



AGRA'S FINANCIAL RESULTS EXCEED EXPECTATIONS

The report of the Chief Executive Officer gives an overview of the financial results of the co-operative for the 2006/2007 financial year. Herewith an extract of the financial results:

The year under review can once again be described as a very satisfactory one, having reached a special milestone, namely the fact that gross turnover (Co-operative) for the year for the first time exceeded the N\$1 billion mark at N\$1 115 million (2006: N\$912 million). This reflects an increase of 22% in comparison to last year.

Gross profits for the group increased from N\$74 million in 2006 to N\$92.6 million in 2007 (25%).

The implementation of a new computer system in March 2006, as well as various initiatives to improve customer service, communication (both internal and external) and focused marketing activities were the main contributors to the improved sales and gross profit performance.

The Co-operative can therefore report a profit before tax and distribution to members of N\$13.7 million and N\$13.5 million for the group. The comparative figures for 2006 amount to N\$16.2 million for the Co-operative and N\$16.4 million for the Group (This included an amount of N\$5.4 million in respect of the revaluation of properties).

Here now follows a sectoral analysis of the Co-operative's activities:

1. LIVESTOCK DIVISION

Following the good price increase for virtually all livestock commodities in 2006, prices started to decline from January 2007. The momentum from 2006 however still translated into a general increase in prices.

Average prices per head obtained in the various categories were as follows:

	N\$	N\$	2007 change	2006	%
Cattle	3020	2640	14%		
Sheep	433	419	3%		
Goat	422	412	2%		

Agra was also able to increase the number of animals marketed in the 2006/7 year as follows:

	2007	2006	change	%
Cattle	161 385	149 584	8%	
Sheep	151 724	150 527	1%	
Goat	115 507	112 938	2%	

Karakul

Pelt quantities sold at the two auctions in Copenhagen during September 2006 and April 2007 amounted to 112 463 pelts, which reflects an increase of 2% compared to 109 807 pelts sold during the year ending July 2006.

Unit prices per pelt also increased drastically from an average of N\$339.30 in the previous financial period to N\$479.11 in 2007, an increase of 41%.

ALCO Feedlot

During the year under review the Agra feedlot at Mariental was closed down and subsequently rented out to a third party. This action was necessitated by the continuous losses that had been incurred by the feedlot since October 2006.

Investigations revealed that a lack of specialised management skills, incomplete administration and accounting controls as well as



the unfavourable marketing conditions were the main reasons for the unsatisfactory performance of this entity.

The losses incurred in this venture have been absorbed into the overall livestock division results for the current year.

Overall Livestock Division

Notwithstanding less favourable market conditions during the year under review and the fact that losses were incurred at the ALCO feedlot, the overall livestock division reports a net operating surplus (before Head Office charges) of N\$7.4 million compared to N\$8.3 million in 2006. This represents a decline of 11%.

2. RETAIL DIVISION (EXCLUDING SAFARI DEN)

The retail division turnover this year amounted to N\$404 million compared to N\$314 million in 2006, an increase of 29%, achieved despite tough competition in the market place for most of the products sold by Agra. Gross margins decreased slightly from 13.3% to 12.9%.

The above represents a really outstanding performance and we would like to congratulate our retail team on their effort and dedication.

We are also very proud to report on the net operating surplus (before Head Office charges) achieved by the retail division, which increased from N\$8.9 million in 2006 to N\$15.5 million in 2007 (74% improvement).

3. PROPERTY DIVISION

Rent received this year amounted to N\$ 11.5 million compared to N\$12 million in 2006 (a 4% decrease). As pointed out in last year's report, the Pick 'n Pay Family Shop was launched during November 2006 as anchor tenant of our Auas Valley Shopping Mall (AVSM). A period of two months was needed to effect the necessary upgrades in order to comply with the stringent Pick 'n Pay specifications.

The shopping mall continues to provide necessary goods and services to its shoppers. More marketing activities are planned for the 2007/8 financial year to improve its performance.

Agra branches identified for major upgrades and refurbishments for the 2007/8 financial year are Otjiwarongo, Mariental and to a lesser extent Tsumeb.

Total expenses for the division increased by 6%, mainly as a result of increased municipal rates and taxes, insurance, increased spending on repairs and maintenance of buildings and increases in interest rates.

The net operating surplus amounted to N\$4.5 million before Head Office costs compared to N\$10.8 million the previous year. It must however be noted that the 2006 figures include a fair value adjustment of N\$5.4 million, which, if excluded, adjusts the comparative figure to N\$ 5.4 million.

4. FINANCIAL RESULTS

The Agra Group achieved a net profit, before taxation and distribution to members, of N\$13.5 million (2006: N\$16.4 million) and the Co-operative a net profit of N\$13.7 million (2006: N\$16.2 million).

Once again we would like to point out that the comparative figure for 2006 includes a fair value adjustment to investment properties of N\$5.4 million as well as a write-back to the pensioners' medical aid contribution liability of N\$ 0.5 million. This years' net profit figure is stated after adjusting the pensioners' medical aid liability by deducting an amount of N\$ 1.7 million.

5. BALANCE SHEET

Assets

As already noted in my 2005 report, changes in the treatment of fixed property as a result of changes in financial reporting standards had a material effect on Agra's Balance Sheet. The net value of Property, Plant and Equipment increased by N\$8.5 million.

Equity

As from the 2006 reporting period, Member's Funds are no longer shown as Equity, but were re-classified as a non-current liability. The reason for this adjustment is the fact that Member Funds are loans by Agra's members to the Co-operative and as such are



repayable under certain conditions.

Agra's Debt to Equity Ratio at 45% is healthy and has remained the same as the previous year.

Cash Flow

The Agra group reports a negative Cash Flow for 2007 of N\$12.6 million compared to a positive Cash Flow in 2006 of N\$ 18.9 million.

6. FUTURE OUTLOOK

Another successful year lies behind us. This does not mean, however, that the following twelve months will be the same. On the contrary:

Meat and Livestock prices have decreased substantially, Karakul Pelts prices have suffered a 20% reduction in average prices, Interest Rates have been increased seven times during the period June 2006 to October 2007 and fuel prices will continue to rise into the future.

As always Agra is dependant on the rainfall for the achievement of its business goals. The weather prophets want to make us believe, that we will be blessed with above average rainfall. Taking a look at the current grazing conditions we can only hope and pray that their predictions come true.

Competition in the Livestock sector has increased substantially over the last five years, and we will have to work hard at retaining Agra's leadership position in the market while improving efficiencies and reducing costs in this division.

We all realise that the agriculture Retail Market is a demanding and challenging industry with Global competition on a wide range of input products. We have achieved very good growth rates over the past three years and will continue to improve our customer service and product range.

Agra's long term financial sustainability depends on identifying and exploiting business opportunities, also outside the farming environment, which are not exposed to the volatile short term agricultural economic cycles and which contribute towards our mission of achieving growth with a dynamic team providing an excellent service experience.

We are confident that Agra is ready for the challenges that lie ahead.

PETER KAZMAIER
CHIEF EXECUTIVE OFFICER