

Difficult circumstances affect financial performance

The Agra Group closed the 2003 financial year with a nett surplus, before tax and members' apportionment, of N\$ 4,09 million (2002: N\$ 5,63 million), attaining a nett surplus of N\$ 4,0 million (2002: N\$ 5,89 million). Whilst these results are poorer than those of the previous year, Mr. James Chapman, Chairman of Agra's Board of Directors, is of the opinion that, given past and current circumstances in which Agra operates, Agra's profit percentage is satisfactory.

Various factors influenced Agra's financial performance in 2003. Agricultural factors include, amongst others: strengthening of the ZAR/N\$; unpredictable rain patterns and resultant drought throughout the country; lower livestock/meat prices, particularly during the second half of the year; increasing farming input costs and uncertainty regarding future land reform policies in Namibia. Internal factors exercising an influence on the co-operative include: lower gross profit margins due to members' financial positions and increasing competition; increased administrative costs, municipal and transport costs, increased stock loss and bad debt.

The Board of Directors allocated N\$ 3,0 million to members in the year under review. Gross profit increased by 10% for the Group and 9% for the Cooperative to N\$ 76 million and N\$ 70 million respectively. Total expenses increased by 14% for both the Group and the Cooperative.

Agra's Chief Executive Officer, Mr. Peter Kazmaier, reported on Agra's activities as follows:

LIVESTOCK

The gross value of livestock transactions (excluding karakul pelts and wool) for the 2003 financial year declined by 5% from N\$ 437 million in 2002 to N\$ 413 million. Nett turnover in this category also saw a 5% decline from N\$ 19,0 million in 2002 to N\$ 18,0 million in 2003. Two primary factors contributed to the decline in turnover. The first refers to a decline in the number of animals sold during the year. Statistics show that, compared to 2002, 5,9% fewer cattle, 15% fewer sheep and 10% fewer goats were sold in the 2003 financial year. The second factor was the change in unit prices. As a result of the strengthening of the ZAR to the US\$, the initial relatively high unit prices logged during the first half of the year saw a decline of up to 40% in the second half of the year.

Nett profit of this division lowered drastically from a nett profit of N\$ 6,7 in 2002 to N\$ 3,0 million for the year under review. As mentioned, this is attributed to lower animal turnover. Other contributing factors include the 8% rise in costs from 2002 and finance costs which were paid by this division for the first time as a result of outstanding debtors accounts.

- **KARAKUL**

A total of 127,981 pelts (compared to 112,652 pelts sold in the 2002 financial year) were sold between December 2002 and June 2003 in Kopenhagen. Whilst this reflects an increase of 13,6% from the previous year, a lower pelt price was attained. Pelt prices declined by 29,2% from an average of N\$ 209,13 in 2002 to N\$ 148,15 for the year under review.

The Agra Pelt Centre could again not reach its breakeven point and reported a loss of N\$ 24,000 compared to N\$ 90,000 in 2002. This, however, reflects a decline in loss of N\$ 66,000. The reported loss in 2003 can be attributed to lower income generated by wool commission and pelt sorting fees as also an increase in stationery requirements and computer costs.

RETAIL/WHOLESALE DIVISION

Turnover of the combined Retail/Wholesale division amounted to N\$ 343 million for the year under review, compared to N\$ 290 million for 2002, representing growth of 18,3%.

- **AGRA RETAIL BRANCHES**

Amidst strong competition, branch turnover increased by 24,04% since 2002. This may be attributed to increased sales in animal feed volumes due to the prevailing drought.

Gross margins of particularly fuel and animal feed divisions, which comprise a combined total of 41% of total branch turnover, were under pressure again. As a result of higher stock levels, finance cost increased by 54% and stock loss by 23% from 2002.

In spite of these influences a nett surplus, before head office costs, of N\$ 5,9 million was recorded compared to N\$ 7,8 million in 2002.

- **WHOLESALE**

Comprised of the Agra Distribution Centre, turnover remained stable at N\$ 35 million for this division. Exceptional costs were, however, incurred from January 2003 to July 2003 to finance increased stock levels, with a 50% increase in financing costs from 2002. The nett surplus of N\$ 895,000 is 34% lower than in 2002.

- **SAFARI DEN**

In comparison to the previous year, Safari Den experienced a 12% increase in turnover and cost savings of 11%. Nett surplus shows an improvement of N\$ 341,000 from 2002.

- **PROPERTIES**

Rental income improved by 6% to N\$ 9,8million from 2002 whilst effective cost control improved the nett surplus from N\$ 2,2 million in 2002 to N\$ 3,3 million for the year under review.

AFFILIATES AND OTHER INVESTMENTS

- **WIRE INDUSTRIES / STAR PLASTICS**

With 100% share ownership by Agra in both companies, their result during the 2003 financial year met expectations and showed improvement from 2002.

OTHER INVESTMENTS

- **LUMLEY AGRA FARMERS INSURANCE BROKERS**

With a 23% growth in turnover, the company, in which Agra holds 50% share ownership, performed well during the year under review. Management fees received by Agra increased to N\$ 500,000 for the year.

- **CONSOLIDATED SUGAR INDUSTRIES**

Amidst strong competition in the market and although dividends received declined from the previous year, the company remains one of the largest contributors to Agra's investment income.

- **FARMERS MEAT MARKET HOLDING (FMMH)**

Agra sold 1,363,636 FMMH shares at N\$ 1,10 each in September 2002 and 242,526 FMMH shares at N\$ 1,10 each in July 2003. The Cooperative now holds 14% in the company.

FUTURE EXPECTATIONS

The tendency is to limit new investments in farming infrastructure of the commercial farming community. Furthermore, it is anticipated that the current drought and lower livestock prices due to a stronger ZAR will have a negative impact on Agra's largest markets. The expected interest rate decline within the next 12 months will increase consumers' expendable income and reduce Agra's burden of interest.

Predictions are that Agra's financial results next year will reflect those of this year, but Agra will have to maintain its focus on customer service and communication, optimal stock levels and improved stock control. In addition to revising its strategy in terms of providing a complete range of services at branches, Agra will need to re-evaluate the financial viability of all branches in consultation with its members.

Finally, Agra's acid test will be its ability to adapt to new market conditions and ensuring that our customers' changing needs are understood and addressed.