective enterprise owners. Some beneficiaries also contacted us on their own and we sent them profile forms for completion.

One processor in the Northern Cape Province was emailed the profile form but did not like to complete the questionnaire and we stopped following up with him. Two meetings were held each, with KZN Economic Development and Western Cape department of Agriculture. Discussions were about support for a project at Estcourt in KZN and a visit to Western Cape black dairy entrepreneurs in January 2019 respectively.

**Internal Management
Committee on Transformation**



7.7 Project title: Improvement of the quality of milk and other dairy products and compliance with legal standards

Responsible Institution: Dairy Standard Agency NPC

Project Manager: Jompie Burger

According to the approved 2018 project plan, DSA activities were grouped into specific programmes and projects under the titles “MILK SA” (statutory) and “User Pay” (non-statutory). A total of 17 projects were managed of which 11 were of a statutory nature. During 2018 an additional 2 statutory projects were approved that are discussed below.

PROJECT 1: National milk monitoring program in collaboration with Health Authorities

The quarterly sample runs for 2018 were successfully completed as per predetermined schedules. Based on four cycles, an average of seven Metropolitan Municipalities, 12 District Municipalities and 55 Local Municipalities participated in the sampling runs representing all provinces. As per procedure, results of all milk and other dairy products were benchmarked against food safety, compositional and trade metrology standards as per regulation. In the cutback environment that government operates in, the expertise needed to regulate was often lacking or too expensive to obtain. DSA in terms of its project protocol and relationships with the relevant authorities continuously worked with the law enforcement bodies and provided support through dairy technical information, workshops and guideline documents to limit the sale of non-conforming products. The total number of samples of milk and other dairy products analysed are as per the following table.

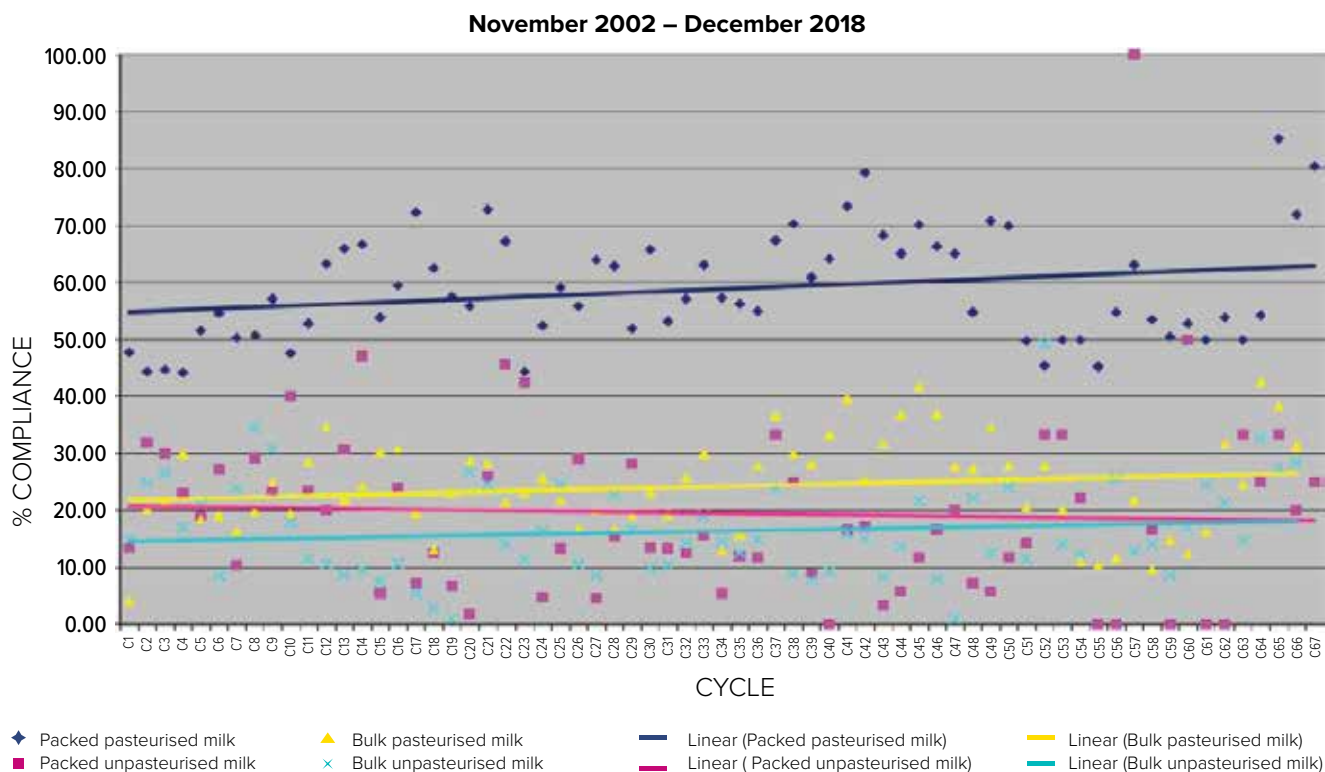


Dairy Product	Total
Fresh milk in the categories named packed pasteurised and unpasteurised, pasteurised and unpasteurised retail bulk milk	1 299
Flavoured milk	39
Yoghurt including plain, flavoured and yoghurt with added fruit and/or foodstuffs and drinking yoghurt	125
Cultured milk, cultured buttermilk	106
Butter	18
Cream	63
Cheese (various classes)	136
UHT, ultra-high pasteurised and sterilised milk	54
Condensed and evaporated milk	11
Powdered milk and powdered blend	5
Dairy desserts and custard	9
Dairy liquid blends	4
Total	1 869

Samples were submitted to SANAS accredited laboratories as per standard procedure and results of milk and other dairy products were benchmarked against food safety, compositional and trade metrology standards as respectively gazetted under the Foodstuffs, Cosmetics and Disinfectants Act, 1972 (Act 54 of 1972), Agricultural Product Standards Act, 1990 (Act 119 of 1990) and the Trade Metrology Act, 1973, (Act 77 of 1973). Non-conforming results obtained were assessed and communicated to the processors for further action. Contact details of participating authorities as well as processors were updated as per standard procedure. Non-conformance reports regarding added water, inhibitory substance positive, phosphatase positive and E.coli positive were also forwarded to the relevant authorities for further action.

TREND ANALYSES OVER A 67 CYCLE PERIOD (NATIONAL)

Comparison between the four main distribution types and packaging - compliance according to DSA classification system



It is important to note that the above results (figure 1) are a reflection of the sample populations of the four different categories of milk sampled in terms of the DSA national dairy monitoring programme whereby the majority of milk samples are deliberately taken on a risk based approach so as to identify possible non-conformities. Results should therefore not be interpreted as being representative of the national status of fresh milk in South Africa.

It is generally accepted that more than 90% of packed fresh milk offered for sale in the retail, finds its origin from the estimated top 20 to 25 dairy processors on a national level. The remaining 10% of packed fresh milk accesses the market place through small and medium size enterprises competing geographically on a national basis. As was the case in 2017 the categories packed unpasteurised, retail bulk pasteurised and unpasteurised milk (see figure 1) that continuously indicate a negative

compliance rate remain a major concern and focus point of the DSA during 2018 in terms of critical food safety standards. Although the figures relating to these substandard products may seem insignificant in relation to the total of fresh milk sold in South Africa, it remains a persistent problem mainly due to poor control measures (law enforcement) and the unlawful sale of substandard milk to the end user.

DSA in terms of its project activities extensively used its updated guideline developments to promote the improvement of the level of compliance of the above categories of products during 2018. DSA in terms of its project protocol and relationships with the relevant authorities (see project goals 5 and 6) continuously liaised with the relevant law enforcement bodies, providing support through dairy technical information, workshops and guideline documents to limit the sale of non-conforming products.

PROJECT 2: Investigation regarding complaints received in respect of product compliance with legal requirements

Investigations regarding complaints related to:

- Underweight butter
- Milkfat % of milk sold in Western Cape
- Clotting of fresh pasteurised milk sold in Gauteng
- Labeling of dairy products sold in Kwa Zulu Natal
- Selling of unpasteurised milk in Mpumalanga in a jurisdiction not authorised by regulation
- Labeling of dairy products sold in Western Cape not complying with R146/2010
- Foreign objects present in UHT milk sold in Western Cape
- Food fraud relating to butter
- Incorrect labeling of milk sold in Gauteng.
- Incorrect labeling of cheese sold nationally
- Foreign material present in UHT milk sold in Gauteng
- Watery UHT milk sold in Gauteng
- Foreign material present in fresh milk sold in Limpopo Province
- Microbiological non-conformance-raw milk sold in Eastern Cape
- All complaints were documented and investigated.

PROJECT 3: Special Investigations

Calcium determination was done on 10 cultured milk samples in order to determine the range of calcium values of cultured milk manufactured from milk, reconstituted milk and/or recombined milk.

The addition of milk powder and milk protein concentrates to fresh milk and UHT milk: The investigation was continued into 2018 with application to Milk SA as an additional Milk SA project.

Listeria monocytogenes

Tests were performed on all raw and pasteurised milk obtained through the DSA National Dairy monitoring programme to determine the possible risk of *Listeria monocytogenes* contamination of fresh milk. Positive results were communicated to all relevant parties (National Department of Health, Municipal Health Services (EHP's) as well as processors in accordance with standard procedure to ensure test result traceability.

All milk samples submitted for analysis were submitted for *Listeria* spp. analysis. Samples testing positive for the presence of *Listeria* spp. were handed over to the health authorities for appropriate action.

DSA released a "Pathogen Control Guideline – *Listeria Monocytogenes*" during the first quarter of 2018 to assist industry in taking proactive measures against possible *listeria* contamination in the factory environment.

Follow up tests (spot checks) were performed on dairy products during the second and third quarter with no non-conformances relating to the presence of *L. monocytogenes* in final products detected. Following reports from the NICD, the decline in the *Listeriosis* cases was evident until the end of 2018.

Aflatoxin M1

The Aflatoxin M1 project was started during the second quarter (Cycle 65) and was completed in the final quarter with the final report due at the end of January 2019.

PROJECT 4: Risk identification through statistical analysis

DSA compiled comprehensive statistical reports following the completion of each quarterly cycle. The reports were interpreted to determine possible industry specific food safety risks. All cycle results indicating non-conformances were subsequently communicated to the respective health authorities.



Reports on non-conforming results were forwarded to the respective government departments at the end of each cycle. Each participating municipality received a quarterly report on the analysis done of samples submitted. Non-conforming processors as well as processors whose contact details were verified and who requested to receive test results were provided with individual test reports. Quarterly reports to health authorities are indicated in the table below:

Province	Total
Mpumalanga	54
Limpopo	92
Western Cape	82
North West	112
Gauteng	104
Free State	124
Northern Cape	8
KwaZulu-Natal	96
Eastern Cape	56

The DSA national dairy monitoring programme provides for the sampling of the categories namely packed pasteurised and unpasteurised milk and retail bulk pasteurised and unpasteurised milk as well as other dairy products. Relevant information regarding food safety and compositional standards for milk and other dairy products was communicated to the dairy industry and other organisations.

NATIONAL AND INTERNATIONAL FOOD SAFETY AND RECALL MONITORING

International food risk monitoring - The following websites and RSS feeds* were monitored on a weekly basis for possible food safety scares that might affect the local dairy industry:

REFERENCES

- Bill Marler - marler@marlerclark.com - Food Poison Journal
- Centre for Disease Control & Prevention (CDC) - cdc@service.govdelivery.com
- Dairy Reporter.com
- FACTSSA - marketing@factssa.com
- Food Focus
- Food Focus News

- Food Safety Magazine - info@foodsafetymagazine.com
- Food Standards Agency - food.standards.agency@notifications.service.gov.uk
- FoodStuffSA - DrinkStuffSA
- Health & Safety Laboratory - HSL@public.govdelivery.com
- News 24
- Medical Research Council - MRC@public.govdelivery.com
- National Institute of Allergy & Infectious Diseases (NIAID) - niaid@service.govdelivery.com
- National Institute for Communicable Diseases - www.nicd.ac.za
- Product Safety Australia
- SAAFFI (South African Association of the Flavour & Fragrance Industry)
- United States Food & Drug Administration - fda@go.fda.gov
- USDA Food Safety & Inspection Service - usfsis@public.govdelivery.com

The focus remained on raw milk and milk products due to the prevailing high trend of non-conformances detected as a result of the DSA National milk monitoring programme in collaboration with the Health Authorities. Industry reports since the end of 2016 on the prevalence of Brucellosis in milk herds in certain provinces and consumption of unpasteurised and decontaminated pasteurised retail bulk milk with specific reference to Listeriosis remained a public health concern and information in this regard was been communicated to the Department of Health.

*RSS (Rich Site Summary) uses a family of standard web feed formats to publish frequently updated information: blog entries, news headlines, audio and video.

PROJECT 5: Remedial action programmes with producer-distributors (PD's) and distributors

Quarterly milk and other dairy product sample results once processed were forwarded to the respective PDs and processors/manufacturers. These activities were followed by means of interaction with PDs and

processors/manufacturers regarding non-conforming test results as well as recommendations for corrective actions. Communication is done either by means of a telephone call, e-mail report, posted report or a visit to the facility. Environmental Health Practitioners (EHP's) were also requested to communicate all test results to the relevant parties. DSA technical personnel provided the respective processors and producer/distributors and retailers (milk shops) with comprehensive reports after the visits that are also used for further reference purposes.

Province	Number of facilities that received visits
Mpumalanga	39
Limpopo	24
Western Cape	4
North West	22
Gauteng	25
Free State	26
Northern Cape	0
KwaZulu-Natal	0
Eastern Cape	0

* Producer distributors (PDs) are defined as milk producers that are also engaging in the packing, distribution and selling of milk whether raw or as heat treated milk and may include other dairy products.

PROJECT 6: Communication with authorities and other organisations

a. Department of Health: Directorate Food Control

DSA served as standing member on the Food Legislative Advisory Group. In its supportive role, DSA assisted the industry with a substantial amount of queries relating to food labeling requirements as well as dairy technical matters, which in several cases resulted in facilitation processes with the Directorate Food Control. Related matters included the Listeriosis outbreak, review of the Regulations governing general hygiene requirements of food premises, the transport of food and related matters and food additives (Codex General Standards for Food Additives).

b. Municipal Health Authorities

Communication with the municipal health authorities based on information obtained from Project 1 was continuous through the year and primarily focused on the implementation of remedial action on non-conforming/substandard milk and other dairy products.

Interactions with Environmental Health Practitioners were also used to encourage information and education sessions as an industry initiative to promote the improvement of milk and other dairy product safety and quality.

Industry guidelines were communicated with specific reference to pathogen control in dairy facilities. The illegal sale of raw milk as well as the sale of milk of substandard quality (food safety) remained a priority.

c. Department of Agriculture, Forestry and Fisheries (DAFF)

Directorate: Inspection Services (IS)

Due to the appointment of the DAFF assignee in terms of the Agricultural Product Standards Act, limited activities by the Directorate Inspections Services were noted. Following a directive by the executive officer of DAFF whereby all functions relating to the enforcement of R260/2015 and R78/2013 were delegated to the assignee, communications with the inspectorate were disrupted. Results regarding infringements in terms of the Regulations relating to dairy and imitation dairy products, as a result of the DSA national monitoring programme were partly communicated only to DAFF: FSQA.

Directorate Food Safety and Quality Assurance – FSQA (policy making)

Communication with FSQA regarding dairy product composition queries continued and interpretation of the Regulations relating to dairy and imitation dairy products continued. Formal communication with DAFF: FSQA continued regarding the industry challenges with specific reference to R260/2015, as well as the use of dairy terms. Formal communication with industry via the Regulations and Standards Project of Milk SA to this effect was also continuous, resulting in final comments presented to DAFF: FSQA for consideration with the expectation that new dispensations would be issued early in 2019.

Directorate Animal Health

DSA liaison with the directorate included communication regarding the chemical residue monitoring programme. Further liaison took place on import requirements and the application of the Veterinary Procedural Notice 20, Standards for the registration of a veterinary approved dairy establishment for export.

d. National Regulator for Compulsory Specifications (NRCS): Legal Metrology

Standard procedure provides for a quarterly reporting regarding metrology infringements to the Senior Manager, inspections: Legal Metrology NRCS. One formal complaint was raised with NRCS in the first quarter.

e. Perishable Product Export Control Board (PPECB)

Industry information sessions were held on 16, 18 and 20 April 2018 in Pretoria, Port Elizabeth and Cape Town respectively to ensure effective implementation of the Standard Operating Procedure as agreed between DAFF, industry and PPECB.

The implementation process of the latest PPECB SOP was however halted by the DAFF Executive Officer due to concerns considered unjustified by the Regulations and Standards Project of Milk SA. Since the filing of papers in the High Court by the Woodlands/Milk SA joint application against matters relating to the latest appointment of the assignee, no further developments regarding the PPECB as assignee over dairy export took place until the fourth quarter.

f. South African Bureau of Standards (SABS)

DSA continued to serve on the Technical Committee SABS TC 70/SC 4, Legal Metrology - sale of goods as well as the SABS TC 034 SC 17 Food products – Hygiene practices in the food industry. DSA participated in the balloting of draft standards, as well as providing further comment on drafts namely SANS 10049, SANS 10330, SANS 1678 and 1679 relating to pasteurised and sterilised milk. Outcomes of meetings where applicable were communicated to the Regulations and Standards Project of Milk SA.

g. Milk SA, MPO and SAMPRO

DSA attended the Milk SA Advisory Committee meetings on which it serves and also interacted on a regular basis with the project managers of the Milk SA Consumer Education Project and SAMPRO Training. Additional work took place as registered Milk SA projects and are reported on under the following project headings:

Investigation into the establishment of infrastructure regarding supply of standardized standards used for the calibration of laboratory equipment in the local dairy industry

Liaison with industry members continued regarding the Milk SA project relating to the standardization of standards for calibration of laboratory equipment resulting in the following progress:

- Initial start-up capital was received from Milk SA end September 2018 which allowed DSA to continue with the development of the independent laboratory facility.
- Since end September 2018 extensive work has been done with the establishment of the laboratory facility, equipment as well as appointment of a competent laboratory manager to produce national standards (initially for fat, protein, lactose and total solids of raw milk), also to take control of the import of standards for MUN and SSC's and to facilitate the order and distribution of standards.
- From surveys conducted and individual information obtained, consensus on the import of MUN has been reached. The remaining concern is the standardization on the use of one SSC standard, and the impact of such standard once decided, amongst others on statistical data used in herd health management.
- A decision regarding the import of SSC standards has to be based on a scientific approach, considering what is collectively in the best interest of the organised dairy industry. To this effect discussions have been furthered with expertise to assist in terms of the way forward and a scheduled meeting is to take place in the first quarter of 2019 to finalise matters.

Special investigation into food fraud: adulteration of local and imported milk and other dairy products

The outsourcing of the development and establishment of appropriate test methods with specific reference to milk powders and UHT milk was done in the last quarter of 2018 and the work is to continue in 2019.



Dairy Lab

Regulations and Standards Project of Milk SA

- DSA as project manager of the Milk SA Regulations and Standards Project, consulted regularly with the organised dairy industry via the project regarding regulatory matters with specific reference to the appointment of the DAFF Assignee.
- The management committee of the project interacted through electronic correspondence to the members of the Advisory Committee on a regular basis. Where applicable, outcomes of correspondence were forwarded to the organised dairy industry on an informative basis or requesting comments on regulations and standards.
- Priority was given to the preparation of the court case against the Minister of the Department of Agriculture, Forestry and Fisheries, the DAFF Executive Officer and the appointed Assignee. Additional matters included regular interaction and meeting between the Management Committees of the Regulations and Standards and Customs Duty and Market Access Advisory Committees.
- CGCSA: FSI
- DSA, as member of the Food Safety Initiative (FSI) interacted on a regular basis with management regarding sharing of regulatory information. Matters related to regulations under the Foodstuffs, Cosmetics and Disinfectants Act, Agricultural product Standards Act and the DAFF appointed Assignee.
- International Dairy Federation (IDF)
- DSA MD is a member of SANCIDF and of the IDF Standing Committee: Standards of Identity and Labeling and provided inputs to SANCIDF electronically.

- SA National Consumer Union (SANCU)
- DSA attended relevant meetings of SA National Consumer Union regarding dairy food safety and quality related issues.
- SA Society of Dairy Technology (SASDT)
- The MD served on the management of the Northern branch of the SASDT. DSA attended Northern as well as Western Cape meetings and exhibited and presented at the SASDT National Symposium in 2018.
- Tertiary institutions – DSA served as a member of the Advisory Boards of the Departments of Environmental Health of the Tshwane University of Technology as well as Nelson Mandela Metropolitan University. The purpose of the advisory boards is to give industry inputs and assist the universities with the development of course material for Environmental Health Practitioners.

PROJECT 7: Liaison on legislation with authorities

Although a blended role of activities exists, it is important to note that the work of the Regulations and Standards project of Milk SA is not a duplication of this DSA project. The fundamental difference of Project 7 relates to the relationship and involvement of DSA as self-regulatory initiative with government structures and execution of the law. The Regulations and Standards Project of Milk SA relates to participation in the formalisation of draft regulations and standards and comments on regulatory matters, as well as communication through Milk SA in the interest of the dairy industry and other stakeholders.

DSA continued liaison with the authorities regarding the following legislation and standards:

Department of Health: Directorate Food Control - Foodstuffs, Cosmetics and Disinfectants Act, 1972 (Act 54 of 1972):

New draft Regulations on Hygiene Requirements for Food Premises and the Transport of Food, Listeriosis outbreaks and Codex General Standards for Food Additives.

Department of Agriculture, Forestry and Fisheries - Agricultural Product Standards Act, 1990 (Act 119 of 1990)

- Regulations relating to the classification, packing and marking of dairy products and imitation dairy products intended for sale in RSA (R260/2015) and dispensations.
- DAFF appointed assignee i.t.o. the APS Act.
- PPECB as assignee in terms of the Regulations regarding control of the export of animal products, R422 of 22 May 2015.

Non-compulsory South African National Standards – SABS

- SANS 10049: 2012 – Edition 4, Food safety management - Requirements for prerequisite programs (PRPS).
- SANS 10330: Food safety - Requirements for a Hazard Analysis and Critical Control Point (HACCP) system.
- SANS 1678 and 1679 - Pasteurised and Sterilised Milk.

Compulsory South African National Standards – SABS

- SANS 289 ED 1.6: Labeling requirements for pre-packaged products (pre-packages) and general requirements for the sale of goods subject to legal metrology control.
- Adoption of ISO standards referred to in the R260/2015 Regulations relating to the classification, packing and marking of dairy products and imitation dairy products intended for sale in the Republic of South Africa, R260 of 2015 under the Agricultural Product Standards Act, 1990 (Act 119 of 1990) as SA National Standards by the SABS.

Codex Alimentarius and ISO

- ISO/TS 22002-3:2011 - Prerequisite programs on food safety - Part 3: Farming
- ISO/TS 22002-6:2016 - Prerequisite programs on food safety - Part 6: Feed and animal food production.

DSA Technical Committee

- The technical workgroup committee activities in 2018 were mainly relayed to the Milk SA projects relating to the investigation into the establishment of infrastructure regarding supply of standardised standards used for the calibration of laboratory equipment in the local dairy industry and special investigation into food fraud: adulteration of local and imported milk and other dairy products.

PROJECT 8: Information and education project

DSA presented information sessions based on the DSA Code of Practice and related guideline materials to professional EHPs as well as two hundred and twenty-two Environmental Health Practitioners, on a national level, at the respective tertiary institutions. These information sessions are also available to other professions and government/municipal officials, milk producers, processors and distributors that require information regarding food safety and quality standards on a national level.

Date	University	Amount of students attending
30 and 31 Aug 2017	CPUT	23 students
24 May 2017	DUT	12 students
25 May 2017	MUT	33 students
2 and 9 June 2017	UJ	42 students
4 and 11 Sept 2017	TUT	59 students
17 August 2017	CUT	42 students
21 Sept 2017	NMU	11 students

Two information sessions were held at the University of Pretoria main campus and Onderstepoort to 3rd and 4th year students respectively.

One workshop was held with professional Environmental Health Practitioners of the Thabo Mofutsanyane DM and two presentations were delivered at the National Institute for Environmental Health in Cape Town and Port Elizabeth.

PROJECT 9: Media communication

DSA signed contractual agreements with Veeplaas and Agri Connect. Project work resulted in twelve advertisements, five advertorials, three talks on national radio stations, two Milk SA Essay booklet publications and one television broadcast.

PROJECT 10: Development of guideline documentation

Revision work of the following guidelines was initiated in 2017 completed and published in 2018:

- DSA Retail Bulk Milk Guidelines;
- DSA Guidelines for the interpretation of quality problems in milk.

The DSA Code of Practice of the Secondary Industry was on more than one occasion delayed due to amendment in legislation and voluntary standards and publication is now expected in 2019.

Regulations and Standards Project of Milk SA

DSA as project manager of the Milk SA Regulations and Standards Project consulted regularly with the organised dairy industry via the Regulations and Standards Project of Milk SA regarding regulatory matters with specific reference to the appointment of the DAFF Assignee. The management committee of the project continuously interacted with electronic correspondence to the members of the Advisory Committee on a regular basis. Where applicable, outcomes of correspondence were forwarded to the organised dairy industry on an informative basis or requesting comments on regulations and standards. Priority was given to the preparation of the court case against the Minister of the Department of Agriculture, Forestry and Fisheries, the DAFF Executive Officer and the appointed Assignee. Additional matters include regular interaction and meetings between the Management Committees of the Regulations and Standards and Customs Duty and Market Access Advisory Committees.





7.8 Project title: Consumer Education Project of Milk SA

Responsible institution: SA Milk Processors' Organisation

Project Manager: Christine Leighton

Television and social media

The target audience for television and social media is teenagers and the Dairy Gives You Go platform is used for the communication activities of this campaign.

- Strategic planning meetings were held during the first quarter regarding the target audience, messaging and communication channels for 2018.
- Three TV bursts in 2018.
- Facebook and Instagram are used for social media.
- The 'dairy go team' campaign ran in January and February 2018. The body builder, skateboarder and hockey player videos were posted on Facebook in the first quarter.
- The "Unzombify yourself" campaign, aimed at teenagers under pressure due to year-end exams, ran in the fourth quarter of 2018.
- The new television advertisement and social media campaign were planned including budget allocation to the different elements and approval of the story board.

- The new television advertisement and social media campaign was produced and final editing of the new television advertisement and the social media campaign was completed by December 2018.
- Tasty treats: During 2018, eight different Tasty Treat videos were posted on the Dairy Gives You Go Facebook Page.

Consumer Print

The target audience for the Consumer Print Campaign is mothers with children in LSM 7-9.

Promotional articles are written for consumer publications and aim to expand on the key dairy nutrition and health messages by engaging with consumers in a creative and educational manner. In 2018, eleven advertorials were published in seven different publications.

Trade publications

Trade publications such as *The Dairy Mail*, *Farm Link*, *Food and Beverage Reporter* and *Milk Essay* are



considered as vehicles to communicate with the dairy industry and the food industry. Informative articles on the Project and other relevant topics are published. The Project published six advertorials in *The Dairy Mail* and two in *Milk Essay*.

Media liaison

The essence of the activity is to make information on the nutrition and health benefits of dairy available to journalists, who then communicate the information to the target markets, as it serves the own interest of the reporter and media. Relevant information on dairy published in the media is monitored by an independent firm who specializes in such work namely, Newsclip. Updates are received daily in electronic format. In 2018, articles and other communication with an estimated value of R 8 735 539 were identified in consumer and health professional print; regional and trade press; online coverage, TV and radio.

School Curriculum Programme

The School Curriculum Programme is aimed at Grades 1-7. It consists of two main themes i.e.

- 'From farm to fridge': Grades R to 3.
- 'A guide to healthy eating': Grades 5 and 6 (Grades 4 and 7 are not included as dairy does not feature in their curriculum). Each theme consists of a Teacher's guide, class posters, a factsheet and worksheets on each topic. All posters and worksheets are available in English and Afrikaans. The School Programme's learning material is available on the website i.e. www.dairykids.co.za.
- The existing School Curriculum Programme's teacher's guides were rewritten and condensed for Grades 1-3 and Grades 5 and 6, in order to update the information, make the guide more user friendly and reduce the cost to reproduce the teacher's guides in future.
- During 2018, the English teacher's guides for the Foundation and Intermediate phases were completed and copies were printed in order to distribute during World School Milk Day in September 2018. (refer paragraph 7 below).
- The Afrikaans version of the Grades R to 3 and Grades 5 and 6 has been completed, designed and is ready for print during the first quarter of 2019.

World School Milk Day (WSMD) took place from 4 – 26 September 2018.

World School Milk Day took place from 4 – 26 September 2018. The Project worked closely with the National School Nutrition Programme of the DBE/NSNP and the MPO.

The Project developed the WSMD messages and developed the competitions for Grades R, 2, 3 and 4 to 7, which were distributed by the CEP in accordance with the list of schools provided by the DBE/NSNP.

All educational material, including the new school programme, competitions and factsheets were provided by the CEP to the 13 schools participating in WSMD in September 2018.

An infographic was developed that carried the messages for WSMD i.e. heat-treated milk. The MPO arranged for milk to be distributed to the learners during WSMD celebrations.

The main events were held in Humansdorp and Robertson on 26 September 2018. The Project Coordinator and the dietitian of the Project participated in the events respectively.

National Nutrition week

NNW took place from 8 to 13 October. The theme was: Breakfast: The best way to start your day. The Project participated in the development of the communication material. The Department of Health (DOH) contracted a public relations company to develop the logo, update the website; distribute press releases and coordinate media interviews. Seventeen radio interviews were conducted and two television interviews.

The 'rediscoverdairy' logo appeared on all communication material.

Communication with dietitians:

Continuing Nutrition Education on the 'rediscoverdairy' website:

A new menu item was introduced in 2017 on the www.rediscoverdairy.co.za website for dietitians.



have been developed for dietitians to earn 20 CPD points. This was posted on the 'rediscoverdairy' website in March 2018.

- There are currently 452 dietitians registered on the www.rediscoverydairy.co.za website.
- Since April 2018, 565 articles have been completed by dietitians and certificates issued to each dietitian.

Responsible dairy farming masterclass

The Project organized a Masterclass for Dietitians in the Gauteng region. Twelve dietitians signed up for the Masterclass which consisted of the following:

- Presentation by Dr Tuschka Reynders on Plant Based Beverages
- Presentation by Mr Nigel Lok on Responsible dairy farming
- A field trip which included visits to two dairy plants
 - Robotic Farm – Job Legemaat
 - Belnori, goat farm – Rina Belcher

Health professional print campaign: Scientific reviews and advertorials

Scientific advertorials are written on new topics regarding nutrition, health and dairy. These are aimed at health professionals and are published in publications read by this target audience. Each advertorial is accompanied by a nutrition review article which is a more comprehensive technical document outlining the scientific justification of the advertorial.

During 2018, four new Nutrition Reviews were developed, and five scientific advertorials were published.

Association for Dietetics in South Africa (ADSA)

As part of the Health Professional print campaign, the Project creates awareness on the ADSA (www.adsa.org.za) website, especially to inform dietitians of the new information that appears on the 'rediscoverdairy' website and any new scientific information of dairy health and nutrition. The CEP also presents at the

The CPD activity provides the Project with an opportunity to communicate directly with one of the health professional target markets i.e. dietitians. Continuing Education Units is the term used to refer to the number of units that dietitians can obtain and falls under the umbrella of the CPD element of the CEP.

- Dietitians have to register on the website and then have access to peer reviewed articles.
- A second set of 11 CNE articles for 2018 was identified and accredited. These articles focus on dairy health and nutrition, and relevant questions

ADSA regional meetings. Three communication activities were published on the ADSA platform.

The Dairy Based Nutrition

The Dairy Based Nutrition (DBN) booklet that encompasses all the Nutrition Reviews were updated by the Technical Advisory Committee in 2018. Twenty four reviews' references were updated and the latest research articles included. The DBN booklet will not be available as a hard copy but only electronically in 2019.

Wellness Activity

The Wellness Activity consists of training of nutrition advisors and health promoters.

- Awuzwe, the black empowered company that works with CEP on the Wellness Project, liaised with the Department of Health's (DOH) district managers of Limpopo, North West and Eastern Cape in order to secure dates for training sessions for 2018.
- A fact sheet was developed on the food-based dietary guidelines for DOH's Health Promoters. This is distributed at training events.
- Two new banners were developed and produced for use at training events. These banners carry the message of 'Have milk, maas or yoghurt every day'.
- A total of 975 health promoters were trained in 2018. A total of 2 932 health promoters have been trained since 2014, when the programme was started.

'Rediscoverdairy' newsletter:

The purpose of the Rediscover dairy newsletter is to remind the industry about the CEP; highlight new products or messages and give a health message. It is distributed to members of SAMPRO, MPO, Milk SA and the data base of the CEP including people that attended the CEP seminars and health professionals.

The purpose is to inform recipients of the highlights in terms of health and nutrition, as communicated by the CEP. Two newsletters were developed in 2018 and distributed through Mailchimp, an online communication platform; the pdf version of the newsletter was distributed by Milk SA and MPO to their members. The SAMPRO members are included

The on-line dairy tool: 'Do the dairy diary' and 'Ask Dairy'

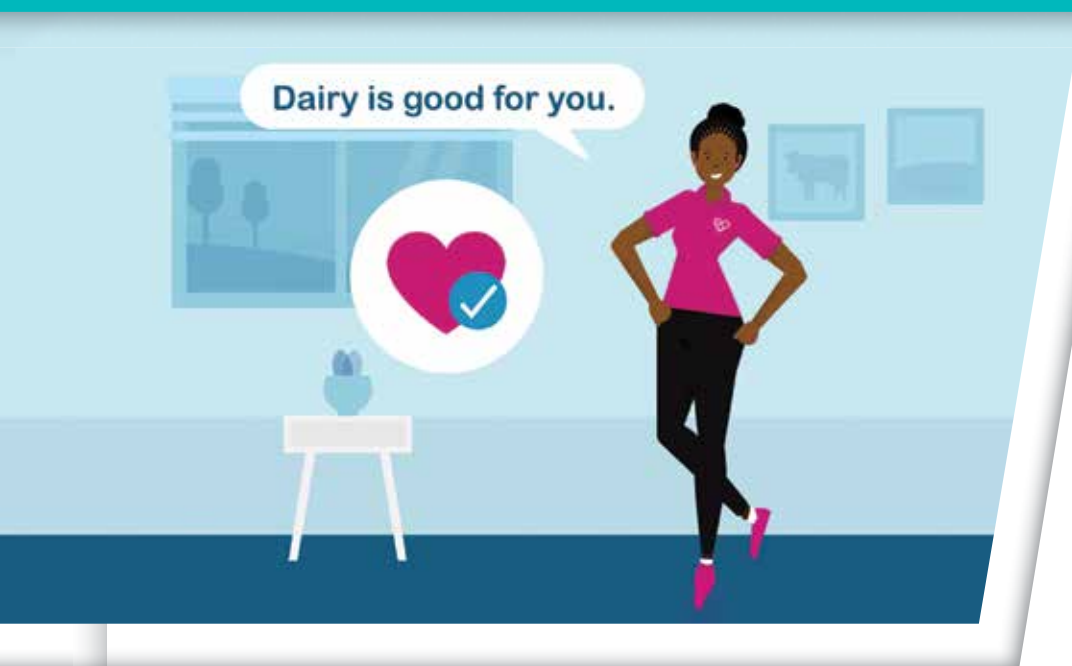
- The new online tool of the Consumer Education Project of Milk SA has all dairy-related information in an easy to access electronic format. It went live on-line in May 2018. The tool can be accessed on www.dairygivesyougo.co.za and by clicking on the menu item: Ask Dairy.
- Navigating almost like an application on your phone, the tool is easily accessible and user friendly. A simple question-and-answer format offers useful dairy-related information in brief bursts. Almost 100 entries cover questions across six categories. Consumers who want to know more after reading the brief answers are directed to the www.rediscoverdairy.co.za website.
- In addition to the question-and-answer section, the tool includes a consumer survey called 'Do the Dairy Diary'. Here consumers can assess their daily dairy intake by answering brief questions about their consumption of milk, maas, yoghurt and cheese.
- Since the launch, the Dairy Diary was viewed 610 times and the Ask Dairy section was viewed 465 times.
- A 'search function' has been added to this section of the website in order to improve navigation.

World Milk Day was celebrated on 1 June 2018.

World Milk Day was held on 1 June 2018.

The Project celebrated WMD by:

- Developing a press release which was distributed to local and national short lead publications.
- Published an infographic in Nursing Practice and The Dairy Mail.
- Developed a WMD banner for the www.rediscoverdairy.co.za website.
- Participated in three radio interviews
- Television interview on Grootplaas programme
- The Project participated in an event at a local Cross Fit gym that was organized by the MPO. Educational material was distributed at the event on the role of dairy and sport.
- A social media campaign included three posts on the Dairy Gives You Go Facebook post under the slogan "Raise a glass".



- On 1 June 2018, a competition was introduced on Facebook where the best post won a hamper of dairy products for a chocolate smoothie. No budget was used to promote the posts.
 - 58 197 people were reached on Facebook: 488 Reactions; 3 shares.

International Dairy Federation (IDF)

International Milk Promotion group

The IMP-midyear meetings were held in the United Kingdom in The City of Bath, on 19 to 21 June 2018:

- The Project Coordinator is the Chair of the IMP group and during this period extensive time was spent on planning the agenda and external speakers for the meeting.
- A presentation on "health professional communication in SA" was presented by the Project Coordinator.

Standing Committee of Nutrition and Health

The dietitian of the Project was part of the teleconference held by the SCNH and is actively involved in action teams for:

- Dairy and sustainability
- Dairy alternatives

Mid-year meetings were held in Netherlands/ Utrecht.

The dietitian of the Project participated in the mid-year meeting of the SCNH and the Utrecht Research Group Meetings from 11 to 18 May 2018. The CEP's Clinic Wellness Project was presented at the meeting.

International Dairy Federation, World Dairy Summit

The Project coordinator and the dietitian of the Project participated in the IDF World Dairy Summit in Daejeon, South Korea, in October 2018.

Attending the IDF-WDS included participation in the Standing Committee business meetings and task force meetings as set out in the 2018 Annual Report. This includes the Standing Committee of Marketing and the Standing Committee on Health and Nutrition and related task force teams.

The CEP participated in a global social media campaign initiated jointly by the Global Dairy Platform and the International Milk Promotion group i.e. #Enjoydairy. This campaign ran for one week in November and 18 countries participated. The results will be shared at the next IMP/GDP mid-year meetings in 2019.

Dairy Industry Seminars

The dairy industry seminars were held in four provinces during the third quarter. The purpose of the seminars was to reach out to the dairy industry and share the elements of the Project as well as provide knowledge on dairy health and nutrition in order to equip them with the correct information to become ambassadors of dairy. The seminars were attended by 84 people over 4 regions.

The topics for the Dairy Day Seminar were:

- Protecting the integrity of dairy
- Communicating with your dairy audience
- Ask Dairy online
- Dairy is more than the sum of nutrients

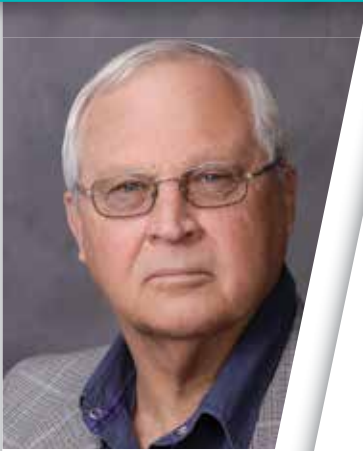
- Milking your beverages for what they are worth
- Sustainable diets – a complex challenge

Industry related meetings

The Project participated in a technical workgroup meeting on 3 October 2018, organized by DSA to discuss labeling of plant-based beverages, in line with R260 and applicable to South Africa.

The Project participated in the meeting by the Coordinating committee of the DSA, CEP and Milk SA research.





7.9 Project title: Co-ordination, support and promotion of needs-driven R & D in the South African Dairy Industry

Programme Manager: Dr Heinz Meissner

GOAL 1: To limit research fragmentation and promote and initiate cooperation between R&D capacities towards achieving the strategic direction of the industry

To align with the IDF's general theme of 'Sustainability' and to supplement the limited levy funds, an R & D programme, CLIMATE AND ECO-RESILIENCE OF DAIRY PRODUCTION, was submitted in the first quarter of 2018 to the Green Climate Fund (GCF). The outcome is expected at the end of February 2019. A similar programme, but which included risk, was also submitted

to the SASSCAL fund of the NRF, but feedback in November showed that this was not successful. To support the Genetics and Performance Improvement Programme, a submission was made to the RTF on 28 November, the title being: A GENOMICS APPROACH FOR IMPROVEMENT OF WELFARE TRAITS IN DAIRY CATTLE. To limit fragmentation and promote cooperation between R & D capacities, all programmes are comprehensive and will include international as well as local expertise and capacities across the country.

GOAL 2: To guide the R&D programme by means of effective structural arrangements, administration and fund sourcing

The funds applied for at the GCF, amounted to \$1.05 million (about R15 million) per year and those applied for at the RTF fund to R570 000 for 2019, thus giving ample scope to do what is necessary to service the goal of maintaining/improving competitiveness and sustainability.

The structure to manage the R & D programme consists of the MANCOM, the DRDC and the DRF. It was decided that the number of Meetings will be reduced in 2019. Apart from savings, the need for the number of Meetings was deemed unnecessary as the MANCOM and the regular Meetings of the author with Dr van Dijk can deal with most issues. Thus, the DRDC Meetings were reduced from four to two and the DRF Meetings from two to one as from 2019. The MANCOM Meetings will remain four per year.



Dr. Jan van Wyk (middle) from UP with Dr. Johannes Charlier (right) from Belgium, studying liver fluke in the Eastern Cape.

The recovery of unspent project funds from the previous levy cycle by research institutions, as discussed in the third quarter report, has been resolved, which implies that the research can now continue and the required funds allocated.

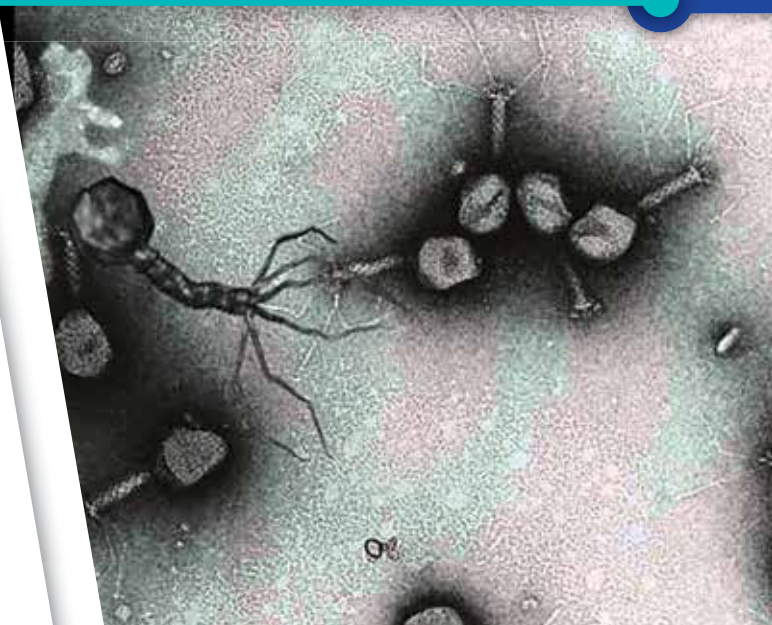
GOAL 3: To accumulate and publish existing domestic and international scientific knowledge of applicable and practical value to enhance the industry

THE RESEARCH COLUMN and DAIRY R & D IN SA: The target of respectively scientific articles sourced from the international literature and SA scientific articles to be entered on the website is two per month, i.e. 24 per year. The target was met. Some of the articles were also published in The Dairy Mail under the regular Research Column of the author.

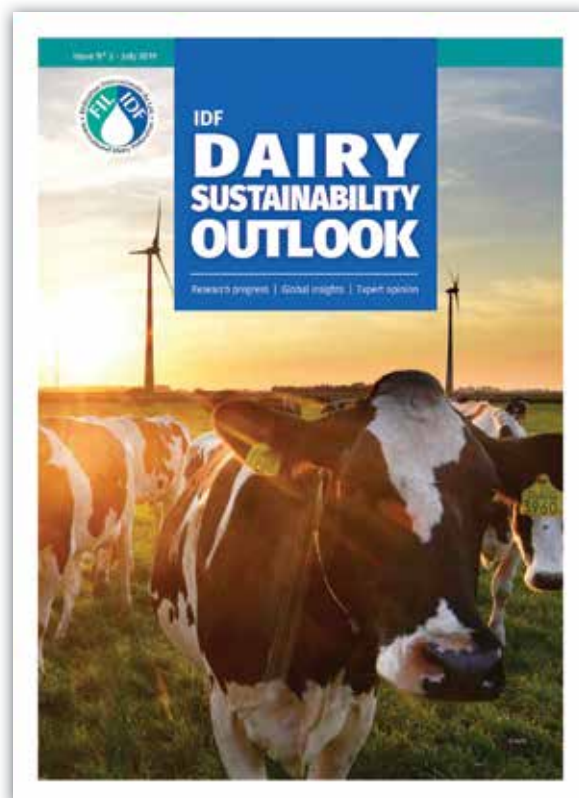
GOAL 4: To advise and assist with national and international managerial, strategic and position publications on any matters which may support the strategic direction of the industry

It was initially planned to build capacity in Helminthology at the UP Veterinary Faculty, with specific emphasis on parasite resistance. For several reasons, the parasite resistance problem will now be driven from RuVASA as a NAHF initiative and will include R & D, extension, training etc and involve the livestock commodities.

To support and communicate the strategic direction of the industry and provide input to government and other initiatives, the author amongst others attended the WCARF Meeting, the GCRP-AfriCap workshop of the DLARD and the Climate Change Workshop of the DAFF. The author also commented on the Draft Carbon Tax Bill and is involved with a project to allocate a monetary value to conservation farming and soil health.



Bacteriophage therapy as an alternative to antibiotics.





Danie du Plessis

Chairman of the
Audit and Risk
Committee

Audit and Risk Committee Report

1. Composition

- 1.1 The Audit and Risk Committee is appointed by the Board of Directors and comprises:
- One independent person with expertise, nominated by the MPO.
 - One independent person with expertise, nominated by SAMPRO.
 - One independent person with expertise, who shall be the Chairperson.

- 1.2 During 2018 the committee consisted of the following persons:

Du Plessis, DH	Independent chairman	Whole year
Du Plessis, HJ	SAMPRO	Up to 30 September 2018
Strydom, J	MPO	Up to 30 September 2018
Fürstenburg, DF (Prof)	SAMPRO	From 1 October 2018
Scheepers, JFJ	MPO	From 1 October 2018

The alternate members were the following:

Gush, O	SAMPRO	Whole year
Hartman, W	MPO	Whole year

2. Terms of office

- 2.1 A committee member is appointed for a term of three years.
- 2.2 After completion of a three-year term, the committee member is eligible for re-appointment.
- 2.3 The three-year terms of the members nominated by the MPO and SAMPRO overlap with one year.
- 2.4 When a committee member resigns or moves out of the position for any other reason before the expiry of the fixed three-year term of office, his/her replacing member is appointed for the remaining period of the three-year term of office.
- 2.5 The maximum period for which a committee member may serve is three terms.

Audit and Risk Committee

Kobus Scheepers,
Philip Potgieter
(Internal Auditor),
Prof. Don Fürstenburg
and Danie du Plessis.



2.6 During 2018 the positions were occupied as follows:

Position and committee member	Fixed three years for the term in respect of the member's position.	Period served by the committee member during the 2018 financial year as well as an indication of the term for which the member served.
Independent Chairman (DH du Plessis)	1 February 2016 to 31 January 2019	1 January to 31 December 2018 (First term)
MPO nominated (J Strydom)	1 July 2017 to 30 June 2020	1 January to 30 September 2018 * (Second term)
MPO nominated (JFJ Scheepers)	1 October 2018 to 30 September 2021	1 October 2018 to 31 December 2018 (First term)
SAMPRO nominated (HJ du Plessis)	1 July 2018 to 30 June 2021	1 January to 30 September 2018 * (Third term)
SAMPRO nominated (Prof DF Fürstenburg)	1 October 2018 to 30 September 2021	1 October 2018 to 31 December 2018 (First term)

* Committee restructured due to Board decision, that members must not have a commercial interest in the dairy industry

3. Meetings

- 3.1 Meetings of the Audit and Risk Committee were held on the following dates during 2018:
 - 14 March 2018
 - 9 May 2018
 - 6 November 2018
- 3.2 The members attended all the meetings in person, except for Mr J Strydom who did not attend the meeting held on 9 May 2018. The CEO also attended all the meetings.
- 3.3 The internal auditor, Mr PR Potgieter from HP Audit, attended the meeting held on 6 November 2018.

4. Responsibility of the Audit and Risk Committee

The Audit and Risk Committee reports that:

- 4.1 Appropriate and formal terms of reference were adopted as charter;
- 4.2 The affairs of the committee were regulated in compliance with the charter; and
- 4.3 That all its responsibilities were discharged accordingly.

5. Activities

The following aspects were addressed by the committee:

- 5.1 Terms of reference of the Audit & Risk Committee
- 5.2 Differentiation of tasks of the Audit & Risk Committee and Executive Committee
- 5.3 Financial management accounts
- 5.4 Annual financial statements
- 5.5 Risk management framework and risk register
- 5.6 Appointment of a firm to provide internal audit services
- 5.7 Internal audit charter
- 5.8 Perusal of internal audit reports
- 5.9 Inspection report procedures
- 5.10 External audit planning, audit opinion and management report
- 5.11 Cash flow forecasts
- 5.12 Levy debtor reports
- 5.13 Assessment of the completeness and accuracy of the draft report to the Board on the information regarding two role-players, in reaction to a report dated 9 March 2018, from Mr Wicus van der Merwe (previous Internal Auditor and Inspector)
- 5.14 Budget
- 5.15 Interviews with External Auditor and Chief Executive Officer

The finding of the Committee was that the independence of neither the external nor the internal audit firms (Fourie & Botha and HP Audit) were under suspicion.

6. Tasks undertaken by the chairman

- 6.1 Studied the Statutory notices 1218, 1219, 1220 of 20 December 2013 & 1396, 1397 and 1398 of 15 December 2017
- 6.2 Studied the Terms of Reference of Audit & Risk Committee
- 6.3 Studied the applicable sections of Companies Act
- 6.4 Perusal of and feedback on monthly financial management accounts
- 6.5 Perusal of and feedback on the monthly cash flow forecast
- 6.6 Perusal of and feedback on the annual financial statements
- 6.7 Perusal of the minutes of the General meetings
- 6.8 Perusal of the minutes of the Board meetings
- 6.9 Perusal of internal auditor's reports
- 6.10 Perusal of external audit reports
- 6.11 Compilation in liaison with CEO, of a report to the Board on the information on two role-players, in reaction to a report dated 9 March 2018, from Mr Wicus van der Merwe (previous Internal Auditor and Inspector)
- 6.12 Attendance of a meeting with the representatives of the Board and NAMC
- 6.13 Discussions with the CEO on 5/3/2018, 30/10/2018, 22/11/2018
- 6.14 Meeting with the Executive Committee on 19/3/2018
- 6.15 Discussions with the internal auditors (HP Audit) on 7/5/2018, 18/6/2018, 6/8/2018, 8/10/2018

- 6.16 Meetings with CEO and accountants (PwC) regarding financial reporting on 13/3/2018, 18/4/2018, 7/8/2018, 13/8/2018, 27/8/2018, 15/10/2018
- 6.17 Meeting with the external auditors (Fourie & Botha) on 16/4/2018
- 6.18 Attended Board meetings on 28/3/2018, 13/6/2018, 28/11/2018
- 6.19 Attended Annual General Meetings on 14/6/2018 and 29/11/2018
- 6.20 Accounting and tax treatment of directors' remuneration
- 6.21 Implementation of increase in VAT rate
- 6.22 Reserve accounting
- 6.23 Comments on legal advice regarding the composition of the Audit & Risk Committee
- 6.24 Format of debtors' monthly statements
- 6.25 Assisted with the development of a risk management framework risk register
- 6.26 Assisted with the improvement of the monthly cash flow forecast reports
- 6.27 Assisted with the reconciliation of financial reports of certain projects
- 6.28 Revision of the terms of reference of the Audit & Risk Committee
- 6.29 Assisted with the development of a leave record model

7. Role of the Audit and Risk Committee

The primary role of the Committee is to assist the Board in meeting its obligations in terms of:

- 7.1 Safeguarding the assets of the company
The Committee is satisfied that the assets of the company are adequately safeguarded.
- 7.2 Keeping sufficient accounting records
The firm PricewaterhouseCoopers Incorporated was contracted to perform this function.
- 7.3 Developing and maintaining an effective internal control system
 - The control system was designed to ensure that assets are safeguarded cost effectively and that liabilities and working capital are efficiently managed.
 - The Audit and Risk Committee is of the opinion that the internal controls are appropriate and cost effective.
- 7.4 Developing and maintaining an effective risk management system
 - Evaluates the risk management process and makes recommendations to the Board regarding the process.
 - Considers the Risk Register and the Risk Management Reports of the Executive Committee and provides input to the Executive Committee as it deems fit.

8. Evaluation of Annual Financial Statements

The Audit and Risk Committee has reviewed, discussed and recommended the Annual Financial Statements to be included in the annual report.

Signed in Pretoria on 10 May 2019 on behalf of the Audit and Risk Committee.



DH du Plessis CA(SA)



Annual Financial Statements

for the year ended 31 December 2018

General Information

Country of incorporation and domicile

Republic of South Africa

Nature of business and principal activities

Milk SA is a non-profit company with the vision to promote a healthy South African dairy community and the mission to promote the image and consumption of South African dairy products amongst consumers and to develop the dairy industry through the rendering of value-added services to industry participants, consumers and broader South African population.

In terms of the Marketing of Agricultural Products Act, No 47 of 1996 as amended ("MAP Act"), Milk SA was appointed by the Minister of Agriculture, Forestry and Fisheries to implement, enforce and administrate statutory measures in pursuit of the company's strategic direction to broaden the market for milk and other dairy products, improve the international competitiveness of the South African dairy industry and to empower black participants in the industry.

Current directors

Adams PH Ms | Gebeda ZM Mr | Grobler FA Mr
Jack-Pama BS Dr (Chairman) | Kraamwinkel AP Mr
Kuyler GF Mr (Vice-Chairman) | Loubser MJ Mr | Lubbe H Mr
Prinsloo AW Mr | Rathogwa MG Mr | Van Dijk CJ Dr

Alternate directors

Gutsche AR Mr | Wellbeloved CE Mr

Members Milk Producers' Organisation NPC

SA Milk Processors' Organisation

Auditors

Fourie & Botha Registered Auditors
(Auditors i.t.o. the Companies Act)

Secretary

Fouché N Mr

Company registration number

2002/032020/08

Level of assurance

These annual financial statements have been audited in compliance with International Standards on Auditing

Preparer

The annual financial statements were independently compiled by:

- Claassens L Mrs CA (SA)
- PricewaterhouseCoopers Inc ("PwC")

Index

The reports and statements set out below comprise the annual financial statements presented to the members:

• Directors' Responsibilities and Approval	66
• Independent Auditor's Report	67
• Directors' Report	69
• Statement of Financial Position	71
• Statement of Comprehensive Income	71
• Statement of Changes in Equity	72
• Statement of Cash Flows	73
• Accounting Policies	74
• Notes to the Annual Financial Statements	77

The following supplementary information does not form part of the annual financial statements and is unaudited:

• Detailed Income Statement	84
• Operating Expenses	85
• Research and Development Reserve Fund - Analysis of the Movement in Reserve Fund i.t.o. Clause 15(5)(a) of the Marketing of Agricultural Products Act	86
• Promoting Sustainable Commercialization of Existing Black Dairy Enterprises - Analysis of Movement in Reserve Fund - Surplus funds i.t.o. Clause 15(5)(a) of the Marketing of Agricultural Products Act	87
• Promoting Sustainable Commercialization of Existing Black Dairy Enterprises - Analysis of Movement in Commercialization Fund (Jobs Fund and Milk SA Contract)	88
• Enterprise Development	89



Directors' Responsibilities and Approval

The directors are required by the Companies Act 71 of 2008, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with the International Financial Reporting Standard for Small and Medium- sized Entities. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

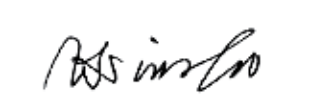
The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 31 December 2019 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 69 to 83 which have been prepared on the going concern basis, were approved by the board of directors on 2019 05 16 and were signed on its behalf by:



Director



Director



Chief Executive Officer

2^{de} Vloer, Kings Highway 476
Lynnwood, Pretoria 0081
Posbus 74960
Lynnwoodrif 0040
Tel: (012) 361 1172/3, 348 8184
Faks: (012) 348 9162
E-Pos: admin1@fouriebotha.co.za

2nd Floor, 476 Kings Highway
Lynnwood, Pretoria 0081
PO Box 74960
Lynnwood Ridge 0040
Tel: (012) 361 1172/3, 348 8184
Fax: (012) 348 9162
E-Mail: admin1@fouriebotha.co.za



Fourie + Botha

Geregistreeerde Ouditeure
Registered Auditors
Geoktrooleerde Rekenmeesters(SA)
Chartered Accountants (SA)

Independent Auditor's Report to the members of Milk South Africa NPC

Qualified Opinion

We have audited the annual financial statements of Milk South Africa NPC as set out on pages 69 to 83 which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes 10 the annual financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion section of our report, the annual financial statements present fairly, in all material respects the financial position of Milk South Africa NPC as at 31 December 2018 and its cash flows for the year then ended, in accordance with the International Financial Reporting Standard for Small and Medium Sized Entities and in the manner required by the Companies Act of South Africa, 71 of 2008.

Basis for Qualified Opinion

The main source of income of the company is the collection of levies in terms of the Marketing of Agricultural Products Act of South Africa. Persons who are compelled to register as levy payers in terms of the statutory measures published under the Act, must do so out of their own accord. The company relies on monthly returns submitted by the levy payers on a self-assessment system. Accordingly we were unable to obtain sufficient audit evidence or perform satisfactory auditing procedures to obtain reasonable assurance as to the completeness of the accounting records relating to levy income collectable.

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under

those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Financial Statements section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditor's Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standard Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other information

The directors are responsible for the other information. The other information comprises the directors' report as required by the Companies Act of South Africa, 71 of 2008, which we obtained prior to the date of this report. Other information does not include the annual financial statements and our auditor's report thereon.

Our opinion on the annual financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on the work we have performed, we conclude that

there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard .

Responsibilities of the directors for the annual financial statements

The directors are responsible for the preparation and fair presentation of the annual financial statements in accordance with the International Financial Reporting Standard for Small- and Medium Sized Entities and the requirements of the Companies Act of South Africa, 71 of 2008, and for such internal controls the directors determine is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the annual financial statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatements, whether due to fraud or errors, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and to obtain audit

evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than from one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in this circumstance, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and balances in a manner that achieves fair presentation.

We communicated with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Fourie + Botha



MA Eastman | Partner
Chartered Accountants (S.A.)
Registered Auditors
16 May 2019

Directors' Report

The directors submit their report for the year ended 31 December 2018.

1. Review of activities

Main business and operations

The company collects levies from role-players in terms of Regulation 1398 of 15 December 2017 in order to finance projects relating to research, the collection and distribution of industry information, the promotion of dairy quality, the education of consumers and transformation (including the promotion of sustainable black dairy enterprises and the development of knowledge and skills).

The operating results and state of affairs of the company are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

The comprehensive surplus for the year was R 5,488,654 (2017: deficit R 8,686,838).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Events after the reporting period

The directors are not aware of any matters or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements that would affect the operations of the company or the results of those operations significantly.

4. Directors

The directors of the company during the year and to the date of this report are as follows:

	Changes
Adams PH Ms	
Gebeda ZM Mr	
Grobler FA Mr	
Jack-Pama BS Dr (Chairman)	
Kraamwinkel AP Mr	
Kuyler GF Mr (Vice-Chairman)	
Loubser MJ Mr	
Lubbe H Mr	Appointed 28 November 2018
Prinsloo AW Mr	
Rathogwa MG Mr	
Van Dijk CJ Dr	
Van Heerden J Mr	Resigned 28 November 2018

The alternate directors of the company are as follows:

Gutsche AR Mr	
Wellbeloved CE Mr	Appointed 26 November 2018

5. Liquidity and solvency

The directors have performed the required liquidity and solvency tests required by the Companies Act, 71 of 2008.

6. Auditors

The company's auditors are Fourie & Botha (Registered Auditors) i.t.o. the Companies Act.

7. Qualified audit opinion

Through the publication of Notices 1396, 1397 and 1398 on 15 December 2017 (“Statutory Measures”), the Minister of Agriculture, Forestry and Fisheries, in terms of the Marketing of Agricultural Products Act, 1996 (Act No. 47 of 1996), entrusted Milk SA NPC (“Milk SA”) with the implementation, administration and enforcement of the statutory measures for the four years ending 31 December 2021. The persons who are subject to these statutory measures are compelled to register with Milk SA, keep certain records, submit information per monthly returns and pay levies at the rates as specified in the measures.

Persons who are compelled to register in terms of the measures, must register as levy payers with Milk SA out of their own accord and the submission of levy returns is based on a self-assessment system, whereby Milk SA uses information supplied by the levy payers.

Although Milk SA’s policies and procedures are aimed at ensuring that all the relevant persons are registered and that they submit accurate returns and pay the correct levy amounts, it is not feasible for the external auditors to extend their audit procedures to obtain reasonable assurance regarding the completeness of the accounting records relating to levy income in addition to the levy income declared to Milk SA, as accounted for in the accounting records, due to the fact that the records of the levy payers are legally inaccessible to them.



Statement of Financial Position

as at 31 December 2018

	Notes	2018 R	2017 R
Assets			
Current Assets			
Trade and other receivables	3	10,039,853	10,614,872
Cash and cash equivalents	4	24,714,803	19,508,112
		34,754,656	30,122,984
Non-Current Assets			
Property, plant and equipment	5	102,875	37,786
Total Assets		34,857,531	30,160,770
Equity and Liabilities			
Liabilities			
Current Liabilities			
Trade and other payables	6	1,264,886	2,056,779
Equity			
Reserves		19,267,122	14,564,516
Retained income		14,325,523	13,539,475
		33,592,645	28,103,991
Total Equity and Liabilities		34,857,531	30,160,770

Statement of Comprehensive Income

	Notes	2018 R	2017 R
Revenue	7	51,914,430	48,725,636
Project expenses	8	(42,596,930)	(52,749,790)
Gross surplus / (deficit)		9,317,500	(4,024,154)
Other income	9	1,383,561	265,956
Operating expenses	10	(5,821,754)	(6,034,923)
Operating surplus / (deficit)		4,879,307	(9,793,121)
Finance income	11	619,472	1,106,283
Finance costs	12	(10,125)	-
Surplus / (deficit) for the year		5,488,654	(8,686,838)
Other comprehensive income		-	-
Total comprehensive surplus / (deficit) for the year		5,488,654	(8,686,838)

Statement of Changes in Equity

	Enterprise Development (2014 - 2017)	Research and Development: Reserve Funds (2006 - 2009)	Commercialization: Joint Milk SA and Jobs Fund (2006 - 2009)	Commercialization: Reserve Funds (2006 - 2013)	Total reserves	Retained income: Levy Funds	Total equity
	R	R	R	R	R	R	R
Balance at 01 January 2017	-	825,670	8,290,418	6,316,026	15,432,114	21,358,715	36,790,829
Changes in equity							
Total comprehensive deficit for the year	-	-	-	-	-	(8,686,838)	(8,686,838)
Transfer between reserves	4,555,126	6,477	-	(6,477)	4,555,126	(4,555,126)	-
Transfer unutilised / (utilisation of) funds	-	(627,879)	(5,213,044)	418,199	(5,422,724)	5,422,724	-
Total changes	4,555,126	(621,402)	(5,213,044)	411,722	(867,598)	(7,819,240)	(8,686,838)
Balance at 01 January 2018	4,555,126	204,268	3,077,374	6,727,748	14,564,516	13,539,475	28,103,991
Changes in equity							
Total comprehensive surplus for the year	-	-	-	-	-	5,488,654	5,488,654
Transfers between reserves	4,943,597	-	-	-	4,943,597	(4,943,597)	-
Transfer unutilised / (utilisation of) funds	48,711	382,337	(1104,286)	432,247	(240,991)	240,991	-
Total changes	4,992,308	382,337	(1104,286)	432,247	4,702,606	786,048	5,488,654
Balance at 31 December 2018	9,547,434	586,605	1,973,088	7,159,995	19,267,122	14,325,523	33,592,645

Statement of Cash Flows

	Notes	2018 R	2017 R
Cash flows from operating activities			
Cash receipts from industry participants and grantors		52,143,471	47,616,582
Cash paid to suppliers and employees		(47,404,477)	(56,644,186)
Cash generated from / (used in) operations	13	4,738,994	(9,027,604)
Finance income	11	619,472	1,106,283
Finance costs	12	(10,125)	-
Net cash generated from / (used in) operating activities		5,348,341	(7,921,321)
Cash flows from investing activities			
Additions to property, plant and equipment	5	(141,650)	(16,303)
Proceeds on disposal of property, plant and equipment		-	5,950
Net cash from investing activities		(141,650)	(10,353)
Net increase / (decrease) in cash and cash equivalents for the year		5,206,691	(7,931,674)
Cash and cash equivalents at the beginning of the year		19,508,112	27,439,786
Cash and cash equivalents at end of the year	4	24,714,803	19,508,112

Accounting Policies

1. Presentation of annual financial statements

The annual financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the Companies Act of South Africa. The annual financial statements have been prepared on the historical cost basis, except for certain financial instruments, and incorporate the principal accounting policies set out below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In the application of the company's accounting policies and preparing the annual financial statements, management is required to make judgements, estimates and assumptions about income, expenses and the carrying amounts of assets and liabilities that are not readily apparent from other sources and that affect the amounts represented in the annual financial statements and related disclosures. The estimates and associated assumptions are based on the historical experience and other factors that are considered to be relevant. Due to the inherent uncertainty in making estimates, actual results reported in future periods may differ from those estimates, judgements and assumptions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

A change in accounting estimates is defined as an adjustment to the carrying amount of an asset or a liability that results from the assessment of the present status of, and expected future benefits and obligations associated with assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Estimates, judgements and assumptions made, relate predominantly to impairment provisions for financial instruments and determining the useful lives, residual values and depreciation methods for fixed assets. Other judgements made relate to classifying financial instruments into their relevant categories and in determination of its fair value for measurement and disclosure purposes.

The following are the significant judgements and key estimation uncertainties that management have made in the process of applying the company's accounting policies:

Impairment of property, plant and equipment

The company assesses its property, plant and equipment stated at cost less accumulated depreciation for impairment at each reporting period date. In determining whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income, the company makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from property, plant and equipment.

Depreciation

The company assesses the useful lives, residual values and depreciation methods of property, plant and equipment at each reporting period date for indicators present that suggest changes from previous estimates.

Impairment of levy debtors

The company assesses its trade and other receivables, more in particular its levy debtors, for impairment at each reporting period date. Significant financial difficulties of levy debtors, probability that a levy debtor will enter bankruptcy or financial reorganisation, and default in payments are all considered to be indicators that the trade receivable is impaired.

1.2 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation on property, plant and equipment are provided for on the straight-line basis in order to write off the cost over their expected useful lives.

Accounting Policies (continued)

The expected useful lives are as follows:

Item	Average useful life
• Furniture and fixtures	6 years
• IT equipment	3 years
• Computer software	2 years

1.3 Financial instruments

Classification

The company classifies financial assets and financial liabilities into the following categories:

- Held-to-maturity investment
- Receivables
- Financial liabilities measured at amortised cost:

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Financial instruments are re-assessed on an annual basis.

Subsequent Measurement

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each balance sheet date the company assesses all financial assets to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the company, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or default of payments are all considered indicators of impairment.

Impairment losses are recognised in the statement of comprehensive income.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the

impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the assets is reduced through the use of an allowance account (provision for doubtful debts), and the amount of the loss is recognised in the statement of comprehensive income within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the operating expenses in the statement of comprehensive income.

Trade and other receivables are classified as receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

These are initially recorded at fair value and subsequently recognised at amortised cost using the effective interest method.

Accounting Policies (continued)

Trade and other payables

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

1.4 Reserves

Clause 15(5)(a) of the Marketing of Agricultural Products Act of 1996 (Act No 47 of 1996) reads: "Any levies collected, administered or kept by any person or body under this Act shall not form part of the assets of that person or body, and any levies remaining in the possession of or under the control of any person or body after that period for which such levies were approved, shall be utilized in a manner determined by the Minister."

The periods for which the levies are approved, are four years each and any levy funds that remained unused after each period constitute "reserve funds". On successful application and approval by the Minister of Agriculture, Forestry and Fisheries, Milk SA must use the surplus (reserve) funds in accordance with the Minister's instructions.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.6 Impairment of non-financial assets

The company assesses at each reporting period date whether there is any indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (or group of assets) in prior years. A reversal of impairment is recognised immediately in profit or loss.

1.7 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

1.8 Revenue

Revenue comprises of levy income payable by role players in terms of the applicable regulations. Revenue is shown net of valued-added tax.

Levy income is recognised in the period that it accrues to Milk SA.

Interest is recognised in the statement of comprehensive income, using the effective interest rate method.

Notes to the Annual Financial Statements

2. Risk Management

The Board is committed to identifying, assessing and managing risks as an integral part of good corporate governance, as in evident from contractual agreements with other parties and from the Terms of Reference of the Executive Committee, Audit & Risk Committee and other Board Committees.

Internal audits are carried out by an external auditing firm which reports to the Audit & Risk Committee. All Milk SA's disciplines and projects are subject to internal audits on a rotational basis, reports of which are considered by the Board of Directors.

Inspectors, designated and authorized by the Minister of Agriculture, Forestry and Fisheries in terms of the Marketing of Agricultural Products Act, 1996 (Act No. 47 of 1996) [MAP Act], verify compliance by levy-paying industry role-players with the compulsory statutory measures are administrated by Milk SA.

The Risk Register which forms part of Milk SA's Risk Policy, was refined in 2018 and the following risk elements are contained therein:

Integrity Risk relates to the incidence of internal/ external theft, dishonest, fraudulent and unethical behaviour, corrupt practices and corporate misconduct. Competitive behaviour risk; risk of conflicting interest and fraud risk resort under Integrity Risk.

Competitive behaviour risk: Agendas, meeting proceedings and general conduct in the company facilitate and promote good governance in respect of independent, objective and non-discriminatory behaviour. Policies and procedures cover any possible risk of competitive advantage that any industry player or group of players may gain over industry competitors.

Risk of conflicting interests: Meeting participants are sensitized to refrain from pursuing own agendas in competition with, or to the detriment of, Milk SA and / or its operations, and to declare conflicting interests.

Fraud risk: The risk of fraudulent activities is minimized by i) policies and procedures, ii) the separation of duties in the financial chain of activities, iii) responsibilities of

the relevant structures within Milk SA, iv) internal audits and v) inspections to verify compliance with the statutory measures.

Financial, Business and Market risk refers respectively to i) the chance that a business's cash flows are not enough to pay creditors and fulfil other financial responsibilities; ii) the chance that a business's cash flows are not enough to cover its operating expenses; and the possibility for an investor to experience losses due to factors that affect the overall performance of the financial markets .

Milk SA manages liquidity risk on the basis of expected maturity dates, through an ongoing review of future commitments and credit facilities. Cash flow forecasts and financial management statements are prepared on a monthly basis. Financial assets are managed in such a way that they are readily available to meet liquidity needs.

Milk SA's financial liabilities are limited to its contractual obligations for projects, the administration of Milk SA and refunds to levy-paying role-players due to *bona fide* errors in the monthly statutory return calculations, subject to verification by the Inspector.

Surplus cash is invested with reputable banking institutions as approved by the Board, in instruments that earn competitive interest rates.

Trade receivables comprise a widespread base of levy-paying industry participants and the debt risks of these participants are evaluated monthly. Credit risk consists mainly of cash deposits and trade debtors. The company only deposits cash with major banks (as approved by the Board) with high-quality credit standing. Milk SA's communication policy plays a huge role in strengthening confidence in the integrity and achievements of the company amongst all role-players concerned.

Milk SA has no material foreign currency exposure. In 2018, foreign currency exposure was limited to some R1.1 million because of membership fees to the International Farm Comparison Network and the International Dairy Federation, as well as the attendance of international conferences by industry members.

Notes to the Annual Financial Statements

Production risk is the risk of not achieving budgetary and operational goals of Milk SA due to external factors that may influence the income base and actual income of the company.

Milk SA is to a large extent exposed to production risk due to the unpredictable nature of the weather, pests and diseases, competitive markets for inputs and outputs and unfavourable policy changes by local and foreign governments. It is Milk SA's policy to determine expected income for the ensuing year conservatively, by averaging the previous three years' milk purchases and imports as declared to Milk SA.

Human resources risk is the possible negative impact on all spheres of the company if the basic and motivational requirements of the employees and other key persons involved in the company are not adequately addressed.

Milk SA maintains an insurance programme that provides cover for identified, insurable risks. As provided for in the Memorandum of Incorporation, Milk SA indemnifies its directors and senior officers for potential losses arising from a claim in their capacity as director or officer, unless the liability arises from conduct involving a lack of good faith. A Human Resources Policy was introduced in January 2014 and – as stipulated – is annually reviewed by the Human Resources Committee in conjunction with the CEO.

	2018 R	2017 R
3. Trade and other receivables		
Accrued levies	5,563,715	6,113,288
Levy debtors	1,219,655	1,823,678
Provision for impairment of trade receivables	(474,556)	(1,564,296)
Deposits	100,833	153,694
Advances - Projects	3,630,206	4,088,508
	10,039,853	10,614,872

4. Cash and cash equivalents

Cash and cash equivalents consist of:

Reserve Funds	18,309,945	14,564,516
- Rand Merchant Bank: Term deposits	5,257,260	4,900,159
- ABSA Bank: Savings accounts	2,489,340	2,031,857
- ABSA Bank: Current account	1,973,088	7,632,500
- First National Bank: Savings accounts	8,590,257	-
Levy Funds	6,404,858	4,943,596
- ABSA Bank: Current accounts	6,404,858	4,943,596
	24,714,803	19,508,112

Notes to the Annual Financial Statements

5. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Furniture and fixtures	247,783	(148,177)	99,606	108,103	(92,158)	15,945
IT equipment	344,776	(341,513)	3,263	342,806	(320,971)	21,835
Computer software	11,697	(11,691)	6	11,697	(11,691)	6
Total	604,256	(501,381)	102,875	462,606	(424,820)	37,786

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Depreciation	Total
Furniture and fixtures	15,945	139,680	-	(56,019)	99,606
IT equipment	21,835	1,970	-	(20,542)	3,263
Computer software	6	-	-	-	6
	37,786	141,650	-	(76,561)	102,875

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Depreciation	Total
Furniture and fixtures	9,783	16,303	(5,093)	(5,048)	15,945
IT equipment	84,504	-	(1,023)	(61,646)	21,835
Computer software	6	-	-	-	6
	94,293	16,303	(6,116)	(66,694)	37,786

6. Trade and other payables

	2018 R	2017 R
Trade payables	421,094	1,014,706
Provision for leave	125,711	264,279
South African Revenue Service - VAT	649,596	690,415
Operating lease accrual	-	1,308
Unidentified levies	4,599	59
Debtors with credit balances	51,968	68,531
Credit card balances	11,918	17,481
	1,264,886	2,056,779

Notes to the Annual Financial Statements

	2018 R	2017 R
7. Revenue		
Levies in terms of Notice 1398 of 15 December 2017	51,914,430	48,725,636
8. Project expenses		
Consumer Education	16,632,266	21,926,556
Research and development	2,835,465	2,247,708
Industry Information	2,632,622	2,789,079
Dairy Quality and Safety	8,163,151	7,756,694
Transformation	9,896,098	10,395,573
Milk SA staff remuneration	1,429,950	1,486,421
Communication	225,534	282,675
Utilisation of reserve funds	781,844	5,865,084
	42,596,930	52,749,790
9. Other income		
Administration recovery from Enterprise Development	293,820	265,956
Reversal of provision for doubtful debts	1,089,741	-
	1,383,561	265,956
10. Operating and project expenses		
Expenses by nature		
Accounting fees	759,925	827,470
Bad debts written off	1,014,124	736,893
Depreciation	76,561	66,694
Employee costs	1,429,947	1,353,239
Legal expenses	198,895	465,118
Loss on disposal of assets	-	165
Meeting costs	823,798	939,273
Office rent	849,593	522,288
Provision for doubtful debts	-	345,661
Other administrative expenses	668,911	778,122
Operating expenses	5,821,754	6,034,923
Project expenses (note 8)	42,596,930	52,749,790
	48,418,684	58,784,713

Notes to the Annual Financial Statements

	2018 R	2017 R
11. Finance income		
Interest revenue		
Bank	31,656	436,987
Interest received - trade and other receivables	46,963	226,944
Interest received - reserve funds	540,853	442,352
	619,472	1,106,283
12. Finance costs		
Interest paid on trade and other payables	10,125	-
13. Cash generated from (used in) operations		
Surplus / (deficit) for the year	5,488,654	(8,686,838)
Adjustments for:		
Depreciation and amortisation	76,561	66,694
Loss on sale of assets	-	165
Interest received	(619,472)	(1,106,283)
Finance costs	10,125	-
Changes in working capital:		
Trade and other receivables	575,020	(398,547)
Trade and other payables	(791,894)	1,097,205
	4,738,994	(9,027,604)
14. Auditor's remuneration		
Audit fees	96,900	89,900
15. Taxation		
No provision has been made for 2018 tax as the company is exempt from income tax in terms of Section 10(1)(cN) of the Income Tax Act.		

Notes to the Annual Financial Statements

	2018 R	2017 R
16. Related parties		
Related party transactions		
Project expenses paid to related parties for the execution of the projects of Milk SA		
Milk Producers Organisation NPC	3,007,028	7,026,666
SA Milk Processors Organisation	19,602,908	25,171,499
Compensation to the Chief Executive Officer	1,568,078	1,380,584
Compensation to the Transformation Manager	1,473,830	1,294,477
The compensation to the Chief Executive Officer and the Transformation Manager include payments in respect of leave payouts.	-	-

17. Financial instruments by category

Reconciliation of financial instruments by category - 2018

	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
	R	R	R
Trade and other receivables	10,039,853	-	10,039,853
Cash and cash equivalents	24,714,803	-	24,714,803
Trade and other payables (excluding VAT and provision for leave)	-	(489,579)	(489,579)
	34,754,656	(489,579)	34,265,077

Reconciliation of financial instruments by category - 2017

	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
	R	R	R
Trade and other receivables	10,614,872	-	10,614,872
Cash and cash equivalents	19,508,112	-	19,508,112
Trade and other payables (excluding VAT and provision for leave)	-	(1,102,085)	(1,102,085)
	30,122,984	(1,102,085)	29,020,899

Notes to the Annual Financial Statements

	2018 R	2017 R
18. Directors' remuneration		
Adams PH Ms	20,549	14,077
Blignaut CS Prof	-	82,784
Gebeda ZM Mr	12,897	8,637
Grobler FA Mr	22,332	18,408
Gutsche AR Mr	-	11,583
Jack-Pama BS Dr (Chairman)	99,184	14,278
Kraamwinkel AP Mr*	-	-
Kuyler GF Mr (Vice-chairman)	12,000	12,500
Lok NJ Mr	15,344	21,548
Loubser MJ Mr	46,746	2,500
Lubbe H Mr*	-	-
Prinsloo AW Mr	121,106	99,102
Rathogwa MG Mr	37,500	22,500
Van Dijk CJ Dr*	-	-
Van Heerden J Mr	13,864	14,176
	401,522	322,093

* The directors did not claim directors fees for their involvement in Milk SA.

The remuneration paid to MG Rathogwa as Transformation Manager is reflected under related party transactions in note 16.

19. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

20. Liquidity and solvency

The directors have performed the required liquidity and solvency tests required by the Companies Act 71 of 2008.

Detailed Income Statement

	Current Levy Period R	Reserve Funds R	2018 R	2017 R
Revenue				
Levies	51 914 430	-	51 914 430	48 725 636
Project Expenses				
Project expenses	(41 815 086)	(781 844)	(42 596 930)	(52 749 790)
Surplus / (deficit)	10 099 344	(781 844)	9 317 500	(4 024 154)
Other income				
Administration recovery from Enterprise Development	293 820	-	293 820	265 956
Provision for doubtful debts	1 089 741	-	1 089 741	-
Finance income	78 619	540 853	619 472	1 106 283
	1 462 180	540 853	2 003 033	1 372 239
Operating expenses (Refer to page 85)	(5 821 754)	-	(5 821 754)	(6 034 923)
Operating surplus / (deficit)	5 739 770	(240 991)	5 498 779	(8 686 838)
Finance costs	(10 125)	-	(10 125)	-
Surplus / (deficit) for the year	5 729 645	(240 991)	5 488 654	(8 686 838)

Operating Expenses

	Note(s)	2018 R	2017 R
Accounting fees		(759,925)	(827,470)
Auditor's remuneration	14	(96,900)	(89,900)
BBBEE Verification		-	(16,797)
Bad debts written off		(1,014,124)	(736,893)
Bank charges		(15,586)	(14,087)
Consumables		(35,362)	(30,220)
Depreciation		(76,561)	(66,694)
Employee costs		(1,429,947)	(1,353,239)
Inspection and Investigation		(12,905)	(186,818)
Insurance		(66,189)	(43,584)
Internal audits		(67,009)	(37,563)
Legal expenses		(198,895)	(465,118)
Loss on disposal of assets		-	(165)
Meeting costs		(823,798)	(939,273)
Office rent		(849,593)	(522,288)
Postage		(78)	(1,168)
Printing and stationery		(160,147)	(117,784)
Provision for doubtful debts		-	(345,661)
Relocation costs		(134,952)	(81,155)
Repairs and maintenance		(5,751)	(37,931)
Security		(5,374)	(11,375)
Small assets		(25,825)	(3,642)
Subscriptions		(13,270)	(22,026)
Telephone and fax		(9,960)	(75,987)
Travel - personnel		(19,603)	(8,085)
		(5,821,754)	(6,034,923)

Research & Development Reserve Fund

Analysis of Movement in Reserve Fund (Research & Development)

Surplus funds i.t.o. clause 15(5)(a) of the Marketing of Agricultural Products Act

	2012 - 2018	2018	2017
	R	R	R
OPENING BALANCE	-	204 268	825 670
INCOME	501 349	37 272	23 615
Interest received	501 349	37 272	23 615
EXPENSES	(2 190 587)	-	-
Mastitis competition prize money	(23 000)	-	-
R&D unallocated support: 2012 - 2013	(819 794)	-	-
Research Projects	(1 347 793)	-	-
- Fasciola hepatica - Impact & Management (UP)	(305 962)	-	-
- Fasciola hepatica and Nematodes - Biological control (UKZN)	(438 750)	-	-
- Mastitis - bacteriophages (UKZN)	(417 042)	-	-
- Mastitis - resistance to antibiotics in lactating cows (UP)	(172 665)	-	-
- Flocculation (UFS)	(13 374)	-	-
REFUND OF FUNDS ON TRANSFER OF PROJECT	-	345 065	
TRANSFERS FROM / (TO) RESERVE FUNDS	2 275 843	-	6 477
ACCRUALS	-	-	(651 494)
Transfer - Mastitis - resistance to antibiotics in lactating cows (UP)	-	-	(333 275)
Expenses accrued / (settled)	-	-	(320 143)
Value Added Tax	-	-	1 924
CLOSING BALANCE	586 605	586 605	204 268

Note:

A reserve fund was originally created for the unused levy funds that accrued during 2006 to 2009, against which the Minister allowed expenditure on Research and Development, World Dairy Summit, Dairy Quality & Safety and the Commercialization Project. During 2014, the Research and Development funds were transferred to a separate reserve fund. As only the funds for the Commercialization Project eventually remained in the original reserve fund, it was named the "Commercialization Fund".

Promoting Sustainable Commercialization of Existing Black Dairy Enterprises

Analysis of Movement in Reserve Fund

Surplus funds i.t.o. clause 15(5)(a) of the Marketing of Agricultural Products Act

	2012 - 2018	2018	2017
	R	R	R
OPENING BALANCE	-	6 727 748	6 316 026
INCOME	20 655 669	432 247	418 199
Surplus funds i.r.o. R1220 of 23 December 2005	13 285 772	-	-
Surplus funds i.r.o. R57 of 30 January 2009	3 842 137	-	-
Interest received	3 527 760	432 247	418 199
EXPENSES	(370 581)	-	-
Support Services	(62 871)	-	-
Veterinary Services	(5 648)	-	-
Infrastructure	(123)	-	-
Professional advice	(57 100)	-	-
Administration	(307 710)	-	-
Meeting costs	(102 019)	-	-
Travel: Road	(87 870)	-	-
Travel: Air	(47 459)	-	-
Accommodation	(40 386)	-	-
Other	(29 976)	-	-
TRANSFERRED FROM / (TO) RESEARCH & DEVELOPMENT FUND	(2 292 930)	-	(6 477)
TRANSFERRED FROM / (TO) JOBS FUND	(10 832 163)	-	-
CLOSING BALANCE	7 159 995	7 159 995	6 727 748

Promoting Sustainable Commercialization of Existing Black Dairy Enterprises

Analysis of Movement in Commercialization Fund (Jobs Fund and Milk SA Contract)

	2012 - 2018 R	2018 R	2017 R
OPENING BALANCE	-	3 077 374	8 290 418
TRANSFERRED FROM COMMERCIALIZATION FUND	10 832 163	-	-
INCOME	9 127 504	216	538
Contribution received - Jobs Fund	9 095 603	-	-
Interest received	31 901	216	538
TOTAL EXPENSES	(17 986 570)	(305 228)	(6 013 749)
Management Fees	(1 914 914)	(189 732)	(411 263)
Project Manager	(567 626)	(85 485)	(122 072)
Project Manager: Monitoring & Evaluation	(521 232)	-	-
Project team members	(86 097)	-	(28 809)
Project secretary	(15 489)	-	-
Expert consultant for assessment of cows	(34 756)	-	(4 850)
Car hire/ road transport	(238 079)	(50 125)	(55 120)
Accommodation	(385 208)	(51 024)	(190 277)
Airfare	(63 288)	(3 098)	(10 134)
Subsistence	(3 139)	-	-
Training (Consultants)	(881 481)	(78 684)	(221 557)
Professional Fees	(840 692)	(69 625)	(221 557)
Accommodation & meals	(29 784)	-	-
Capacity building	(11 005)	(9 059)	-
Capital Expenditure	(12 150 995)	(36 060)	(5 380 250)
Machinery & Equipment	(214 093)	(36 060)	(16 640)
Procurement of cows	(8 168 682)	-	(3 964 838)
Pasture Establishment	(378 689)	-	(264 203)
Capital transfers (Capital expenditure)	(3 389 531)	-	(1 134 569)
Infrastructure costs (Eskom power)	(3 035 019)	-	-
Administration	(4 161)	(752)	(679)
Bank charges	(4 161)	(752)	(679)
ACCRUALS	(9)	(799 274)	800 167
Value Added Tax	(9)	101 377	(91 202)
Expenditure incurred but settled after reporting date	-	(900 651)	891 369
CLOSING BALANCE	1 973 088	1 973 088	3 077 374

Enterprise Development

	2017 - 2018	2018	2017
	R	R	R
OPENING BALANCE	-	4 555 126	-
INCOME	71 118	71 118	-
Interest received	71 118	71 118	-
EXPENSES	(19 601)	(19 601)	-
Bank charges	(19 601)	(19 601)	-
TRANSFER FROM LEVY FUNDS	8 541 547	3 986 420	4 555 126
ACCRUALS	(2 807)	(2 807)	-
Value Added Tax			
CLOSING BALANCE	8 590 257	8 590 257	4 555 126







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