

***CHAIRMAN'S REPORT
ANNUAL GENERAL MEETING: 14 MARCH 2008***

Honored Guests, Ladies and Gentlemen

1. INTRODUCTION

The record turnout at our 2008 Annual General Meeting is a clear indication of the current level of activity and interest in the basic food sector. The year under review has provided a real tough ride for the grain milling industry and it would be hard to find a newspaper not covering a specific matter regarding either the high current food prices, or matters related to allegations of collusion in the industry.

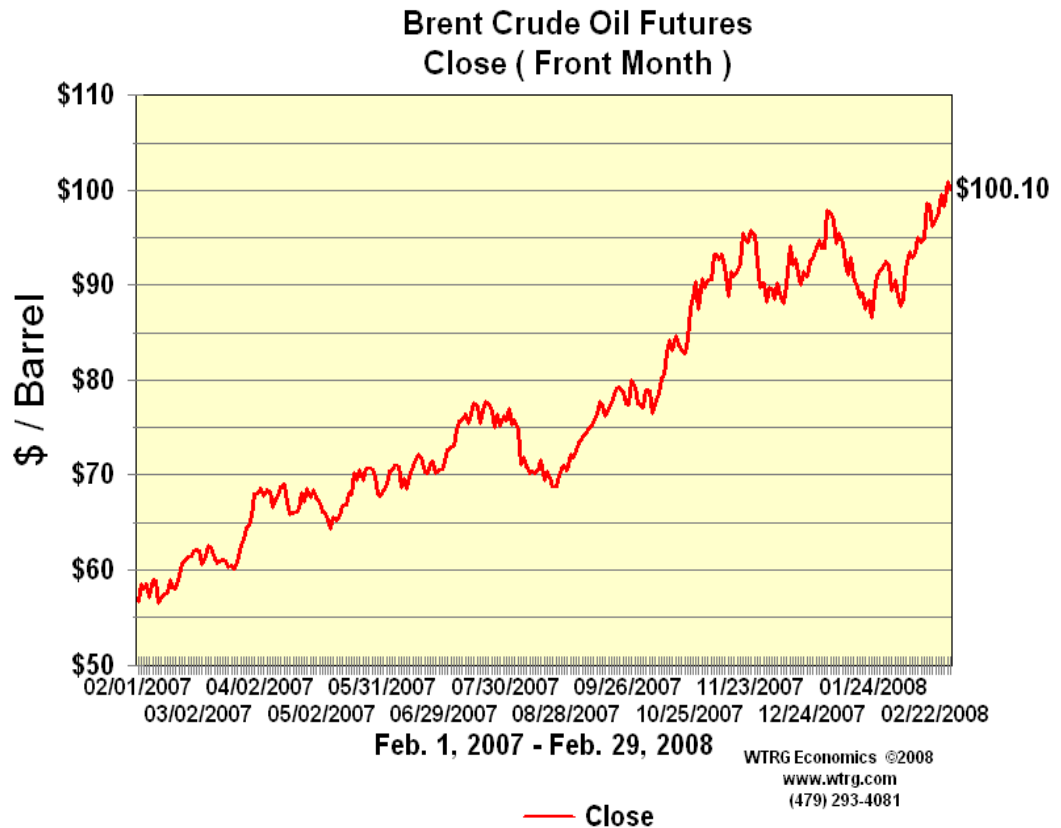
We have acquired the services of an international expert to enlighten us on the latest developments worldwide regarding the current low stocks and record high grain prices. Mr John Tjaardstra, the Assistant Executive Director of the International Grains Council, will later this morning elaborate more on this subject. The 2007/2008 season will probably be recorded in history as the watershed period which brought food security and agriculture again to the top of the agendas of politicians around the world. I am saying this because of all the actions and measures Governments took to cope with the current food price increases throughout the world. This came along with the sub-prime crisis in financial markets in the Developed World that is currently curbing economic growth. In addition we have, unfortunately, not seen any concrete movement in the World Trade Organisation to deal with the matters regarding subsidies despite our high expectations following the agreements in DOHA in 2001.

On the local front we had to deal with electricity load shedding and unfortunately the near future continues to look pretty dark at this stage. The emphasis on food security and the latest developments around food prices also coincide with the Department of Agriculture's revision of the Agricultural Sector Plan. This might be an opportune time for Government to relook its policies towards agriculture so as to ensure enough affordable, healthy food to our nation.

2. TRENDS

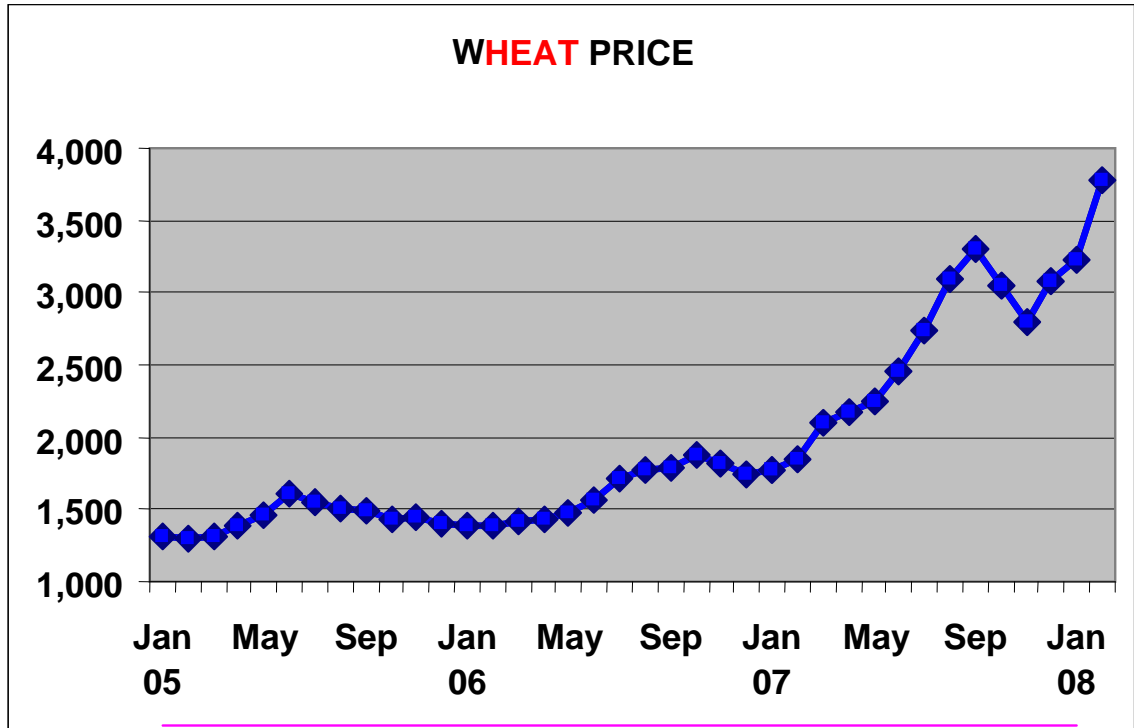
2.1 Raw materials (grain)

The increase in fossil fuel prices has urged the world to reconsider alternative sources to produce energy. In response the biofuel industry erupted on the back of these increased oil prices.



The consequence of this development increased the demand for grains and oilseeds substantially over a short period of time leading to all time high prices. In conjunction with this development, the economic growth and consequent increase in wealth in countries such as China and India have put additional demand on grain supplies.

We are currently at a place where this generation of millers has not been before – record low international grain stock levels, record high prices and on the local front, challenges such as electricity load shedding and a problematic bulk grain transport system. In February of this year the wheat price in South Africa, for the first time, went through the R4 000 per ton barrier.



We have seen the prices of the other, or essentially high protein wheats of the world, being US Dark Northern Spring and Canadian wheat, increased to import parity levels in excess of R6 000 per ton.

It is estimated by the Chamber that the milling industry is still required to import approximately 700 000 tons of wheat before September 2008. We can only but trust that the harvest in the Northern Hemisphere will provide sufficient quantity and quality wheat to meet the demand. The latest number that was calculated by grain traders was that by the end of May 2008 the world will only have 60 days' of consumption left in storage.

On the positive side, however, we are having a very positive outlook for the new local maize crop. The rain came early and the crop is looking very good. The early estimations of the maize crop are well in excess of 10 million tons which will provide a healthy surplus that South Africa will have available for export.

2.2 Food security and food prices

If we analyse the reaction of governments throughout the world following the high grain and food prices, it is very clear that each government is first taking care of its own people and their needs. We have seen the Argentinean Government closing their borders

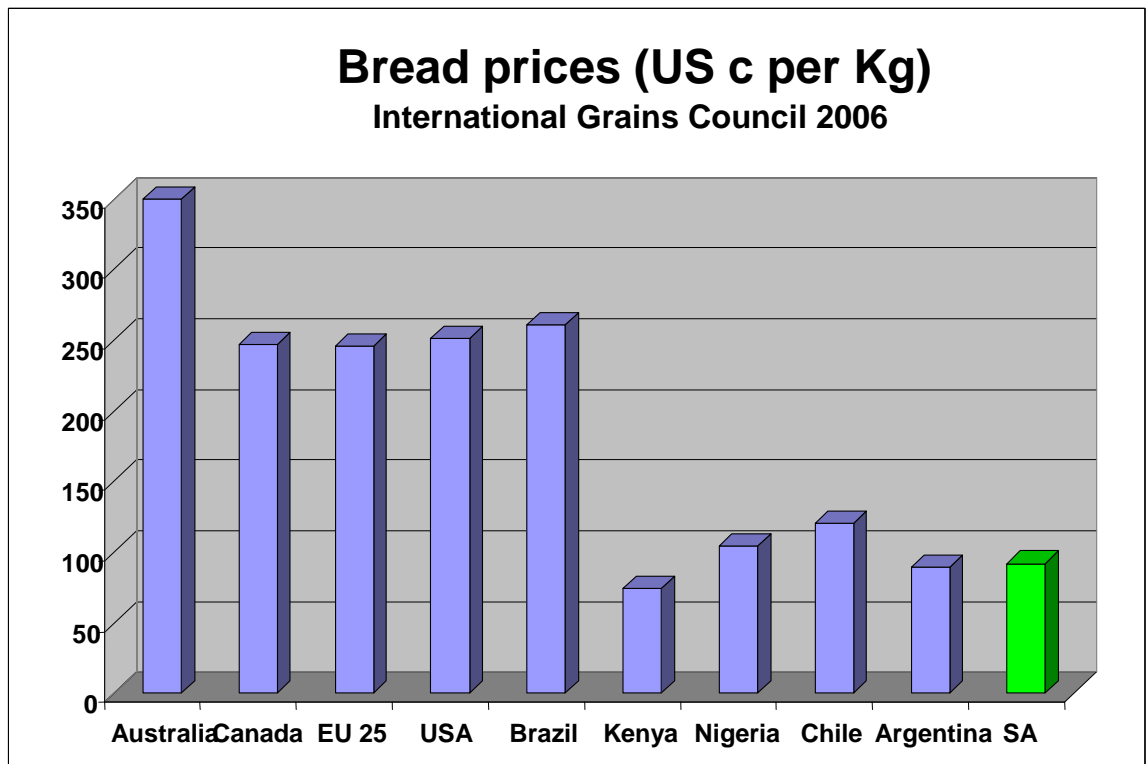
for, and taxing exports to create artificial surpluses in their country in order to keep food inflation at bay.

- **USA:** *'The retail price of food during 2007 went up 4%, the highest rate in the past 17 years.'*
- **Japan:** *'The retail price for Double Soft, a popular loaf of bread will be increased from ¥200 to ¥220 (± R14), the first price hike since 1983.'*
- **Israel:** *'Bakeries had demanded the government to lift all price controls on bread. As no solution could be reached, many bakeries stopped making price-controlled bread, saying they were losing money.'*
- **USA:** *Wheat prices rise and so will bread prices – 'A recent food price survey by Missouri Farm Bureau found that a 20 oz (567g) loaf of bread was up 30c (R2-30) to US \$2.00 (R15.20).'*
- **CIS (Tajikistan & Kyrgyzstan):** *'... the price of bread in the capital, Bishkek, has increased by 50%.'*
- **Bolivia:** *'The government has empowered the national army to run some industrial bakeries to produce bread at affordable prices for the most vulnerable population groups.'*
- **Central Asia:** *'Rahmatullo Saidov, a Dushanbe resident who came to the city to buy flour, found the price has gone up by almost 60% since the beginning of September 2007. I can't believe that during one week the flour price goes up from \$20 per 50 kg bag to \$32.' (± R4 900 per ton).*
- **Italy:** *On 13 September 2007 a pasta strike was held in Italy to protest to the sharp increases in the price of pasta.*
- **Uzbek:** *'The Uzbek Government has put pressure on private businesses not to increase bread prices. The measure has made some vendors close down at the prospect of losing money.'*
- **UK:** *'Tesco has been first to move, raising the price of sliced white bread to £1.03 (R15.47) for an 800g loaf.'*
- **Oman:** *'Oman's ruler ordered on Saturday an increase of up to 43% in state workers' wages and a wheat price subsidy of 25 rials (± R500 per ton).'*

Importing countries on the other hand, has immediately dropped their import duties to allow cheaper imports for the sake of food security. We have even seen countries in the Russian Republics and Middle East fixing bread prices. This has caused numerous

bakeries to suspend business as costs could not be met with the prices announced by their governments.

If one studies international bread prices it seems as if South African bread are still relatively cheap. It should also be noted that South Africa trades on import parity prices for wheat sourced from most of the countries included in the reference.



The international benchmarks set by governments to react to these types of crises necessitate us to reconsider our processes. I am specifically referring to the process to remove import duties in times of record high prices. We shall have to improve on the reaction time of the South African regulatory systems.

3. SOUTH AFRICA: MILLING INDUSTRY

I also need to cover some of the areas where the Chamber was very active during the past reporting year and would like to highlight some areas which were addressed through the focus areas as agreed to at our previous annual general meeting.

3.1 Focus areas

3.1.1 Infrastructure

The Chamber is very actively involved to lead, guide and motivate all role players to participate in improving the infrastructure required for our grain logistics system in South Africa. We participated in formulating an Agro-logistics Strategy and are now part of a team of Government and Private Sector to identify the regions which are in a desperate need for upgrading. This is especially relevant in terms of the infrastructure spending at Transnet Freight Rail as well as the road infrastructure in our grain producing areas.

The second area where we have lately been engaged with is liaison with Eskom regarding the electricity disruptions. Cuts in electricity supply are having a serious impact on our operations and profitability. Milling and baking are low margin and high volume driven industries and given that current capacity utilisation is high, any disruptions in production will impact on business success.

Early calculations indicated that for a fairly big size mill one would easily lose ± 150 tons for every hour that a mill is being stopped. Surprisingly, the biggest loss is not the down time (± 60 tons) but in the start up process (± 90 tons). Furthermore, mills and bakeries are paying a rate according to the highest peak of electricity used. In order to manage these peaks, the mills are started up in series (one by one). It therefore may take quite some time before the whole plant is running at full capacity again.

The tons lost in such a process depend on the size of the mill (tons per hour capacity). As an example: 150 tons of wheat produces ± 120 tons of flour and $\pm 250\,000$ loaves of bread. If a mill is running 24/7, like most in SA, these tonnages might never be recovered.

We are also very active through the industry structures to increase our research capacity at the Agricultural Research Council and other institutions that are doing most of our research. I would like to compliment the Maize Trust and the Winter Cereal Trust for the initiatives around the provision of bursaries to post graduate students, especially in the PDI category to improve our capacity. I would also like to call on members to seriously consider employing these students.

3.1.2 Trade and tariffs

It is quite disappointing to report that Government has not yet implemented the proposed trade and tariff policy towards which we have contributed substantially. There is still a delay to implement the agreement between the Departments of Agriculture and Trade and Industry with regard to the setting of tariffs and evaluating trade policy.

As mentioned earlier, it is with great disappointment that we cannot report any substantial progress with regard to the World Trade Organisation Doha Round outcome.

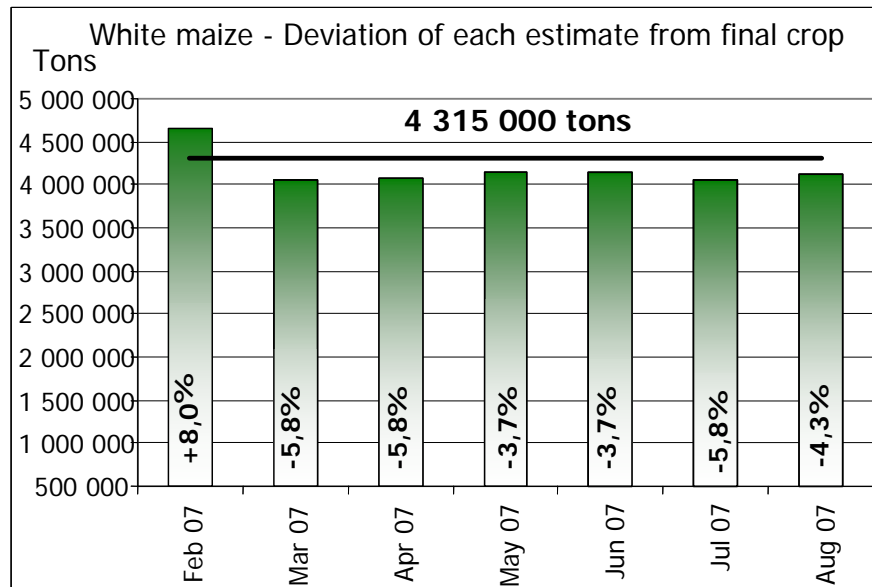
We have concluded a partnership with Government to join the Canadians and Brazilians opposing the United States of America at the World Trade Organisation dispute settlement court for transgressing their commitments on farm subsidies. It is quite exciting and we trust that we will gain a lot of useful experience for the South African team dealing with this matter. We want to wish Lambert Botha, Hilton Zunckel and the SA team well with their involvement in this matter!

During the reporting year, the International Trade Administration Commission of South Africa (ITAC) advised that the maize tariff would remain unchanged following their investigation which commenced in April 2005. They have also announced in January 2008 that they will relook the wheat and flour tariffs. We are still awaiting the outcome thereof.

The Chamber of Milling was also part of an initiative to apply to ITAC to remove the import duties on the white silo bags that are currently being used in the industry.

3.1.3 Government regulations and liaison

One of the success stories of our partnership with Government was the good result produced by the National Crop Estimates Committee during the past season. Early last year we received a fair amount of negative publicity and comments with regard to the estimates, but it proved in the end that they were within the 5% target that was set by the industry.



Congratulations to all those who that were part of the team and thank you to the Government for their R10 million contribution to this initiative.

The other partner that came to the table was the Maize Trust and through their initiatives a lot of new developments took place which provided the basis for an improved crop estimate. This was one of the mandates given to Management to assist in providing sound and reliable data to the trade in general.

We have been informed that the Minister of Trade and Industry approved the AgriBEE Charter that was presented to them by the Department of Agriculture. Mr Hamish McBain represented us on that Forum and has done a great job to represent the processing sector. We are led to belief that this Charter will soon be published in the Government Gazette and would like to encourage our members to follow these codes.

On this front I would also like to compliment the Maize Trust for commencing with a programme to assist in the establishment of Black grain farmers in the country through the different agricultural businesses. During the current maize season they have granted R3.5 million to Black maize farmers in pilot projects all over the production area assisting them with the provision of lime, subsidies for crop insurance and to ensure that a proper qualified extension officer from the agri businesses is available in support. We are eagerly awaiting a positive result in this regard.

One of the other positive outcomes of the current year was the announcement by the Department of Trade and Industry that they will start to reimburse industry for the capital expenditure to acquire the fortification dosage equipment.

With the media focus and public outcry regarding bread prices, we, together with other stakeholders in the value chain, have met with the Minister of Agriculture to discuss the way forward and to consider possible solutions for the future. We are led to believe that a Section 7 Committee under the National Agricultural Marketing Council is already busy with an investigation into all activities in the value chain. In the meanwhile we have also scheduled discussions with the Food and Allied Workers' Union to discuss matters of common interest in addressing, amongst others, the current high food prices.

3.1.4 *Media liaison*

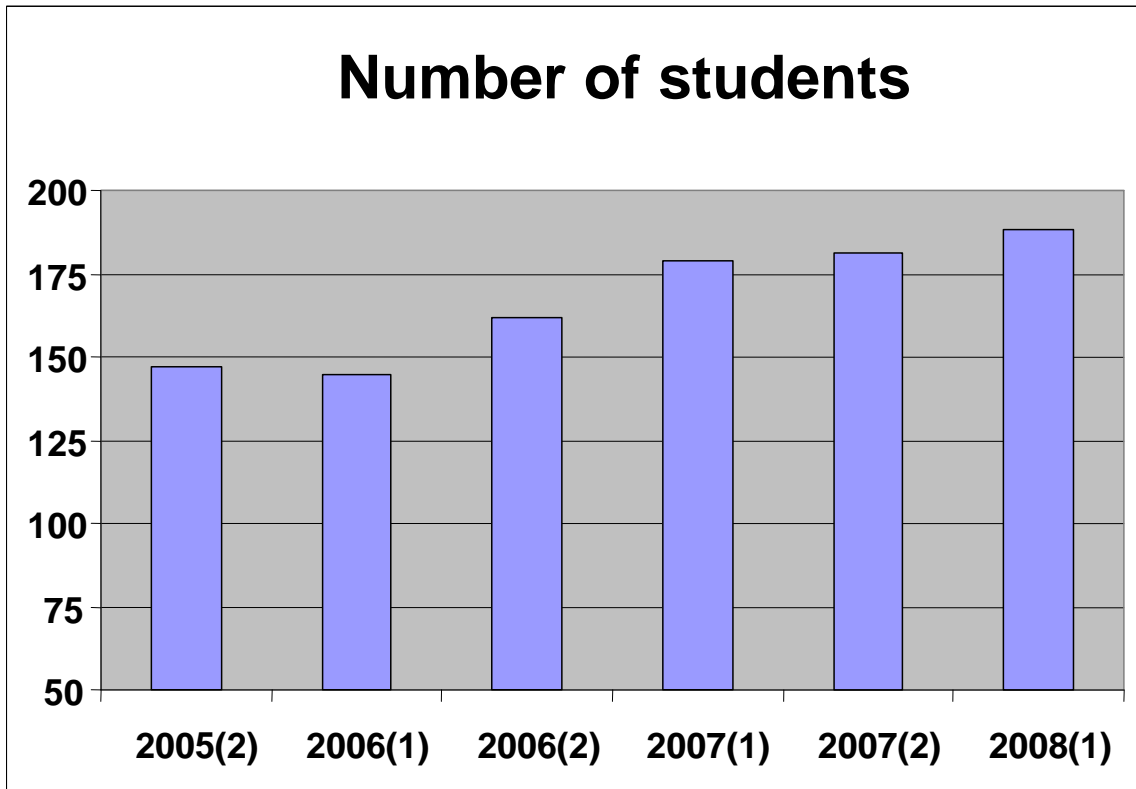
We had quite a busy year dealing with the media with specific reference to the publicity on the increased bread prices as well as the alleged collusion in the milling and baking industries. It is in days like these that one really appreciates having an Association that is well organised and staffed that can deal with these matters. Jannie has reported that at the peak of times he did 30 individual interviews with the media in two consecutive days.

We have also played an educative role in informing analysts of Fund Managers in their attempt to estimate and forecast the inflation rate. The Chamber is still of the opinion that the food inflation turning point will only become a reality towards the 3rd and 4th quarter of this year.

You will also see later on during the course of the morning the progress that we have made with the generic advertising campaign for maize meal which the Maize Trust willingly availed R21 million over the next three years. The first set of results in year one was not as encouraging as we would have expected it to be, and we can only trust that our team will be innovative and create new ideas and plans on how to make best use of the funds that are available.

3.1.5 *Training*

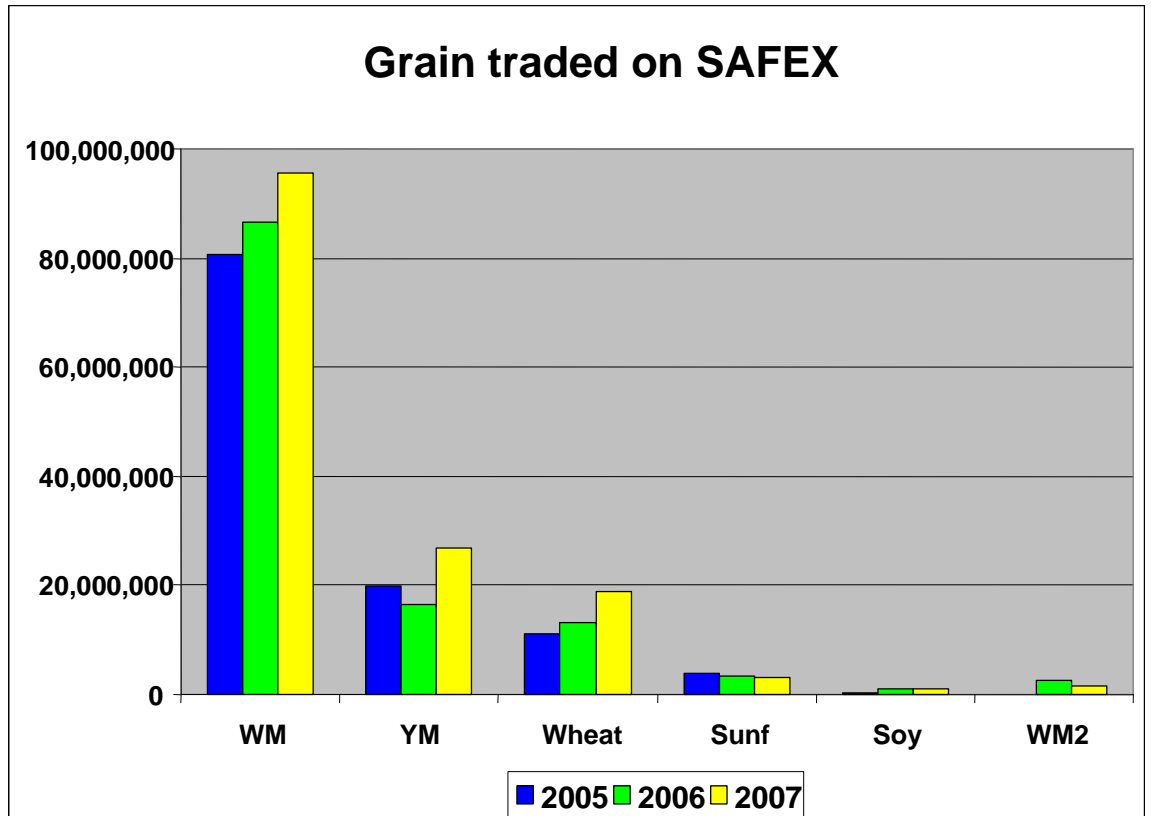
Our training programme is well used in the industry and we currently have 189 students enrolled on our courses.



We are currently upgrading all our study materials and are in a process to create a Recognition of Prior Learning programme to allow our students to go through a process to eventually qualify for NQF2 or NQF4 levels. I would like to thank those committed tutors for their contribution toward the provision of skilled millers that will assist the industry in ensuring a sound basic food supply into the future.

3.1.6 Technical and procurement matters

We have seen a lot of activity at the JSE Agricultural Products Division Advisory Committee evaluating changes to the SAFEX grain contracts. We are well represented and are quite satisfied that the system is still working well. It is interesting to note that the South African Wheat Crop in 2007 has traded 10 times on the JSE. The white maize crop has been traded 22 times and yellow maize 9.5 times.



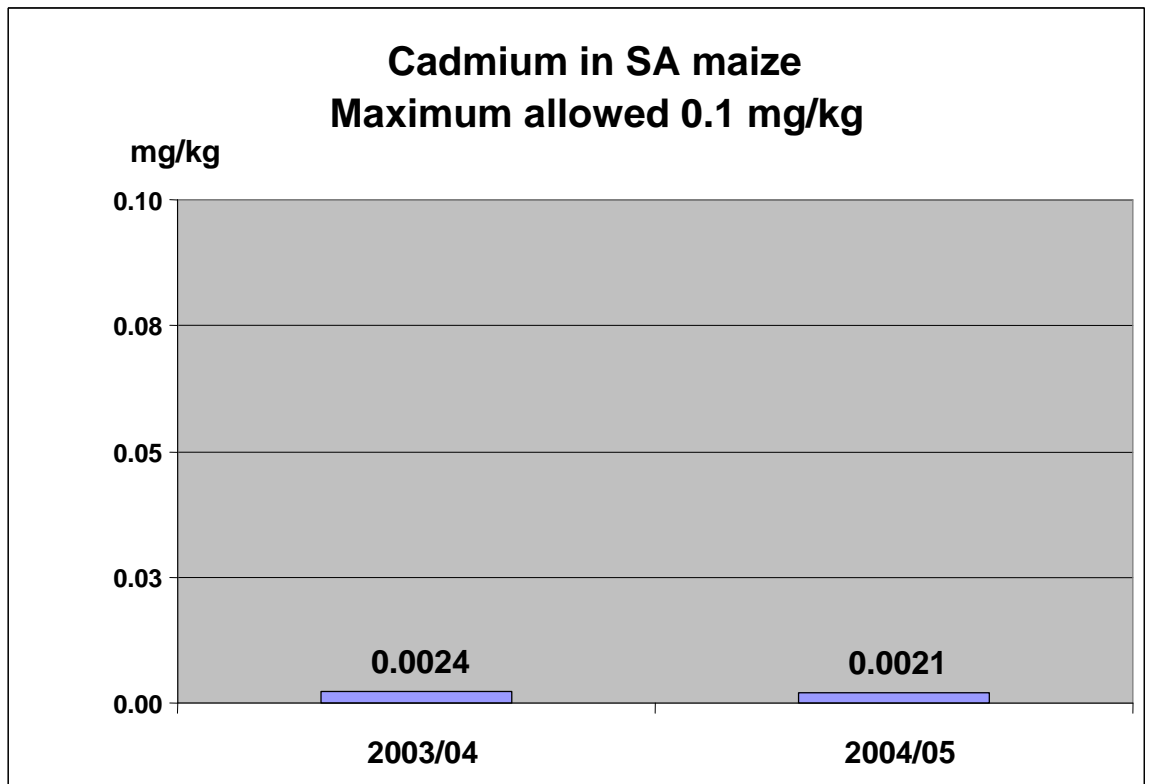
This is a clear indication of good liquidity in the futures market.

Another successful project that was completed during the current year was the revision of the tolerances in our release criteria for new wheat cultivars. We have successfully completed a proper project of research and some adjustments have been made and I would like to congratulate all the role players for dealing with this very professionally and we can only trust that the result thereof would be to the advantage of all the role players in South Africa. This was again proof that a very difficult matter could be dealt with if it is properly done.

Unfortunately, we cannot report the same degree of success when it comes to the white maize quality criteria. We had severe setbacks in making progress following a lack of capacity at the Agricultural Research Council who is leading this project. The Technical Committee has made some amendments and proposals and also appointed a mentor (Colin Wootton – an old familiar face) for this project and we can only trust that it would come into fruition in this year.

There are still a few outstanding matters with regard to amendments in the grading of wheat and maize that we will have to negotiate with, especially Grain South Africa.

We have also seen the value of a well organised Grain Value Chain when the Cadmium level of pineapples became a contentious issue and we had to prove as a sector to our customers that the grain is well within the Cadmium tolerances allowed by the Department of Health. Through proactive actions by the role players, it was quite easy to prove to our customers that Cadmium is not a problem in grain in South Africa.



I would also like to express some concern in seeing big multinational companies like Monsanto withdrawing from wheat breeding in South Africa. The industry is still in a negotiation process to ensure that the germ plasma and the breeding programme are to continue in future even if it is in a new format.

I would also like to compliment the Winter Cereal Trust for their intervention to ensure that the Monsanto breeding programme will continue to provide us with good quality wheats.

3.1.7 Office matters

The current crime problem in South Africa also expanded to our offices in Centurion. Although a few computers and screens were stolen, none of our data was lost. On a more personal note, I would like to congratulate Jannie de Villiers who has been awarded with the AFMA *Man of the Year* award at their Annual General Meeting in September 2007.

Jannie, this is for sure recognition well deserved!

4. TRENDS

I would like to conclude this annual report highlighting a few trends that will definitely have an impact on the milling industry in the year ahead:

- Government policy changes regarding food security. Maize and wheat can't be excluded if we need to improve the food security situation in South Africa. The Chamber will play an important role to make recommendations to Government in this regard.
- Focus on food prices. We can assume that all eyes will be on our sector over the next 12 months in dealing with the current increases in the raw materials and product prices.
- Business ethics. This sector has a long road ahead of us to earn back the trust and confidence of the consumers in SA following the media coverage on alleged collusion.
- Our innovation and negotiation skills will most likely be the key in dealing with the shortage in electricity supplies at our plants.
- Another area that demands more and more management time is solutions to overcome logistical constraints to ensure a constant supply of raw materials to the mills.
- Impact on the environment. The industry needs to gear and educate itself to become more acquainted with the impact of our operations on the environment. This has not been a major issue in the past, but will most definitely surface in the years ahead.
- In order to make a difference in these matters we will heavily rely on our collective ability to communicate and educate through the Chamber to society at large. I am confident that we are well equipped with skills and knowledge to meet these challenges.

5. CONCLUSION

In conclusion I would like to thank Eugene Beneke our Vice Chairperson as well as Basie van Dyk for the extra mile they have walked with me during the past year. A word of thanks also goes to the rest of my colleagues serving on the Board of Directors. "Thanks guys for availing time to serve this industry through your involvement at the Chamber."

There are also a few of "die ou hande" (old hands) that have left the industry during the past year. Haydn Franklin and Kallie Paxton from Tiger Brands, Henning van Aswegen (Foodcorp) and Eric Platt (Progress Mills) are people that left deep footprints in the milling industry. Another person that is at the point of retirement is Chris Immelman. The Board has decided to bestow honorary membership on Chris later this evening at our gala dinner.

Lastly I would also like to thank Anne-Marie Barnard for organizing this event so stylishly. The turnout is clearly a vote of confidence in your ability to make this a “must attend” on everybody’s annual calendar! Jannie, will you also convey our appreciation to the rest of our staff back at the office for a job well done during this year.

With all the many externalities we are facing this year ahead, I would like to close with a quote by an unknown author:

“If your memory about the past is bigger than your dream of the future, no progress is possible.” So, let’s focus on those things we can do well and jointly create a better future.

Thank you very much.

TERTIUS CARSTENS
Chairperson

14 March 2008