Key trends, challenges & future prospects/March 2014
Outlook from chief executives *p15*/*Financial trends* *p31*/*Insight into trade divisions* *p53*

How confident are you?

Agribusinesses Insights Survey 2013/2014

CEO's are looking for strategic alliances to stimulate growth

pwc

www.pwc.co.za/agri-business

Lingering concerns over the country's extremely tight electricity supply are bound to be alleviated somewhat by the remarkable progress with renewable energy projects.

The application of information technology is becoming increasingly important in the success of agribusinesses in a changing agricultural and economic environment. In all sub-sectors of the agricultural industry, information technologies are vital to the management and success of an agribusiness.

The main reason for growth expectations of agribusinesses in the next 12 months, is new joint ventures and/or strategic alliances (38% of respondents chose this option). During the 2012 survey, the most significant reason provided was the pursuit of new geographical markets (43%).

Table of Contents

Preface

Frans Weilbach
National Agribusiness Industry Leader – PwC

Agriculture as an industry is becoming more and more significant as a contributor to the South African economy and acts as the backbone of socio-economic development in the country. Although the official measured contribution to GDP is still only somewhere between 2.6% and 3% (Department of Agriculture, 2013), a wider value-chain approach will prove to show that the impact of the wider agro-food industry is much greater.

Only 12% of the country's land can be used for agricultural production and of this land only 22% is classified as high potential arable land (GCIS, 2012). Despite this, South Africa is the largest contributor to growth in agricultural exports from SADC countries (Southern Africa Trade Hub, 2011), contributing more than 50% of agricultural exports from this region. As a country South Africa is food secure and a net exporter of agricultural products with good infrastructure to support the industry.

The wider agro-food industry in sub-Saharan Africa is projected to become a US $1 trillion industry by 2030 and is destined to play a pivotal role in economic development in years to come (World Bank, 2013). Agribusinesses will be instrumental in initiating economic development through building agro-based industries and providing new markets. In fact, agriculture has the ability to grow other industries as it is the spark that initiates the start of a value chain. It has been said that a Rand spent in agriculture achieves more than a Rand spent in any other industry.

The vision of this publication is to provide thought leadership and add value in the agricultural industry on two levels: firstly, we want to support the business leaders in agribusiness to better understand their own industry through valuable benchmarking information; secondly we want to provide a solid economic overview of the agribusiness industry for any other interested readers.

The group of agribusinesses that participated in this study is representative of a large and significant part of the agricultural grain industry of South Africa, contributing substantially to the GDP of the country. They are strategic role players and leaders in the agricultural industry as they are in the middle of the agricultural value chain, linked with primary producers as well as processing businesses and retailers.

Overview of 2013

The Business Monitor International (BMI) report for the first quarter of 2014 indicates a positive view of agriculture for 2013, especially pertaining to the potential of the livestock and grain industries. The sugar industry also presents opportunities for growth due to better technology and new investment opportunities.

In the wake of wage strikes and political unrest that occurred in November 2012, 2013 was characterised by negotiations in the hope to reach a social compact between commercial agriculture, government, and labour. The mere fact that we did not have a repeat of the events of 2012 should provide some sort of comfort for attempts at resolution and reaching a compact. However, the impact of the unrest has been felt by the industry on a very real economic and social level with investor confidence decreasing and producers being challenged to uphold production levels.

According to the Confidence Index of the Agricultural Business Chamber (Agbiz) and the Industrial Development Corporation (IDC), the confidence in the agricultural sector indicated a trend of gradual recovery since reaching an all-time low in 2009. However, this trend started to flatten out and decline early in 2013 (most likely due to the wage crisis). The Confidence Index reached a 56.32 index level in the fourth quarter of 2013, indicating that just more than half of agribusiness decision-makers and executives have a positive attitude towards the agribusiness environment. This is 12% lower than the fourth quarter of 2012 but 12% higher than the preceding quarter (Agbiz, 2013). Hopefully confidence levels will start to rise again to mirror export success and economic growth in 2014.

The Rand experienced one of its worst years measured against the US dollar. For some this means tough economic times, but fortunately for the export market (on which agriculture is to a large extent dependent), it provided opportunities for growth. The opening value for January 2013 was R8.46 and by December 2013 it reached R10.51 against the dollar.

Highlights from the report

The Chief Executives of agribusinesses provided us with their insights into strategic matters of concern to their business. The highlights are:

African expansion – 70% of responding CEOs indicated that they want to pursue expansion into Africa. This can be in the form of building African operations as well as exporting to Africa.

Government support – Government regulations are listed as one of the four most prevalent challenges for agribusinesses. Coupled with this, CEOs indicated that they would appreciate more support from government in terms of gaining access to natural resources, developing the skills of employees as well as providing tax incentives.

Corporate governance – Corporate governance is a reality for agribusinesses. CEOs indicated that their risk strategies are focused on the evaluation of long term strategic risks as well as developing appropriate key performance indicators. All participants at this point have a risk committee and formal risk management strategy in place.

Directors' remuneration – King III plays a pivotal role in the approach of businesses towards directors' remuneration. On average, remuneration increased for the year under review.

These matters are discussed in more detail in the pages to come. We trust that the findings and insights of this report will contribute to the industry in a practical way.

Please feel free to contact us should you want to discuss our findings and interpretation. Your feedback will be much appreciated.

Frans Weilbach
National Agribusiness Industry Leader
PricewaterhouseCoopers Inc.
March 2014

Economic outlook for 2014

Dr Roelof Botha
Economic Advisor to PwC

Prospects for agriculture in 2014 are considerably more uncertain than for the macro-economy, where some momentum towards higher GDP growth seems to be on the cards.

Volatile weather patterns, a drought in large parts of the North-West Province, higher input costs due to currency depreciation and lingering uncertainty surrounding land reform currently add to the already high risk profile of farming in South Africa.

On the bright side, agriculture continues to boast the highest gross operating surplus/output ratio in the economy.

Calculations based on official data for the first three quarters of 2013 indicate that 80% of the value added by agriculture is represented by gross operating surplus, compared to 62% for mining, 49% for the economy as a whole and a paltry 29% for the manufacturing sector. For wholesale & retail trade, this figure stands at a creditable level of marginally above 60%.

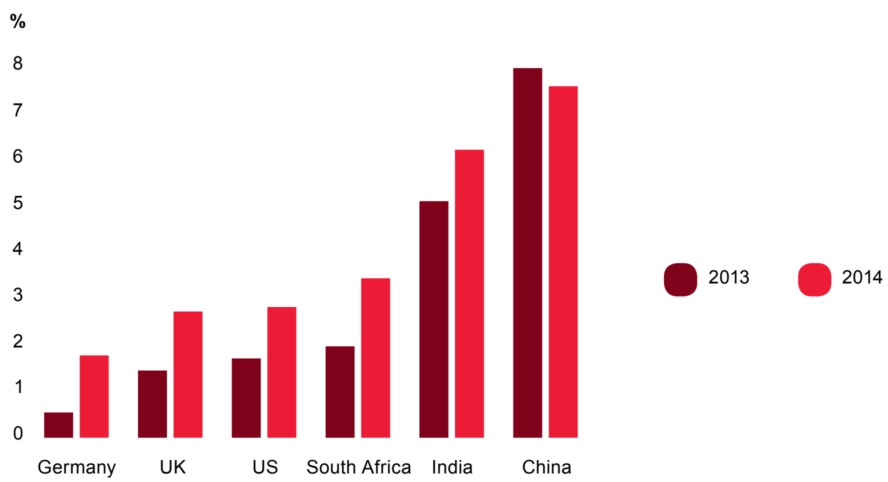
Over the past decade, the productivity of new fixed capital formation in agriculture has also consistently outperformed the average for the economy as a whole, with future improvements being foreseen by farming experts as a result of new technologies.

Higher global growth

Fortunately, agri-businesses can look forward to an improvement in the macro-economy during 2014 and probably beyond (see figure 1, which contains forecasts by the Economist Intelligence Unit – EIU).

A near-universal consensus exists over brighter global economic prospects in 2014, especially for the sub-Saharan African (SSA) region. According to the World Bank, global GDP growth should firm from 2.4% last year to 3.2% in 2014, with a further increase to 3.5% being forecast into 2016.

Fig 1: GDP growth estimates for 2013 and forecasts for 2014 – SA and key trading partners (Source: EIU)



The South African economy is likely to follow the global upward growth trend in 2014, with the World Bank predicting GDP growth of 2.7%, up from 1.9% last year. Upbeat regional growth expectations also exist for 2014, with the World Bank projecting GDP growth in SSA to accelerate to 5.3% in 2014, rising further en route to 2016.

As a general rule, what is good for SSA is good for South Africa, with sectors linked to agriculture, food processing, tourism, communication, retail trade, transport, and business services likely to benefit from sustained growth in inbound regional tourism and the continent's steady march towards greater prosperity.

Prospects for revenue growth by the CEOs of major South African companies are echoing an improvement in the macroeconomic environment.

A survey conducted by PwC late last year indicated that African business leaders were more bullish about short-term revenue growth prospects than their global counterparts. An impressive 90% of CEOs surveyed expected their revenue from Africa to expand during 2014.

Arguably the most significant positive element of the latest World Bank forecasts is the expectation for the US to grow by a creditable 2.8% in 2014, compared to an estimate of only 1.8% last year.

Following two years of economic contraction, the Euro Area is expected to record real GDP growth of 1.1% in 2014, whilst China, the world's second largest economy, is expected to record growth of between 7% and 8% this year.

Challenges for agri-business

A modest improvement in the economic output performance of South Africa and most of its key trading partners will, of course, not lead to any swift removal of a number of vexing challenges facing the domestic business environment for agriculture, most notably the escalating costs of labour, electricity, diesel and fertilizers.

Other problem areas include an unstable labour market, decaying infrastructure in many rural areas, the prevalence of semi-dysfunctional local authorities and the unwillingness of government to counteract the exceptionally high levels of farming subsidies that exist in many trading partners, especially Europe.

Lingering concerns over the country's extremely tight electricity supply are bound to be somewhat alleviated by the remarkable progress in renewable energy projects.

At the conclusion of the third bid submission under the procurement programme for renewable energy by independent power producers, the collective capacity of these projects stands at almost 4,000 MW. These projects are dominated by wind farms and solar power and represent a total investment of approximately R150 billion.

The socio-political scenario will nevertheless remain volatile and unpredictable until after the April elections, when greater clarity may be expected over government's policy priorities and the implementation of the National Development Plan (NDP).

Although far from perfect (from a free enterprise perspective), the NDP holds much promise to put South Africa on a path of a sustained higher level of economic growth through deregulation and other measures designed to enhance competitiveness.

Growth drivers

It is important to note that improved economic growth prospects for 2014 are not based on a thumb-sucking exercise, but rather on the existence of a number of significant growth drivers.

Firstly, interest rates are unlikely to increase during 2014, based on expectations for consumer inflation to remain within the SA Reserve Bank's target range of 3% to 6%. Even a marginal breach of the upper level of this range will probably not induce stricter monetary policy, due to the fairly desperate need to strengthen the economy's growth performance and to create jobs.

Secondly, significant job creation is expected to flow from the imminent implementation of the youth wage subsidy. Despite opposition from the trade union federation Cosatu, National Treasury has completed the legislative requirements for enacting this new incentive aimed at employing young people without previous work experience.

Since the 3rd quarter of 2010, the economy has already created close to one million new formal sector jobs and further progress with employment creation is bound to lead to an acceleration of household consumption expenditure on non-durables. The latter is dominated by food, which comprises more than 60% of this expenditure category and almost 16% of total GDP.

Fig 2: Household consumption expenditure on non-durables – constant 2013 (Source: SARB; own calculations)

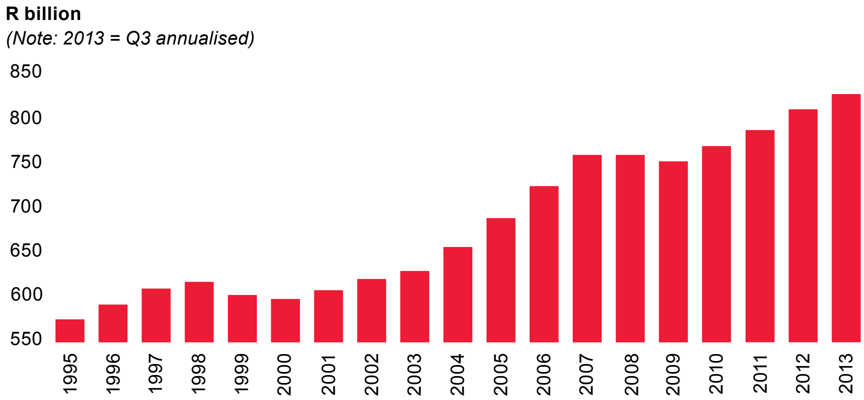


Figure 2 indicates a welcome recovery in the growth trend of household consumption expenditure on non-durables (in real terms), which should gain further momentum in 2014.

Optimism over growth in the country's largest single source of final demand is based on the gradual return of the so-called "wealth effect", which is poised to gain momentum in 2014, fuelled by a fortuitous combination of rising real salaries, modest increases in residential property prices and capital gains on equity investments.

This phenomenon is largely responsible for the exceptionally strong growth in household consumption expenditure on durables and semi-durables, which recorded real annualised growth rates of 8% and 7%, respectively, during the first three quarters of 2013.

A third growth driver is the existence of fundamental fiscal stability. National Treasury is maintaining a sound balance between public debt levels and the need for infrastructure maintenance and upgrading.

According to several pre-election polls, a large measure of dissatisfaction exists amongst poorer communities over basic service delivery. Hopefully, government will stick to its pre-election promises after April through the streamlining of infrastructure projects and renewed vigour in the provision of housing and community services. The latter would certainly serve to justify the current cautious optimism over economic prospects in 2014.

Dr Roelof Botha
Economic Advisor:
PricewaterhouseCoopers Inc.
March 2014

The publication

Being the largest professional services organisation internationally and in Southern Africa, PwC has accumulated specialised agricultural knowledge over many years and is committed to adding value and expertise to the industry. We are closely aligned to role players in the agricultural industry and we provide professional services to a large number of agribusinesses. PwC has been involved in several benchmarking studies within an agricultural context and we have gained invaluable knowledge and know-how that we apply in this publication. For this reason we believe we are well positioned to publish a formal benchmarking profile of this nature on the South African agricultural industry.

We operate from 23 offices throughout the country which enable us to serve our clients in their own communities. This survey has made it possible for us to compile a representative measurement profile with reliable industry norms against which the industry and its role players can measure themselves. Preparation and data collection commenced in November 2013. In order to compile a reliable and meaningful benchmark, the leading role players in the industry were approached once again for their inputs.

The participants of this study are agribusinesses with operations that are mainly (but not exclusively) focused on delivering agricultural and related services to primary producers in the grain sector. They are also closely involved with the marketing of agricultural and related products. These businesses were historically registered as agricultural cooperatives. As mentioned, the geographical representation of participants is very good. The publication provides a summative overview of the industry consisting of the averages of the information obtained from all participants in the project. Weighted averages have been primarily used. A weighted average represents a calculation where a weight is linked to the results and size of each participant.

The number of participants and the large extent to which the various role players in the industry participated in and lent their support and approval to the project, convinced us that the results can be regarded as representative and relevant. As a reliable source of information on the agricultural industry we believe that agribusinesses can use this benchmarking profile with great success as an aid to make informed decisions about, inter alia, efficient business structuring, improved cost management and increased profitability.

This document is a compilation of findings and interpretation of the information received from participants to this project. Trends in the industry are discussed and represented in tables and graphs with explanatory notes.

This year's publication is presented with a focus on the following areas:

- Outlook from chief executives
- Profitability analysis
- Balance sheet structure
- Trade division overview
- Grain silos
- Insurance

The international policy of PwC is that no results of benchmarking surveys may be made available unless there were at least seven participants. Consequently no results are published where fewer than the prescribed number of participants provided the required information. Please keep in mind that the information of all the participants was not necessarily included in all the comparisons. In some cases certain information relating to specific participants was not considered in determining averages, for valid reasons justifying or necessitating exclusion (such as incomplete information, etc.).

The participants to this survey are also not always the same from one year to the next which might have impacted the trends as reported.

The services rendered by our Agribusiness Industry Group include :

- Assurance services (accounting, management accounts, internal audit, audit and independent reviews);
- Management control (system and internal controls);
- Entrepreneurial advice (financial, tax, secretarial and business advice);
- Tax (corporate, international, transfer pricing, indirect tax, immigration, personal, reward, employment, compliance);
- Information technology services (development and implementation of IT strategies, software package selection, training and support);
- Transaction support (structuring, contracts, viability and due diligence investigations);
- Forensic investigations and legal support;
- Estate and trust administration;
- Human resources (staffing and succession planning, organisational structure and roles, performance and reward management, training and development, HR policy development, support with labour court and arbitration matters, systems, benchmarking and due diligence); and
- Company secretarial services (records, returns, registers, incorporation of new companies, updating and redrafting of MOI's).

Anneline Hugo
Advisory
Research analyst and co-author

Marli Oostenbrink
Advisory
Research analyst and co-author

Ben Viljoen
Assurance – Agribusiness
Project Coordinator

PricewaterhouseCoopers Inc.
March 2014

For more information regarding the survey profile or the specialised services we offer to the agricultural industry, please contact :

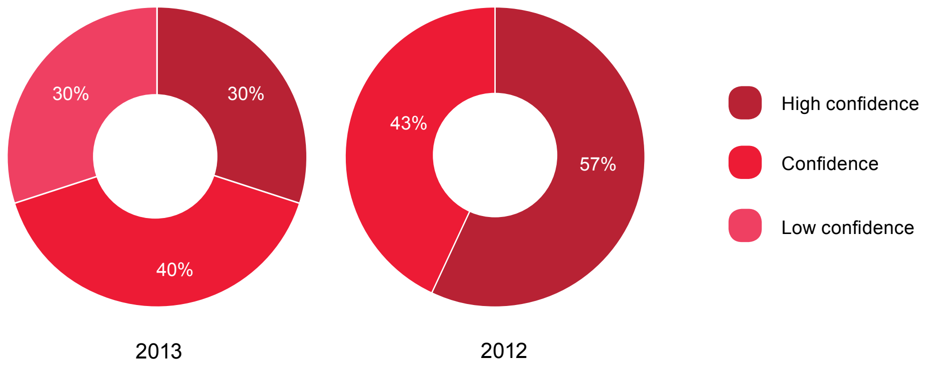
National		
Frans Weilbach	(Stellenbosch)	021 815 3000
Central Region		
Deon Pretorius	(Bloemfontein)	051 503 4300
Gert Nel	(Bloemfontein)	051 503 4222
Hesna Rheeder	(Bloemfontein)	051 503 4202
Chris Franken	(Lichtenburg)	018 386 4754
Eastern Cape		
Sunette Williams	(Port Elizabeth)	041 391 4521
Gauteng		
Pieter Vermeulen	(Pretoria)	012 429 0573
Albre Badenhorst	(Johannesburg)	011 797 5277
Renshia van Noordwyk	(Johannesburg)	011 797 4091
Kwazulu-Natal		
Des Fourie	(Pietermaritzburg)	033 343 8611
North-East Region		
Andries Oosthuizen	(Nelspruit)	013 754 3502
Western Cape		
Tom Blok	(Cape Town)	021 529 2004
Ben Viljoen	(Stellenbosch)	021 815 3058

1. Outlook from chief executives

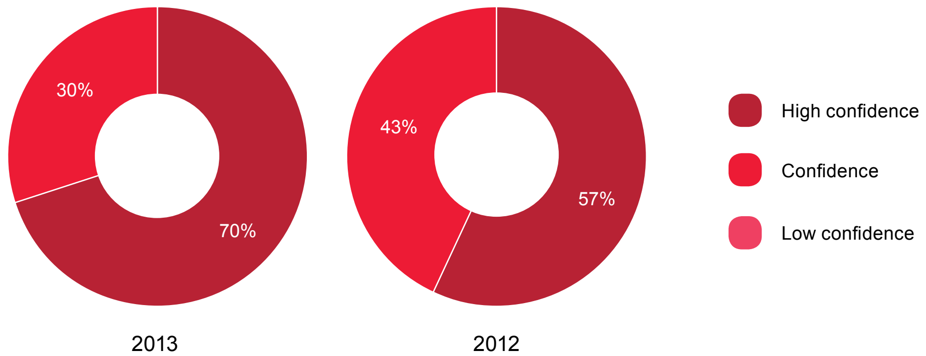
This section provides feedback from Chief Executive Officers (CEOs) in the Agricultural Industry on strategic issues, obtained through a detailed survey. The result is valuable insights into the strategic issues impacting on decision-making in the agribusiness environment.

1.1 The future of income growth

There is an almost even spread in expectations towards income growth over the next 12 months: 30% of respondents indicated high confidence, 40% moderate confidence and another 30% low confidence. The data for 2012 shows us that confidence levels were significantly higher in the previous year.

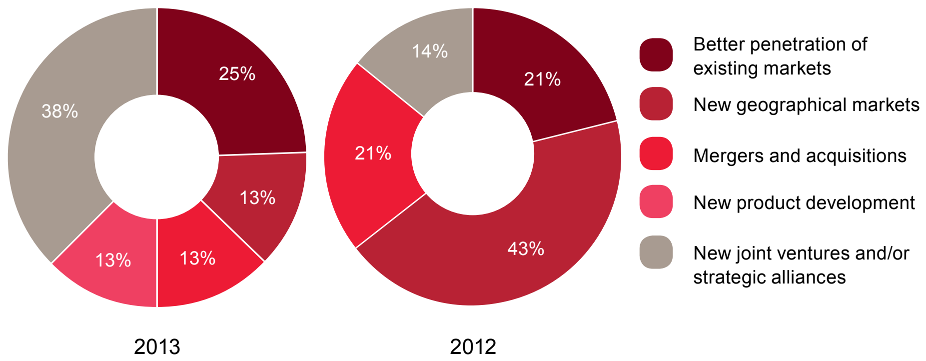


Respondents do however have more confidence that income will grow over the next three years. This indicates that growth is expected to occur during the next year.



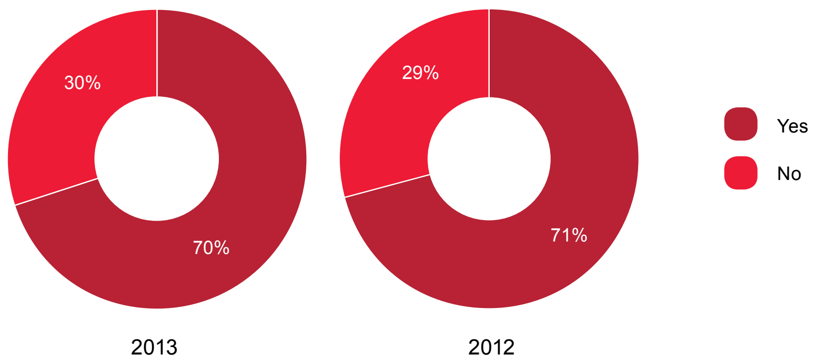
1.2 Opportunities for growth

The main reason mentioned for growth expectations of agribusinesses in the next 12 months, is new joint ventures and/or strategic alliances (indicated by 38% of respondents). During the 2012 survey, the most significant reason provided was the pursuit of new geographical markets (43%).



CEOs of agribusinesses are on average very positive towards the possibility of expansion into the rest of Africa, as indicated in the graph below. 70% of respondents indicated that they would pursue such opportunities. Africa is rapidly becoming a preferred investment destination and is said to represent the last frontier in global food and agricultural markets with its large percentage of uncultivated fertile land and sufficient water resources (World Bank, 2013). South African agribusinesses are in a perfect position to pursue such opportunities.

Expansion can be in the form of new operations, or new export markets. According to the latest BFAP Agricultural Outlook (BFAP, 2013), while South Africa is likely to remain a net exporter of agricultural output, last year was a watershed in that food exports to Africa for the first time exceeded those to the European Union. The EU accounted for 29.9% of agricultural exports out of South Africa compared to 31.2% for African markets.

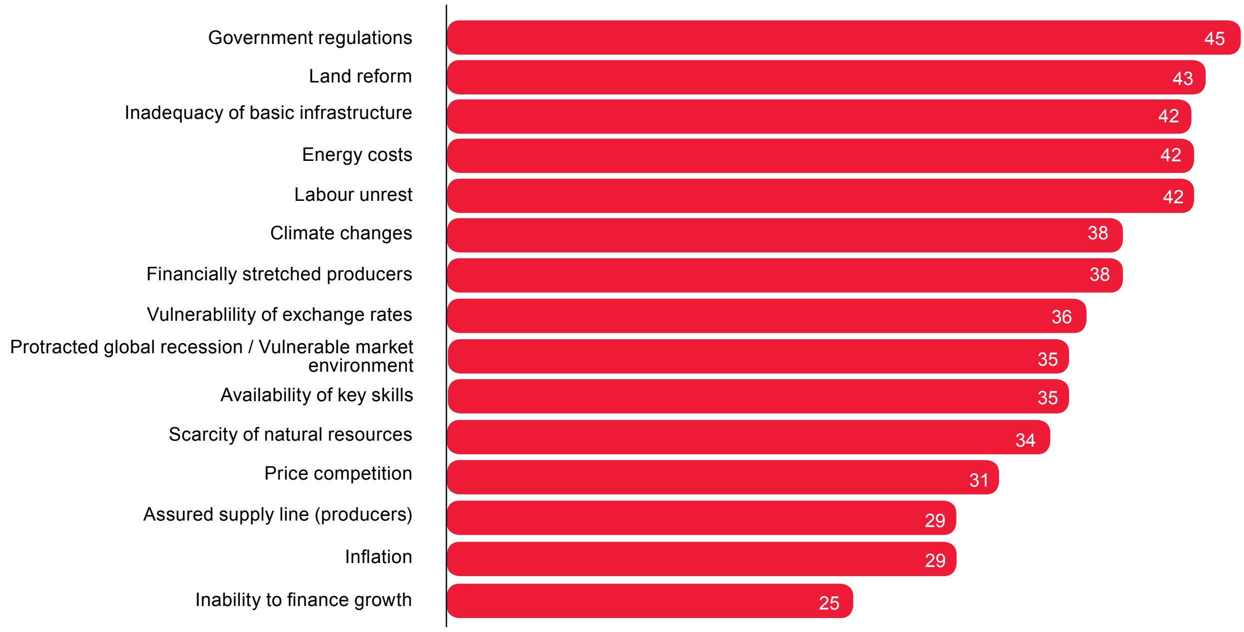


1.3 Challenges for business growth

Like last year, government regulations, energy costs and inadequacy of basic infrastructure are perceived to be serious challenges for business growth as indicated by CEOs.

This year respondents also indicated that labour unrest and land reform may impact their business growth. The labour unrest that occurred in the Western Cape at the end of 2012 may have impacted significantly on what agribusinesses perceive as risks and how they develop their business strategies.

The complete response lists for 2013 and 2012 are illustrated below:



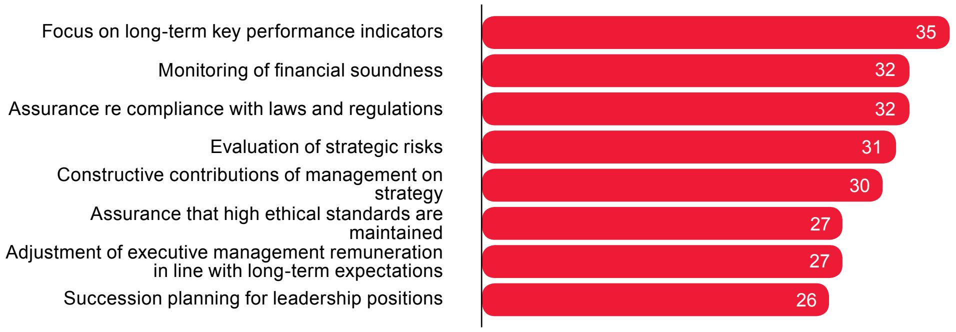
2013

2012

1.4 Risk management

Risk Management, according to the King III Report, is one of the cornerstones of corporate governance and the most important responsibility of the board of directors. The board needs to "exercise leadership to prevent risk management from becoming a series of activities that are detached from the realities of the company's business". The focus of risk management for boards of directors of participating agribusinesses is on the evaluation of strategic risks as well as monitoring of financial soundness. In 2012 there was also a large focus on key performance indicators.

2013



2012

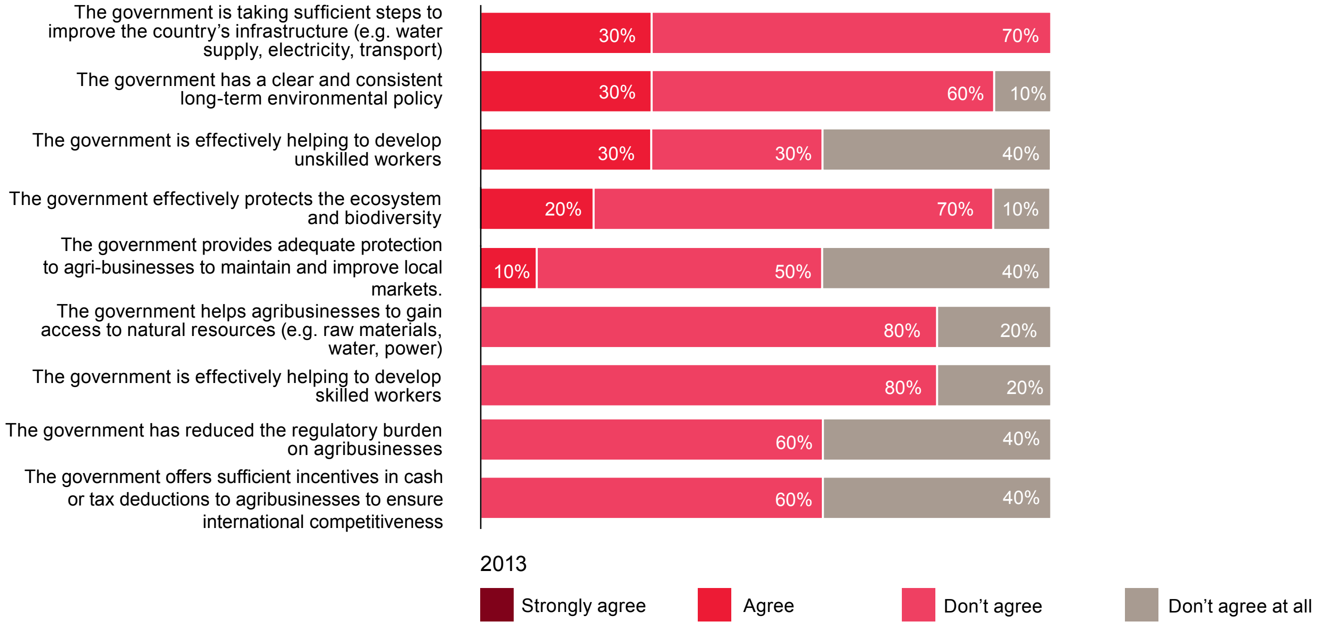
It is promising to report that the majority of participants indicated to have a risk committee and formal risk management strategy in place to evaluate changes in the risk environment.

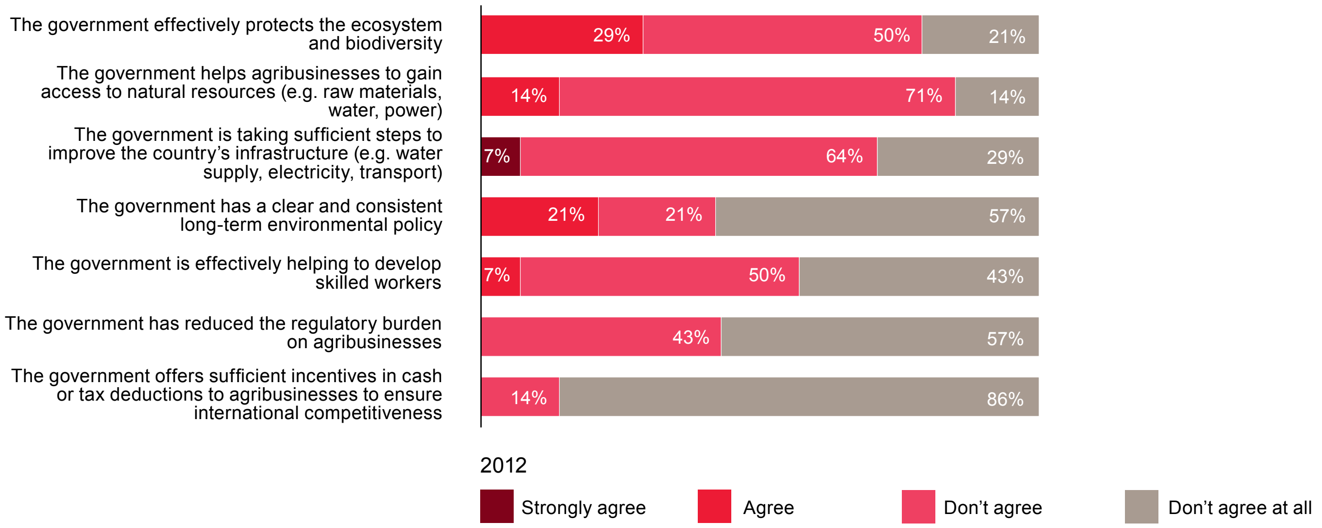
1.5 The role of government

The reaction of participants to the government's role in the economy was again negative, particularly pertaining to:

- Incentives for agribusinesses to improve international competitiveness
- Regulatory burden on agribusinesses
- Assistance to develop skilled workers

In summary, the government's support to agribusinesses is perceived as not being sufficient, especially in comparison to peers in other countries.





1.6 Human capital (HC)

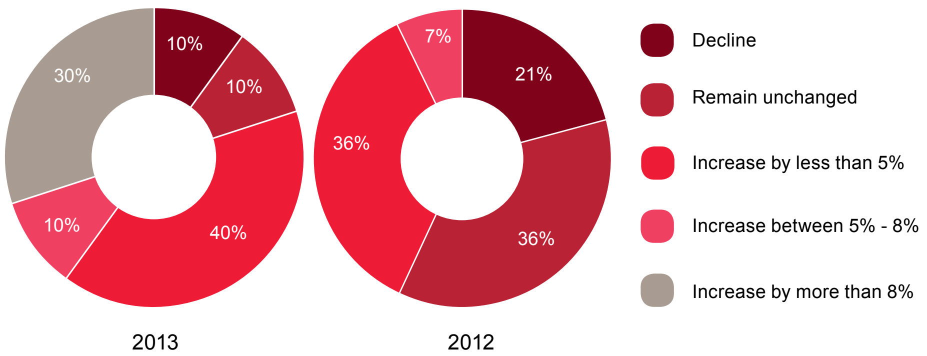
A team of happy, well-balanced employees is a prerequisite for any organisation to ultimately reach its business goals of productivity and service delivery. It is no different for agribusinesses, making human capital management a strategic priority. Human Capital Management includes the whole life cycle of employee in a business, from recruitment, appointment and induction, training, motivation and performance management to retention, workplace communication and workplace safety.

It is imperative for agribusinesses to develop human capital strategies that enable their employees to perform optimally by improving their skills, motivating them and helping them to align their personal career goals with those of the organisation.

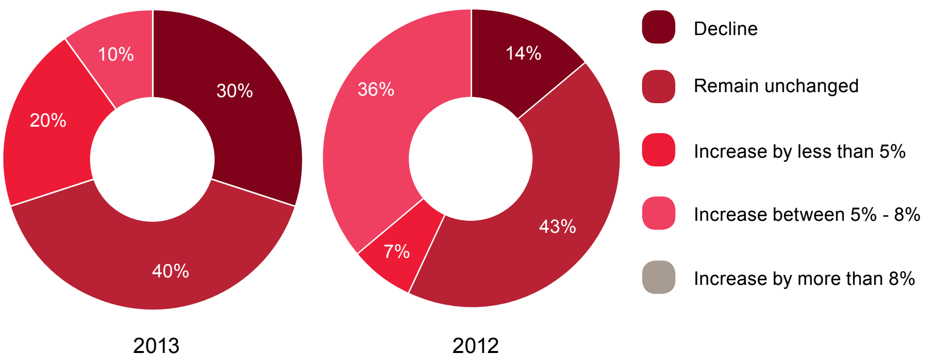
This section will provide some insight into the human capital data and practices of participating agribusinesses.

Personnel numbers

There has been a noticeable rise in personnel numbers from 2012 to 2013 as 30% of participants indicated an increase of more than 8% in 2013. In 2012 no respondents indicated such a high increase.



During the following 12 months 30% of CEOs expect that personnel numbers will decline and 40% expect that it will stay unchanged. A significantly smaller percentage of respondents expect a growth in the following year.



Human capital strategy

As mentioned, it is crucial for agribusinesses that want to stay abreast of the competition to develop HC strategies to promote the optimal performance of employees. HC strategies further need to be flexible and adapt to changes in the economic, regulatory and physical environment.

Participants were asked to what extent they would adapt their HC Strategy in the future. Specific subjects were tested. The three subjects that would most likely be adapted in the HC Strategy are:

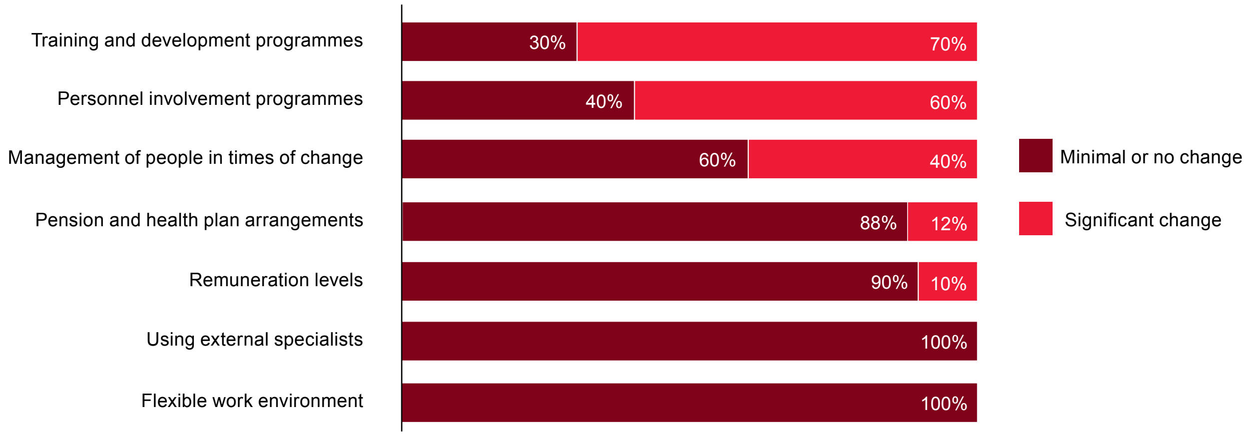
- Training and development programmes
- Personnel involvement programmes
- Management of people in times of change

The subjects that were rated lowest in terms of the likelihood to be changed are:

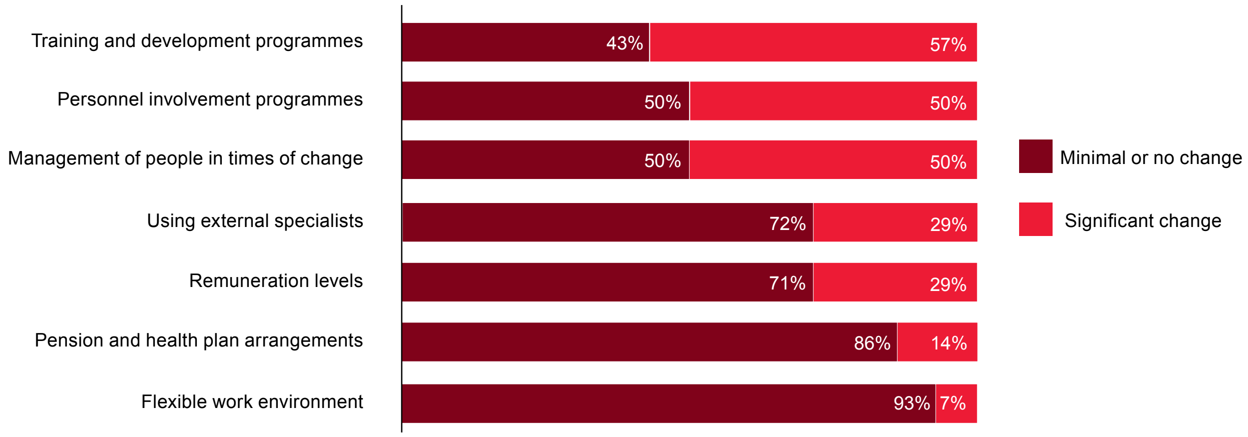
- Flexible work environment
- The use of external specialists
- Remuneration levels
- Pension and health plan arrangements

Comparing the data for 2013 and 2012, one sees that the same three subjects were most likely to be amended in the HC Strategies for both years. These are most likely also the most prevalent subjects addressed in the HC Strategies of participants, as they are of strategic value to the businesses involved.

Changes to HC Strategy – 2013

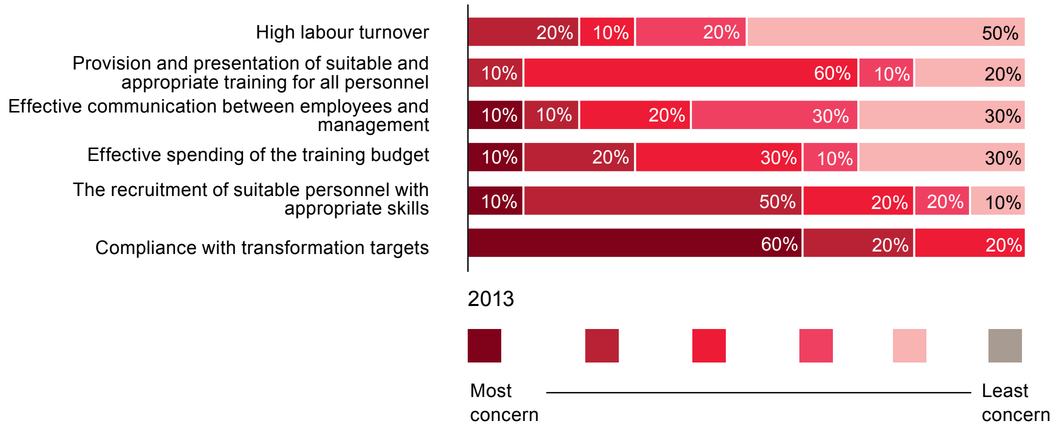


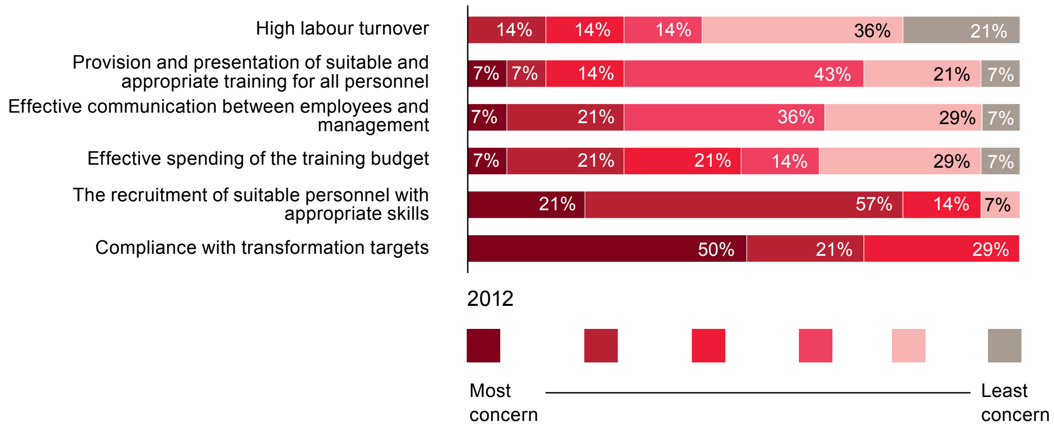
Changes to HC Strategy – 2012



Human capital challenges

CEOs were prompted to indicate the greatest human capital challenges for their business and the results are displayed as follows:





The two challenges with the highest overall rating are:

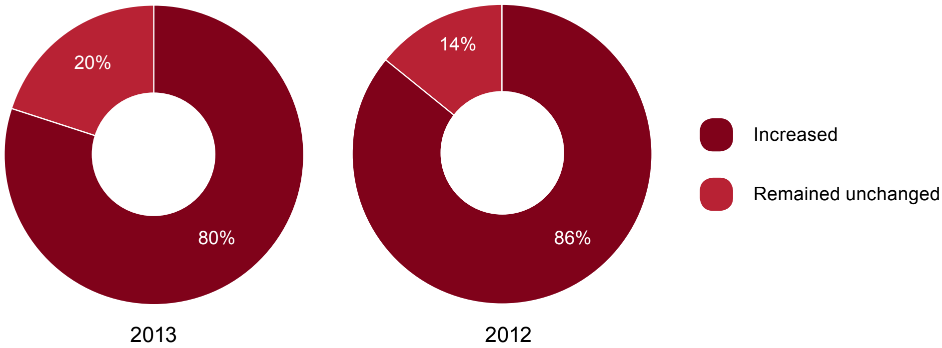
- Compliance with transformation targets
- Recruitment of suitable personnel with appropriate skills

These two challenges were also the most prevalent in the 2012 survey confirming their importance. This emphasises the importance of training and development in the agricultural sector. In general agribusiness seems to struggle to attract suitable Employment Equity (EE) candidates into managerial levels.

Training

Skills development plays a pivotal part in the success of an agribusiness as it provides a platform for the development of human capital for increased productivity and service delivery as well increased employee self-worth and personal growth. Skills development may be the key in unlocking the development potential of agribusinesses in the future and assisting these businesses to adapt to an ever changing economic and policy environment with growing challenges.

Training budget: For 80% of participating businesses there was an increase in their training budgets for the past year, compared to 86% in 2012.



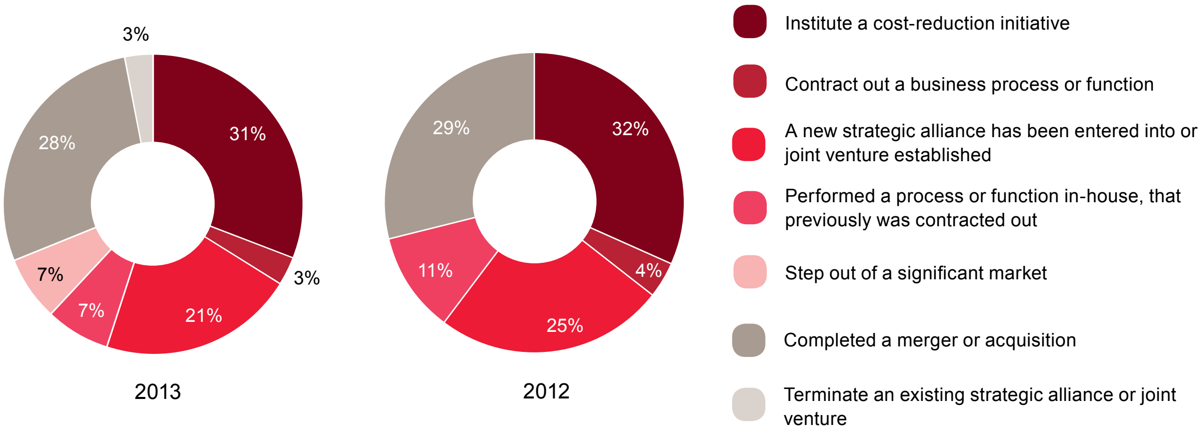
Training priorities: CEOs indicated their training priorities for the coming year by rating the following subjects in order of importance:

Rating 2013	Rating 2012	Training subject
1	2	Leadership development
2	3	Supervisors training
3	4	Technical skills development
4	1	Managerial development
5	6	Interpersonal skills
6	5	Financial management training
7	7	Conflict management
8	8	Personal finance training

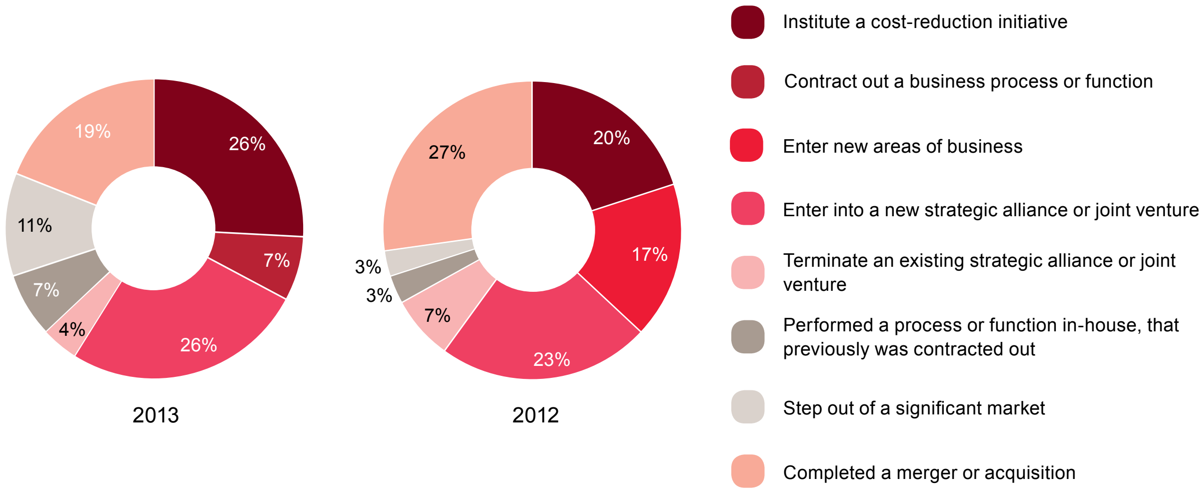
Results from the 2012 survey indicated managerial development as first priority for training, whereas the current survey (2013) indicates that managerial development is lower on the list and leadership development takes the lead. This shift may indicate that agribusinesses understand the importance of developing leaders rather than managers to take this industry to the next level.

1.7 Expansion and restructuring considerations

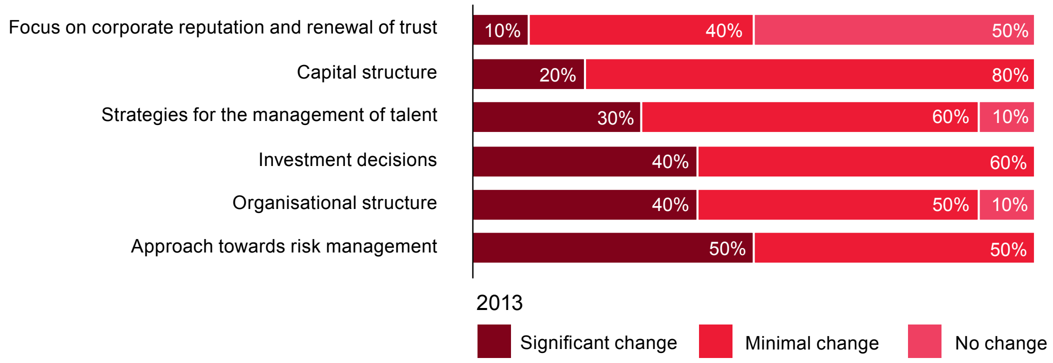
Taking a glance at recent restructuring activities at agribusinesses, the indication is that 31% embarked on a cost reduction initiative and 28% completed mergers or acquisitions. This response is in line with the previous year's survey.

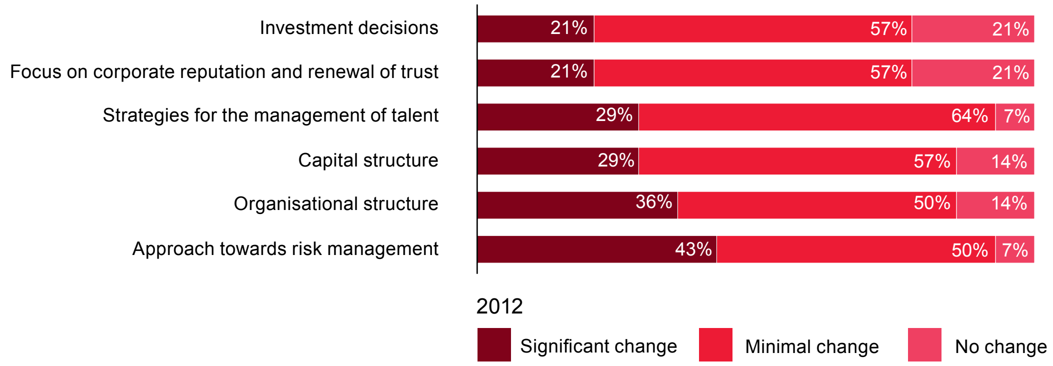


For the following 12 months, 26% of responding businesses will institute a cost reduction initiative, another 26% will enter into new areas of business and 19% are planning to start performing a previously outsourced function internally.



In the light of the **current economic climate**, CEOs indicated certain expected changes to their business strategy, their operating model and their organisation in general:

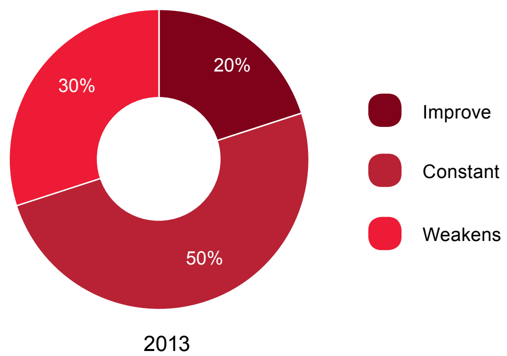




The most significant change is expected to occur in the business' approach to risk management, organisational structure and investment decisions. The 2012 survey indicated investment decisions to be lower on the list of priorities.

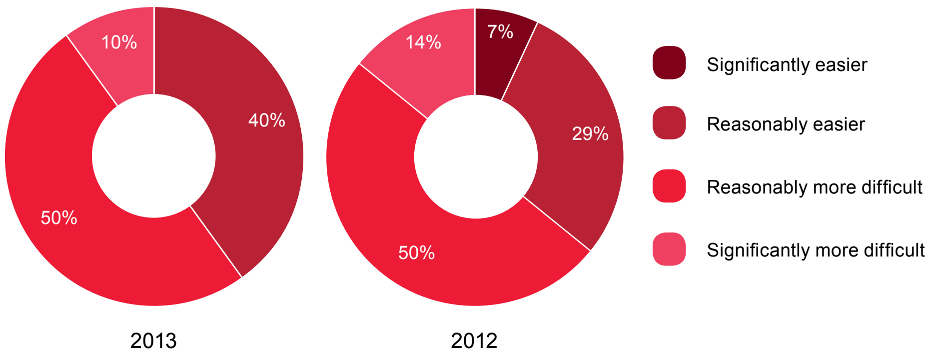
1.8 Local economy

The expectation of 50% of respondents is that the local economy will remain constant. The rest of the respondents were divided between expectations of a weakening and improving economy.



Access to finance

60% of respondents believe that access to bank finance will become more difficult and 40% believes that it will become easier in the following year.

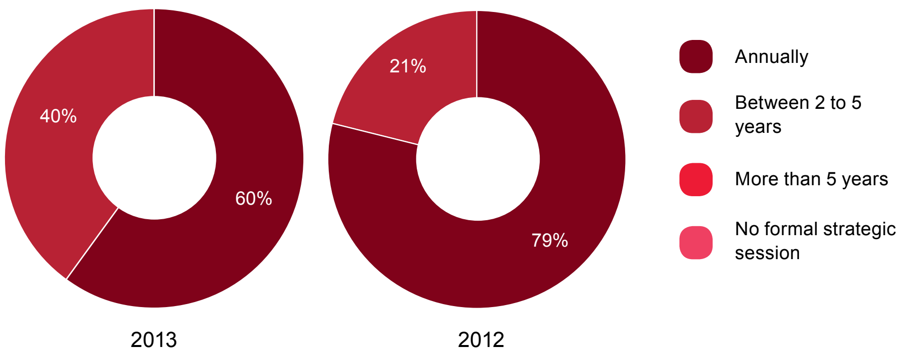


There has been a marked increase in participants' confidence to obtain access to finance from alternative investors rather than the bank. An overwhelming 80% of respondents believe that access to finance from alternative investors will become easier and 20% that it will become more challenging.

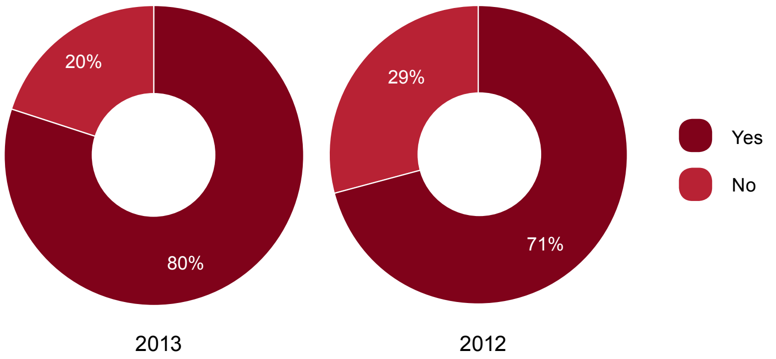
1.9 Strategy

The main objective of any business strategy is to conceptualise certain business goals and then act as a roadmap to reach the desired goals. It takes into account the necessary resources (human, natural and economic), the scope of business activities and the timeframe. Strategic planning is a necessary tool for any business that wants to grow and stay ahead of its competitors.

A drop from 79% to 60% is seen in the number of participating agribusinesses who engage in annual strategic planning. The remainder of participants prefer to engage in strategic planning every two to five years.

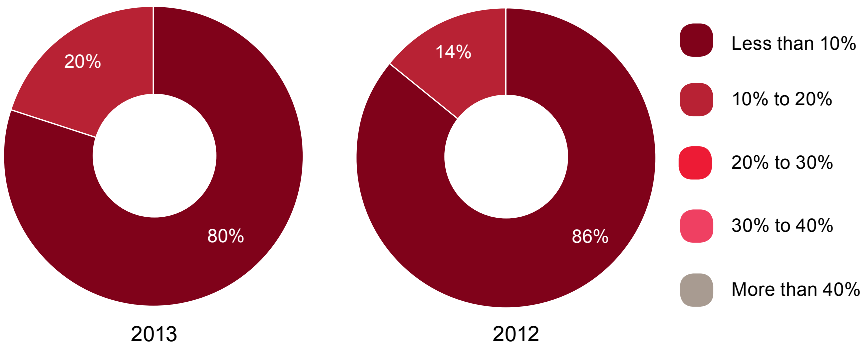


There is a marked increase in the number of agribusinesses that have a corporate governance system in place to monitor the implementation of their strategy (from 71% in 2012 to 80% in 2013):

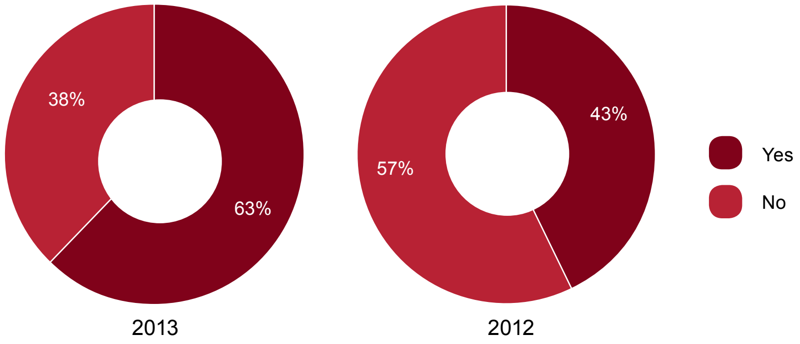


1.10 Credit policy

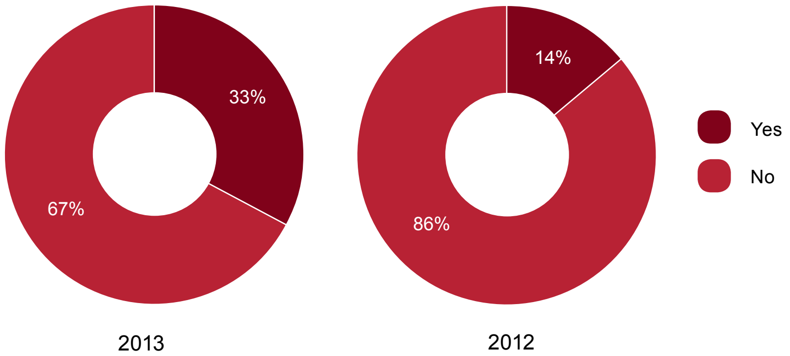
It is comforting to see that most participating agribusinesses do not have major problems with debt collection. 80% of agribusinesses indicated that less than 10% of their debtors will not be able to settle their debt for the current year.



63% of respondents are considering setting up bridging facilities to accommodate producers who cannot settle their debt. This is a significant change from the 2012 survey which indicated that 57% would not like to set up such facilities.



On being asked whether responding agribusinesses would consider amendments to their credit policy, 67% indicated no change compared to 86% in 2012.




ORANGES

2. Profitability analysis

The profitability analysis includes a set of financial metrics that is used to assess agribusinesses' ability to generate earnings as compared to relevant costs incurred during the past year.

The contributions of the various divisions to turnover over the past two years were as follows:

	2013	2012
Grain	50%	42%
Trade	21%	20%
Fuel	9%	6%
Implements	5%	7%
Parts	2%	3%
Other	13%	22%

As expected, the participating agribusinesses rely heavily on grain sales (50%) and trade (21%) as the key contributors to turnover. In addition, agribusinesses are diversifying their activities by focussing on other contributors such as fuel, implements and parts.

The increase/(decrease) in turnover of the various departments in comparison with that of the previous period were as follows:

	2013
Grain	16%
Trade	4%
Fuel	67%
Implements	41%
Parts	24%
Workshop	(24%)
Insurance	4%

The increase of 16% of the **grain sales** can be ascribed to bigger harvests in large parts of the country.

Revenue from the trade divisions remained constant with a slight increase of 4% in 2013. The stability of trade divisions is largely determined by credit supply to producers.

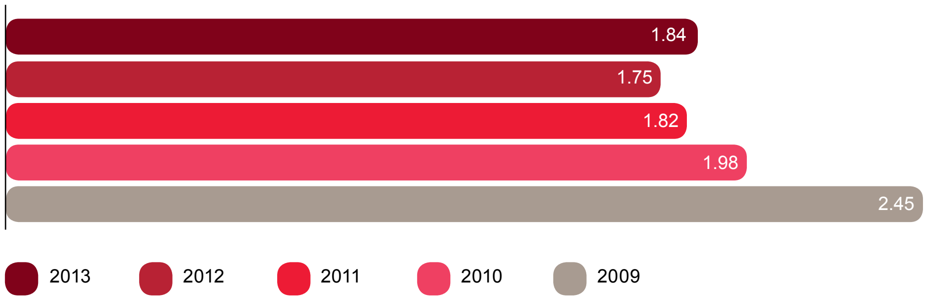
The significant rise in fuel prices combined with increased volumes, led to a significant increase (67% increase) in the **revenue generated from the sale of fuel.**

The considerable increase in the **implements divisions** of 41% is once again noteworthy. This can be ascribed to the improved agricultural circumstances in the current year under review. The **parts divisions** also experienced a growth of 24%.

2.1 Asset turnover rate

The asset turnover rate is a financial ratio that measures the efficiency of agribusinesses' use of their assets in generating sales revenue or sales income to the business. The asset turnover rate becomes an important consideration for agribusiness, as they continually strive to increase their market share by utilising their assets, adding value to their clients and through diversifying and the development of new products.

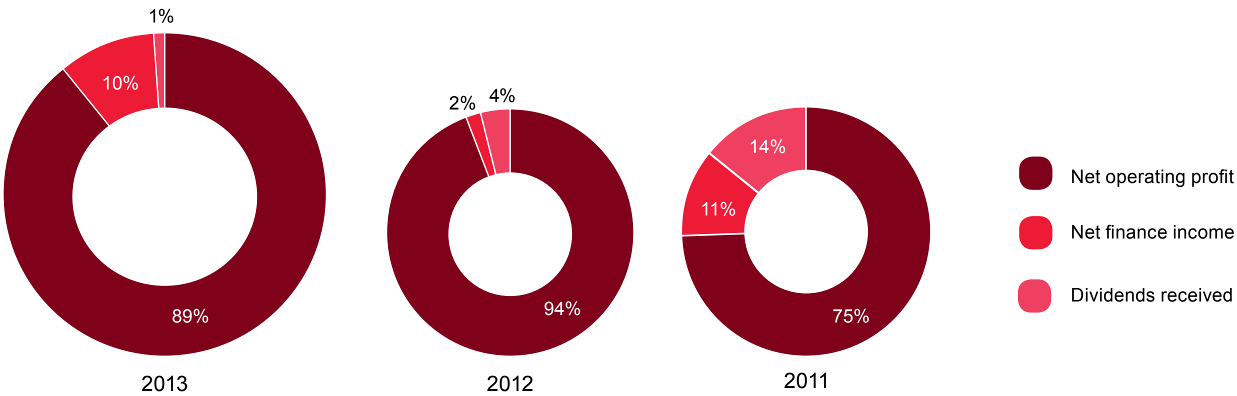
Asset turnover rate



The asset turnover rate increased for the first time in three years, which might indicate that the effects of a sluggish global and local economy are starting to improve in the agricultural sector. Again, it is evident that although agribusinesses remain focussed on the core divisions such as grain, they are also diversifying and exploring other opportunities. Unlocking value and fully utilising synergies within agribusinesses can ensure sustainability over the longer term.

2.2 Net income composition

Net income comprises net operating profit, net financing income and dividends received.



Net income composition

In 2013, the net income composition picture differs considerably from 2012. Net operating profit declined from 94% in 2012 to 89% in 2013. On the other side, net finance income increased from 2% to 10% and dividends declined from 4% to 1%.

Credit control remains the most sensitive of all the activities, with net financing income that flows from credit supply. Some agribusinesses handle it as a separate profit centre so that the effectiveness of this division can be monitored more closely. Bad debt poses a significant threat to the results of this division.

It is meaningful to note the further decline in dividends received.

2.1 Asset turnover rate

The asset turnover rate is calculated by expressing the sales total as a ratio of the total assets applied, excluding share investments, to generate the relevant turnover.

For the purposes of benchmarking, turnover is the figure as reflected by the audited financial statements. Only the commission on direct sales is included in the calculation. Stock write-offs and payment discounts granted are added to the cost of sales. Conversely, trade discounts are adjusted in the turnover figures.

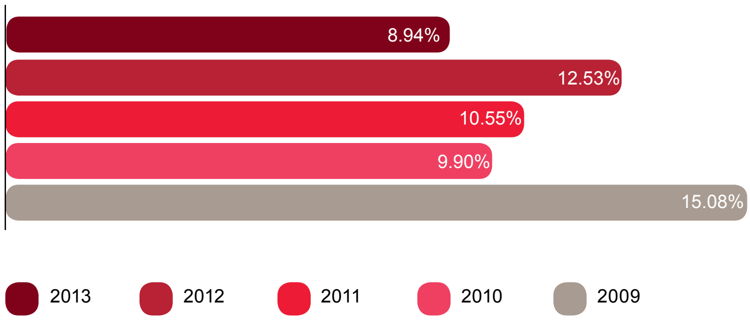
2.3 Asset yield rate

The asset yield rate is a ratio that indicates the profitability of the business' assets. The profit is measured against the total assets applied during the period concerned. The ratio aims to assess the effectiveness of the assets in total, the core assets and the investments separately. In addition, this ratio is often used to determine optimal asset allocations.

For agribusinesses, strategic asset management plays a vital role in improving their asset yield rate. Asset management should be an on-going process which enables the business to optimise the investment in their assets resulting in reduced operating and capital costs and improved business sustainability. It is important to identify critical business areas that will create value and to identify opportunities that will yield an excellent return on investment.

2.3.1 Asset yield rate- before adjustments

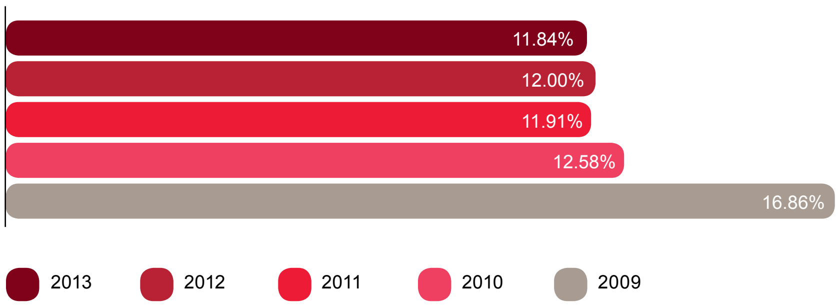
Asset yield rate



The asset yield rate decreased from 12.53% to 8.94%. The decline stresses the importance of strategic asset management to ensure profitability of business assets.

2.3.2 Asset yield rate- after adjustments

Asset yield rate adjusted



With the exclusion of exceptional items, a better comparison between participants' results can be gained. It should, however, be noted that this view is subjective as participants determined the items to be excluded. The adjusted asset yield rate remained very close to the yields in the prior two years.

2.3.1 Before adjustments

The asset yield rate represents the agribusinesses' net profit before interest paid and tax, as a percentage of the total assets. In the case of groups, the minority interest in the net profits is not excluded.

2.3.2 After adjustments

This ratio represents the yield rate of the agribusinesses' assets in total, after the following adjustments:

- *Depreciation;*
- *Exceptional items;*
- *Bonuses and preferential discounts to members; and*
- *Amortisation of intangible assets.*

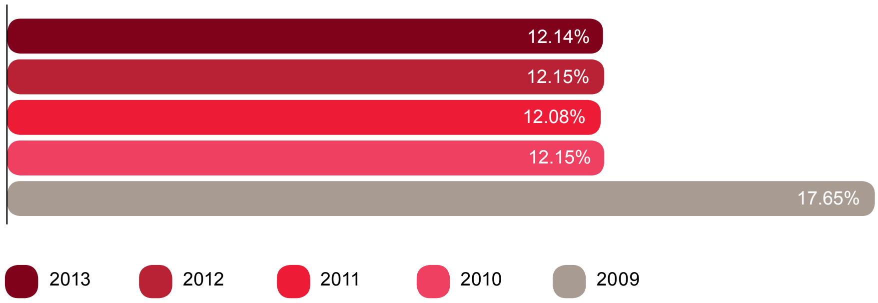
Exceptional items include any item which, in the participant's opinion, substantially affected its net income from normal business transactions for the year and which should not be taken into account.

Total asset adjustments comprise the exclusion of:

- *Revaluation of property, plant and equipment; and*
- *Intangible assets.*

2.3.3 Asset yield rate- investments excluded

Asset yield rate excluding share investments



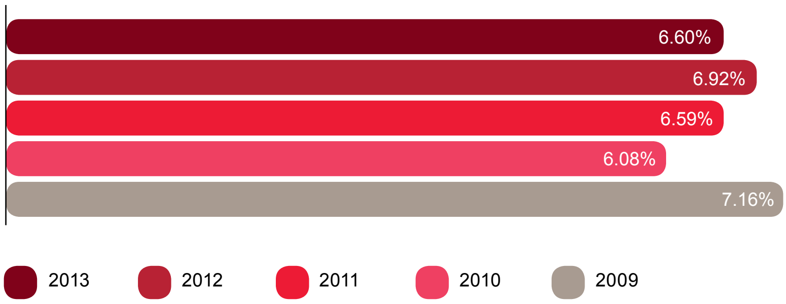
The asset yield rate, excluding share investments, remained unchanged for a fourth year in a row. This shows that agribusinesses consistently yield out of their core business assets.

2.4 Net profit percentage

Profitability is measured by expressing actual profit as a percentage of actual turnover achieved. The effectiveness of transactions is thus measured.

During the past years agribusinesses focussed on the maintenance of profitability through strong cost management and retention of market share. During the period under review, the net profit percentage remained relatively stable.

Net profit percentage



2.3.3 Investments excluded

In this calculation, investments and investment income in listed and unlisted shares are excluded from the calculation of total assets and net income. Investment income represents mainly dividends received.

2.4 Net profit percentage

Net profit is defined as follows:
Net profit before tax and interest paid, adjusted for:

- *Exceptional items;*
- *Depreciation on property, plant and equipment;*
- *Preferential discounts and bonuses granted to members;*
- *Write-offs of intangible assets; and*
- *Investment income.*

Turnover is calculated as follows:
Sales of stock and services, excluding value added tax. In the case of direct transactions, only the commission portion is included. Trade discounts granted are deducted in the calculation of turnover. The silo income is taken into account as accounted for in the various annual financial statements.

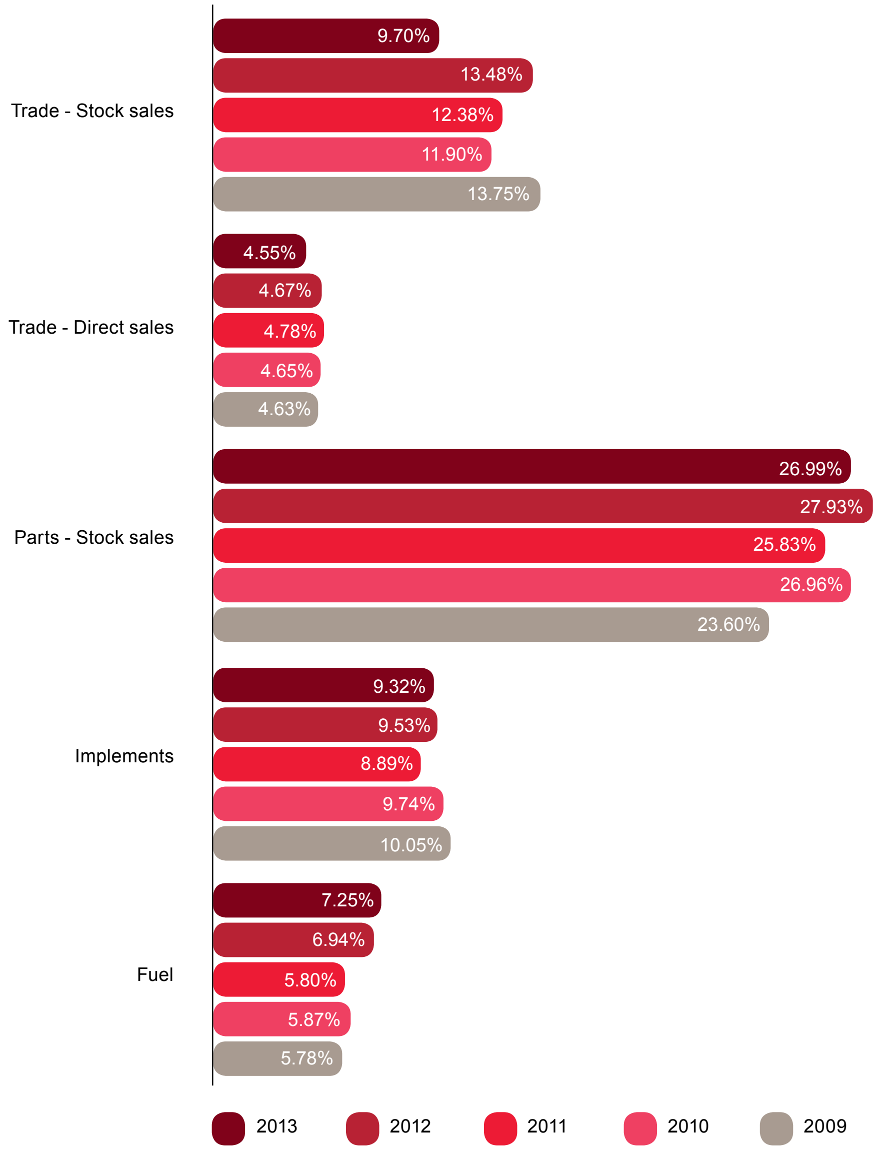
Investment income represents mainly dividends earned from listed and unlisted investments.

2.5 Gross profit percentages

This ratio is calculated on the results of identified departments and provides an indication of the gross profit percentages achieved departmentally.

Agribusinesses must achieve specific margins on their stock in order to cover all overhead costs and maintain reserve funds for expansion or the maintenance of facilities. Other than in the case of producers, these businesses are more flexible and can to a greater extent adapt themselves more rapidly to changes in circumstances. They maintain a fixed performance policy and only adapt prices as market conditions change. For this reason there was not much change in their profit percentage against the previous year. Producers on the other hand are exposed to cyclical conditions and are forced to purchase their inputs at prevailing prices.

Gross profit percentages



The gross profit percentages of all the participants in respect of parts (stock sales), implements and fuel do not differ significantly year-on-year. There was a slight decrease in the gross profit percentage of direct sales from the trade division from 4.67% to 4.55%. Trading (stock sales) decreased from 13.48% to 9.70 %.

2.5. Gross profit percentages

Turnover is defined as follows:
Sales of stock and services, excluding value added tax. In the case of direct sales, only the commission portion is regarded as the gross profit. Trade discounts granted are deducted in the calculation of turnover.

Cost of sales is defined as follows:
Cost of sales of stock, excluding value added tax. Trade discounts received are included in calculating the cost of sales. The costs associated with direct transactions are excluded.

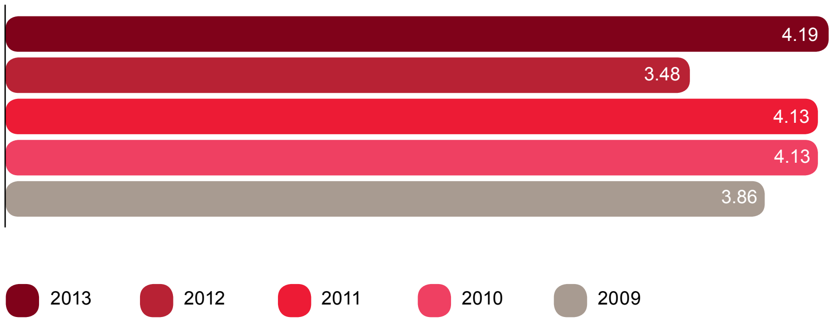
2.6 Interest coverage

This ratio indicates the capacity of the agribusiness to settle interest commitments on its outstanding debt from net income. Agribusinesses should aim to maintain sustainable profits that exceed their interest charge at predetermined levels.

The lower the interest coverage ratio, the more agribusinesses are burdened by debt expense. When an agribusiness' interest coverage ratio is 1.5 or lower, its ability to meet interest expenses may be questionable. An interest coverage ratio below 1 indicates the business is not generating sufficient revenues to satisfy interest expenses.

It should be noted that interest coverage is a highly variable measure- it is consequently meaningful to establish guidelines for setting acceptable levels of interest coverage. Please refer to the definition for further details.

Interest coverage (times covered)



2.6 Interest coverage

Net income is defined as follows:

Net income before tax and interest paid, adjusted for:

- *Exceptional items;*
- *Depreciation on property, plant and equipment;*
- *Preferential discounts and bonuses granted to members; and*
- *Write-offs of intangible assets.*

Interest paid includes leasing costs.

2.7 Directors' remuneration

Intense scrutiny of corporate governance, increased shareholder activism and the recent financial crisis have led to the restructuring and re-evaluation of traditional remuneration structures. Globally, there is a focus on the need for robust governance processes around executive remuneration coupled with the requirement for transparency (PwC South Africa, 2014).

These themes are echoed in King III and three general principles in respect of the remuneration of directors and senior executives are set out:

- Companies should remunerate directors and executives fairly and responsibly
- Companies should disclose the remuneration of each individual director and certain senior executives
- Shareholders should approve the company's remuneration policy.

Only the remuneration of non-executive directors was reviewed for the purpose of this survey. This includes all remuneration received by directors on an annual basis, excluding travel costs. On average, Chairmen, Deputy Chairmen and other Directors' remuneration increased over the past year.

	2013		2012	
	Highest	Average	Highest	Average
	R	R	R	R
Chairman	665,399	341,298	707 794	326 494
Deputy Chairman	468,399	236,700	431 646	200 004
Other	253,625	141,858	356 432	139 145

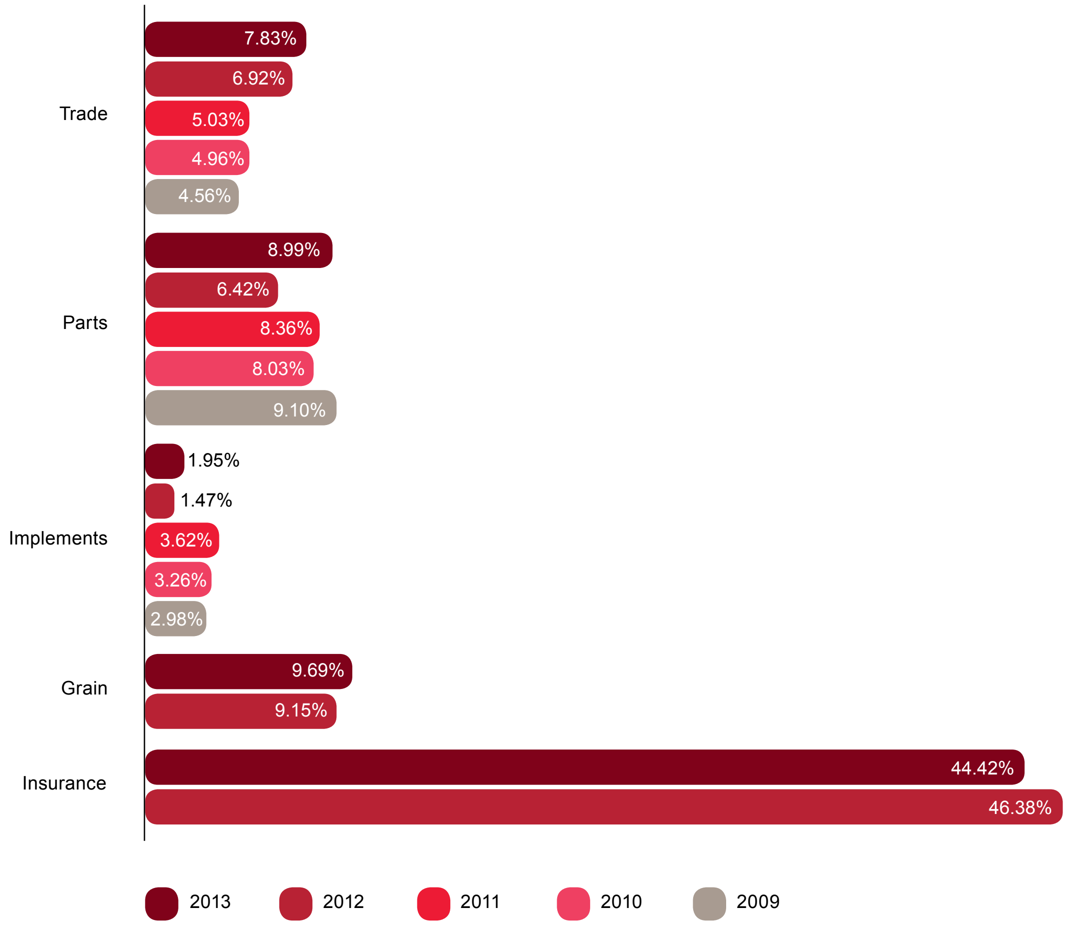
Key questions directors should be asking are the following (PwC South Africa, 2014):

1. Does our remuneration policy comply with the principles of King III and reflect current international best practice?
2. Are our long-term incentive plan rules consistent with the principles of King III in terms of the use and application of performance conditions?
3. Does our annual bonus plan link performance to clearly set objectives that create long-term value for stakeholders?
4. Do we fully disclose remuneration paid to executive directors, non-executive directors and certain senior employees in our annual remuneration report?
5. Can we explain how our remuneration policy links into our strategic objectives?

2.8 Personnel costs

The ratio of personnel costs as a percentage of the divisional turnover was calculated for identified divisions and provides an indication of the personnel costs for the division concerned. Additional divisions that were included in the past two years are insurance and grain.

Personnel costs as a percentage of turnover



An increase in personnel costs in the trade, parts, implements and grain divisions were noted. However, personnel costs in the insurance division decreased.

To manage personnel costs effectively, it is essential that agribusiness evaluate their cost structures and development in terms of individual employees, positions and HC processes on a continuing basis. Simply reallocating the personnel budget is not sufficient – attention must be paid to regulating the costs to ensure they are reduced accordingly, allowing the business to guarantee maximum benefits for individual employees and the agribusiness, which after all is the main goal of personnel cost management.

2.8 Personnel costs

Turnover is defined as follows:

The sale of stock and services, excluding value added tax. In the case of direct sales, only the commission portion is taken into account. Trade discounts granted are deducted in the calculation of turnover.

Personnel costs are defined as follows:

Personnel costs that can be directly attributed to the department concerned. This specifically excludes directors' remuneration and personnel costs of the head office personnel (administrative).

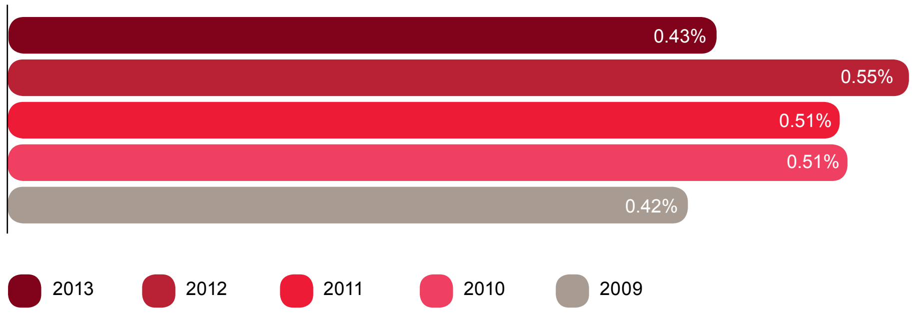
2.9 Information Technology costs

The application of information technology is becoming increasingly important in the success of agribusinesses in a changing agricultural and economic environment. In all sub-sectors of the agricultural industry, information technologies are vital to the management and success of an agribusiness.

Information technology specifically has great potential for improving decision-making in agribusinesses. Moving effectively from data to decisions can often mean the difference between success and failure. Opportunities for decision-making in agriculture are enhanced and enabled by the efficiency of information gathering and the power of modern information processing (The Bridge, 2011).

The information technology costs ratio provides an indication of information technology costs as a percentage of turnover.

Information technology costs as a percentage of turnover



The total expenditure on information technology among agribusinesses in the period under review showed a slight decrease. The important role that information technology plays in the success of agribusinesses remains an important consideration when decisions on systems are made.

2.9 Information technology costs

Computer costs comprise repairs/maintenance, depreciation, license fees, leasing costs, salaries of the IT departments and consultation fees to external parties.

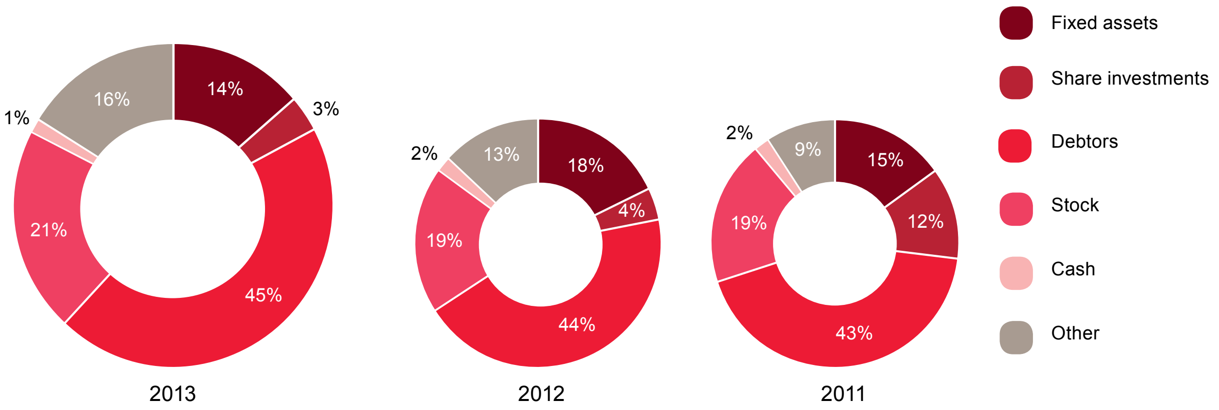
Turnover is the sale of stock and services, excluding value added tax. In the case of direct sales, only the commission portion is taken into account. Trade discounts granted are deducted in the calculation of turnover.

3. Balance sheet structure

In this section, the balance sheet structure of the participants is discussed. The balance sheet provides a summary of the financial balances of a business, including assets, liabilities and ownership equity.

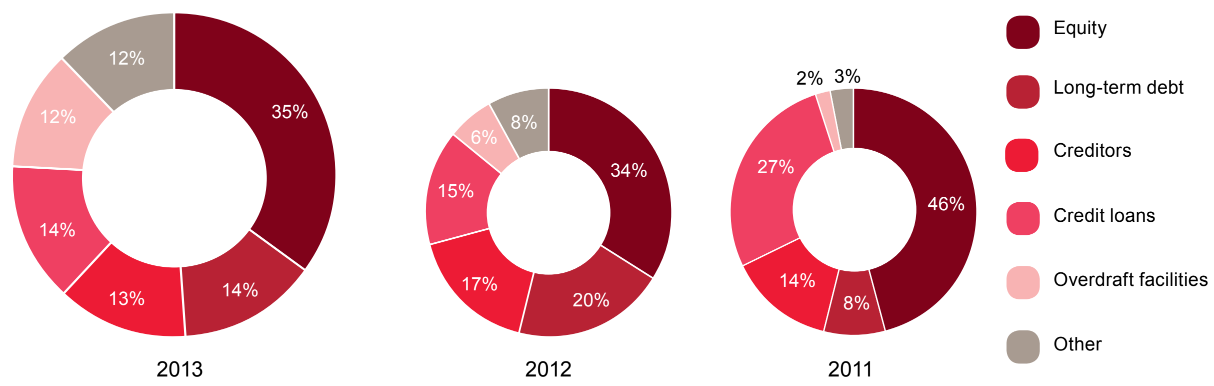
3.1 Total asset composition

Participants' total asset composition was measured in terms of fixed assets, share investments, debtors, stock, cash and other assets as illustrated in the graph below.



The asset composition remained very similar to 2012 with a small increase in fixed assets as the only notable change.

3.2 Equity and liabilities composition



Looking at the different components of equity and liabilities, there was a slight increase from 2012 to 2013 in overdraft facilities (6% to 12%) and decreases in long term debt (20% to 14%) and creditors (17% to 13%).

3.1 Total asset composition

The balance sheet structure was compiled from the monthly averages of debtors, stock, creditors and short-term financing in order to eliminate seasonal fluctuations. The remainder of the assets and liabilities represent the value as they appear on the balance sheet dates of participants.

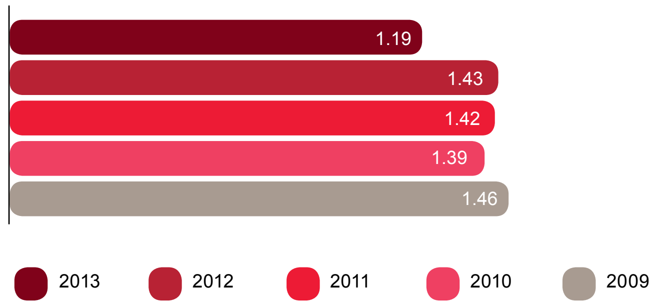
3.2 Equity and liabilities composition

Refer to 3.5 for an explanation of equity and liabilities.

3.3 Working capital ratio

This ratio gives an indication of the ability of the business to be efficient and healthy in the short term.

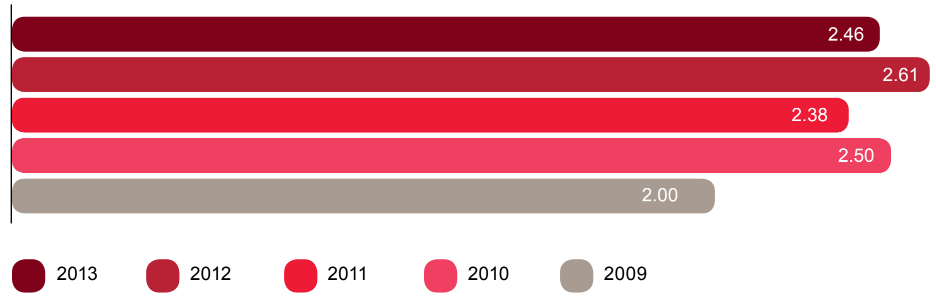
Working capital ratio (Total)



The working capital ratio is significantly smaller (at 1.19) for 2013 than previous years. This may be a point of concern for agribusinesses.

Agribusinesses play a vital role in obtaining finance for producers and act with bankers as a conduit for financial aid to finance producers' input. Participating agribusinesses were again obliged to find new facilities to accommodate the demand for operating capital.

Working capital ratio (excluding cash credits and long-term financing)



This ratio, at 2.46, is in line with the average for the last 3 years.

3.3 Working capital ratio

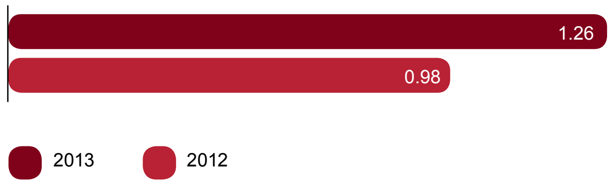
This is the ratio of current assets to current liabilities. For survey purposes, the monthly averages of debtors, stock, cash credits and creditors are used. For all the other items, the amounts as at balance sheet date are used.

For the alternative calculation, credit loans, cash credits and long-term financing earmarked for short-term input financing are excluded from current assets and current liabilities.

3.4 Acid-test

The acid test or quick assets ratio is a stringent indicator that determines whether a business has enough short-term assets to cover its immediate liabilities without selling inventory. The acid-test is far more strenuous than the working capital ratio, primarily because the working capital ratio allows for the inclusion of inventory assets. It is calculated by expressing the sum of cash, accounts receivable and short-term investments, over current liabilities.

Acid-test



The weighted average for this ratio, based on the current year's data, is 1.26 to 1, compared to 0.98 in 2012. This is a noticeable improvement in agribusinesses' ability to retire its current liabilities immediately.

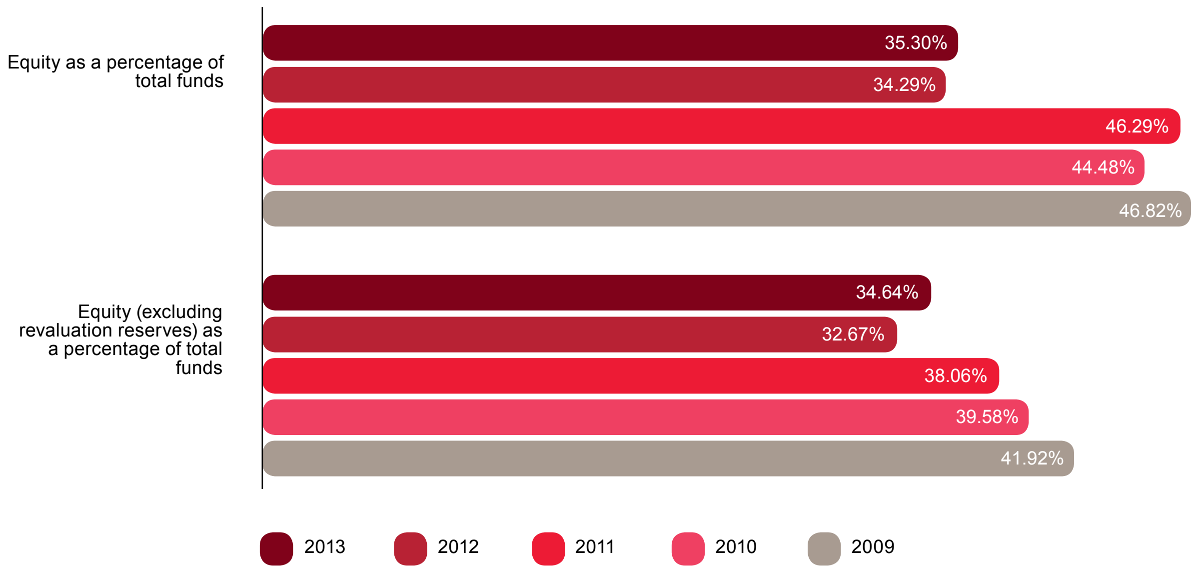
3.5 Equity ratios

3.5.1 Equity as a percentage of total funds

This indicates the extent to which the business finances its assets itself through equity, or is dependent on debt. This is therefore a measure of the agribusiness' financial gearing. The capital and reserves of the industry are expressed as a percentage of total funds utilised.

Two comparisons are made here. The ratio is firstly determined in accordance with the current financial results, as accounted for in the annual financial statements. Alternatively, to achieve a better comparison between businesses, revaluations are excluded.

Equity ratios



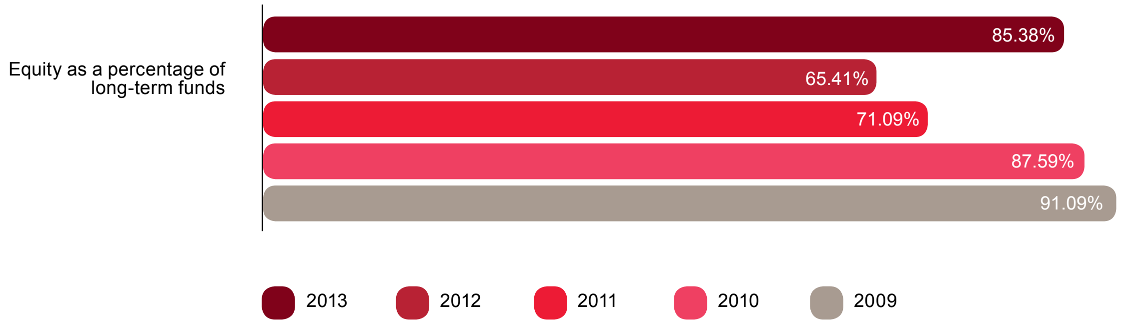
This ratio has improved slightly from last year, although it is still not at similar levels than before the recession.

3.5.1 Equity ratios

Debt includes all interest-bearing obligations, current liabilities and deferred tax. Equity includes all capital and reserves.

Revaluation reserves represent revaluations of property, plant, equipment and investments.

3.5.2 Equity as a percentage of long-term funds



The ratio for equity as percentage of total funds has improved remarkably for 2013.

3.5.2 Equity as a percentage of long-term funds

The debt component of long-term funds includes all interest-bearing obligations and deferred tax. Equity includes all capital and reserves.

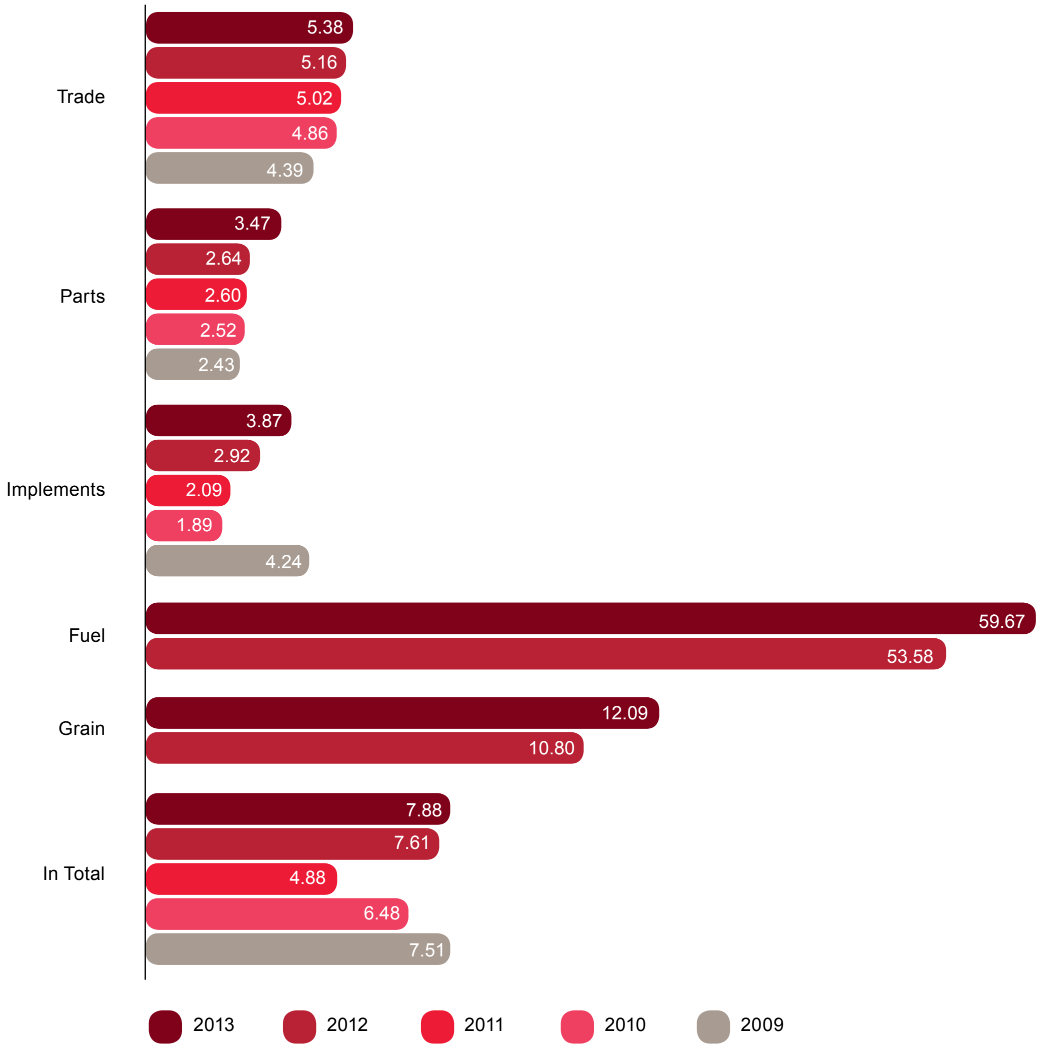
3.6 Stock

3.6.1 Stock turnover rate

The stock turnover rate indicates the average number of times per year that a stock is traded. The higher the turnover rate, the more effective is the investment in stock. If the turnover rate is low, it leads to, amongst other things, higher costs of financing, storage, personnel and insurance costs. It can also indicate old or unusable stock which potentially should be written off.

Stock levels must be managed properly, with the objective of moving away from high stock levels to a just-in-time stock system. Purchases are mostly adjusted according to a centralised system with a sharper focus on product series and categories. Effective stock management also leads to more effective balance sheet structures.

Stock turnover rate



It is comforting to see that there is an increase in the stock turnover rate for all the divisions as illustrated above, proving that agribusinesses are still turning stock at a growing rate. It is now the second year that the survey measured Fuel and Grain turnover and thus the first year in which a comparison is also possible for these divisions.

3.6.1 Stock turnover rate

This ratio is calculated by dividing the cost of sales by the average stock.

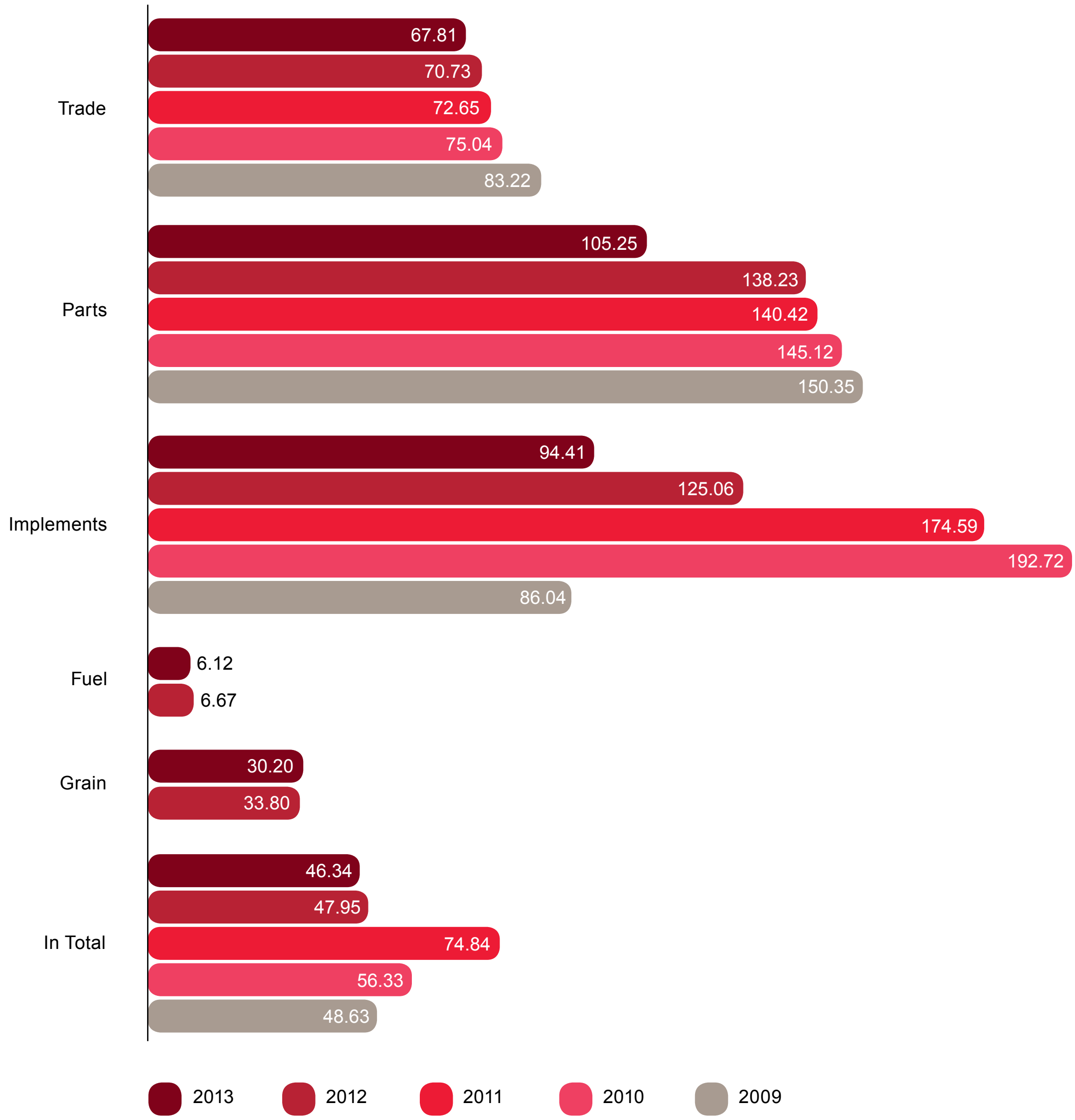
Cost of sales
Cost of sales represents the calculation as defined in 2.5 above.

Average stock
The monthly average stock is used for the purposes of this calculation, due to the cyclical nature thereof.

3.6.2 Stock days

This ratio indicates the number of days that it takes to dispose of stock. The result should be in line with the stock turnover ratio, although it measures days instead of trading occurrences of stock.

Stock days



There has been a gradual decrease in the stock days for the last 3 years.

3.6.2 Stock days

This ratio is the same as that in 3.6.1, except that it is expressed in the number of days instead of the number of times the stock is turned over.

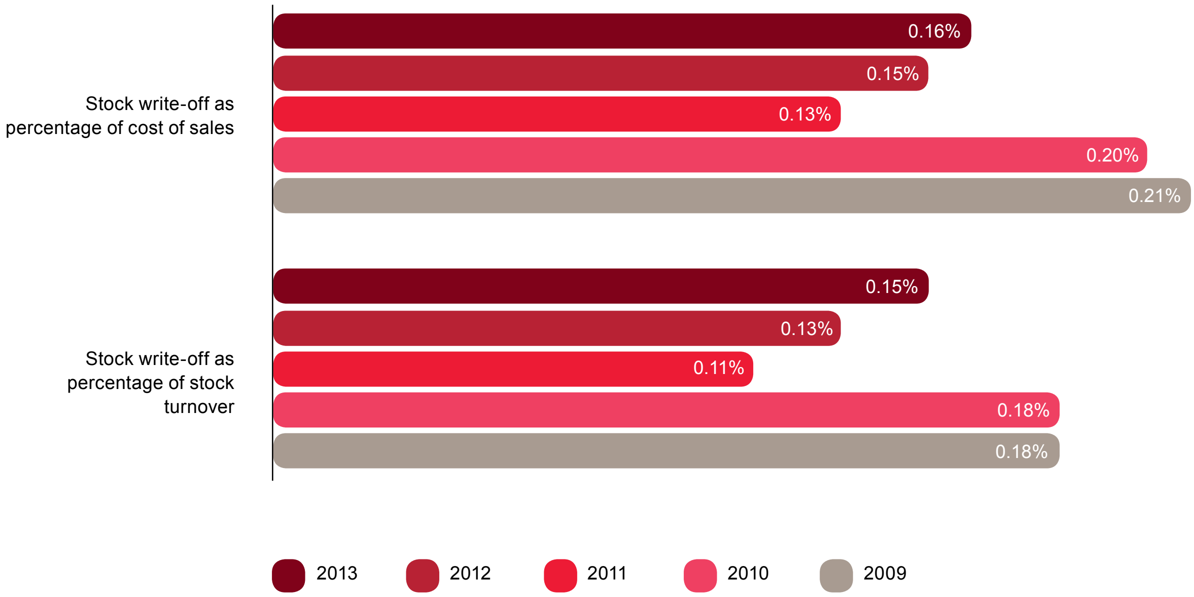
For the definition of cost of sales and average stock, refer to the definitions in 3.6.1 above.

3.6.3 Stock shrinkage as a percentage of cost of sales/ turnover

This ratio represents the stock written off during the year due to price reductions, shortfalls, obsolescence or theft.

Due to the effect of shrinkage on different gross profit percentages, participants requested that the shrinkage factor be calculated on turnover as well as cost of sales.

Stock shrinkage

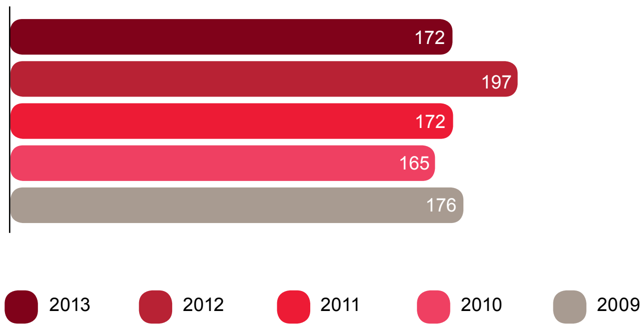


The trend shows a slight increase in stock shrinkage since 2011. This is an indication that each year a larger quantity of stock could not be turned and had to be written off. Stock management remains a major priority in all divisions.

3.6.4 Fertiliser and pesticides

All of the participants in the survey were requested to provide the cost price of the fertilisers and pesticides most traded in their respective areas over the past number of years. Resulting from this, a price index was compiled:

Fertiliser (2005 = 100)



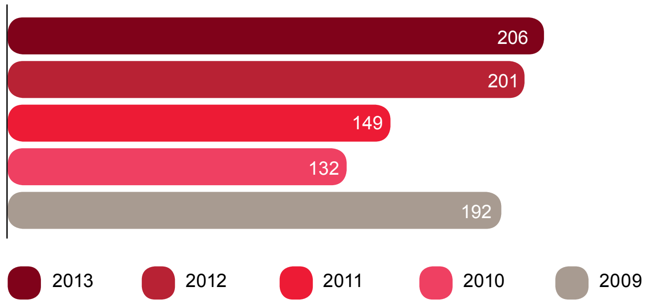
3.6.3 Stock shrinkage

Stock shrinkage represents the monetary value of all stock write-offs.

Cost of sales
Cost of sales represents the calculation as defined in 2.5.

Turnover
Turnover is defined in 2.5 above.

Pesticides (2005 = 100)



The fertiliser price index has decreased and the pesticide price index increased from 2012 to 2013. Both these indexes have been on an upward trend since 2010, so it is interesting to see that the current year's fertiliser index has broken this trend.

3.7 Debtors

3.7.1 Debtor days

The ratio for debtor days gives an indication of how long it takes for the business to collect from its debtors. The ratio is calculated by comparing the average outstanding debtors in the period with the turnover that was generated.

The world-wide economic downturn has challenged businesses in gaining access to finance.

Financing is a good facilitator for the rest of the business. The establishment of effective and purpose-made financing products is an important part of putting producers and agribusinesses in a position to manage their objectives optimally, to everyone's advantage.

Thanks to the entry of new role-players with unique financing products, financing in the agricultural sector is now becoming more competitive. Agricultural financing is systematically moving away from asset-secured to commodity-secured financing, and this puts more emphasis on the repayment and management capacity of producers. These days agribusinesses are required to display greater transparency to producers desiring credit, and also to reveal their marketing plans. The National Credit Act puts further pressure on credit providers to ensure that clients have sufficient repayment capacity and security before financing is granted. Despite the systematic move towards commodity-secured financing, farm properties were still the main source of security that clients could offer. And despite the fact that politicians and journalists sometimes make rash statements, land values have not declined. The number of transactions might have declined as a consequence of city dwellers being less interested in agricultural land and the Green Paper about the redistribution of land, but land prices are at least remaining constant. Due to the great increase in electricity costs, the profitability of irrigation land is now becoming a problem. However, declining interest rates, in times when commodity prices have proved very volatile, have offered producers some slight relief.

3.7.1 Debtor days

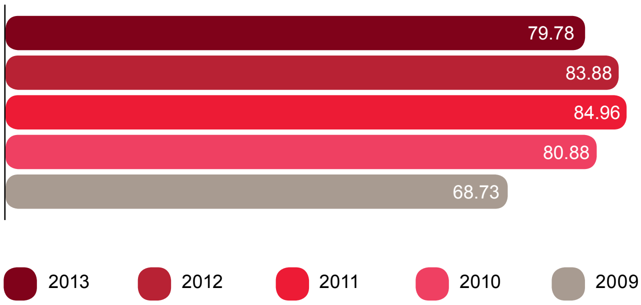
Average debtors
This is the monthly average gross debtors, including carry-over debt.

Turnover
Turnover represents gross turnover, but other than in the case of 2.5 above, gross direct sales are taken into account in the calculation. Because direct turnover is also financed by agribusinesses, it was decided to amend the definition of turnover in this case.

However, Agribusinesses are acting innovatively by continually announcing new financial products. Examples are livestock loans, term loans, direct producers' storage loans, pasture conversion loans, resource improvement loans, instalment sale financing products, loans for the electrification of fences and multi-risk insurance-based products.

As part of an attempt to establish greater financing capacity and to structure balance sheets better, some agribusinesses are currently in the process of or considering selling their finance book to financiers.

Debtor days

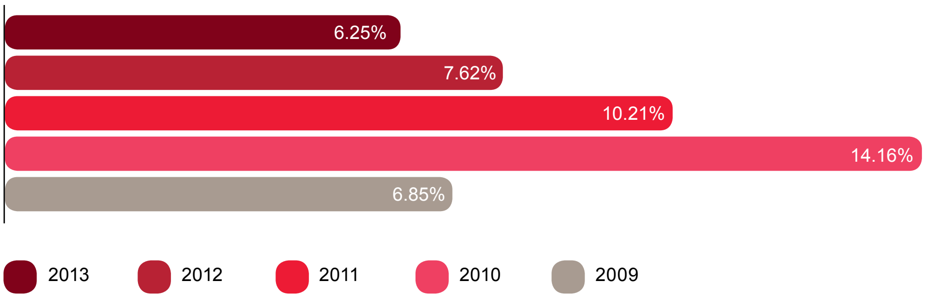


It is promising to see that since 2011 there has been a gradual decrease in debtor days. The figures for 2009 (prior to the recession) have not yet been equalled, but this indicator shows a move in that direction.

3.7.2 Carry-over debt as a percentage of debtors

This ratio indicates the extent to which producers were unable to settle their input costs out of the returns on their harvests.

Carry-over debt



Since 2010 there has been a decline in carry-over debt as percentage of average debtors. This is a sign of better economic circumstances for agribusinesses as well as better recovery methods.

3.7.2 Carry-over debt

Carry-over debt represents the production loans which have not yet been settled at the end of the season. It also includes special arrangements made with producers to settle debt over a longer term.

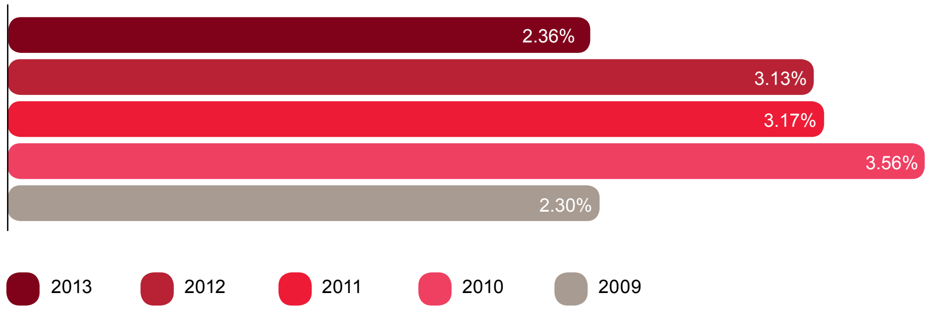
Debtors
This is the gross monthly average debtors as defined in 3.7.1 above.

3.7.3 Provision for impairment of debtors as a percentage of total debtors

This measurement indicates to which extent the management of agribusinesses doubts the recoverability of debtors. Carry-over debt is the determining factor here. As mentioned above, carry-over debt has reduced and consequently also made provision for the impairment of debtors.

Bad debt is directly related to the provision for impairment. This provision should thus be seen as the forerunner of bad debt. Agricultural conditions over the past few years have compelled the management of agribusinesses to operate more conservatively.

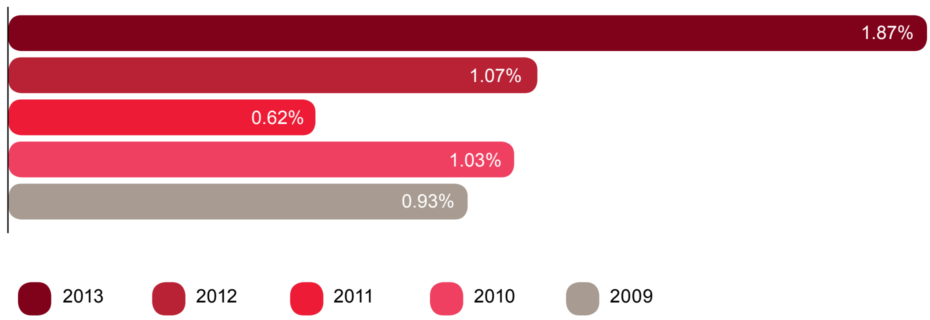
Provision for impairment of debtors



3.7.4 Bad debts as a percentage of average debtors

Bad debt has risen for agribusinesses over the last year, as seen in the graph below. This might be the result of policy changes where doubtful amounts are rather written off than provided for at year-end.

Bad debts



3.7.3 Provision for impairment of debtors

This is the amount set aside for impairment, as calculated on the participants' balance sheet dates.

Debtors
Unlike the definition in 3.7.1, the provision is based on debtors as indicated on balance sheet dates.

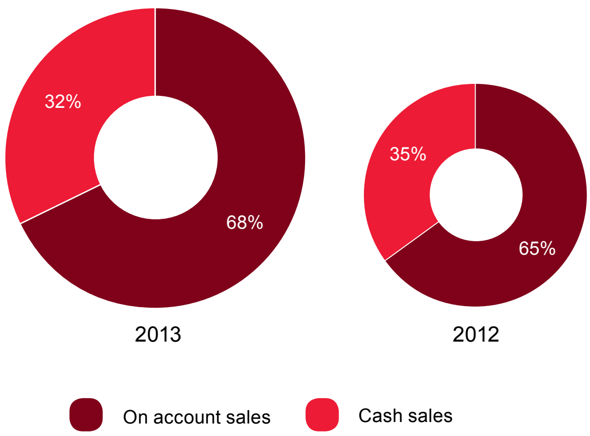
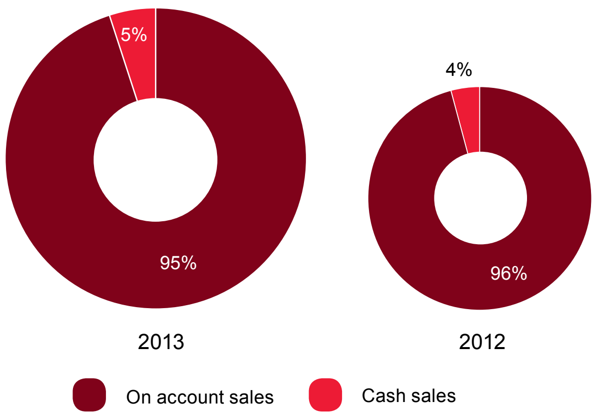
3.7.4 Bad debts

Bad debts represent the amount accounted for in the income statement as irrecoverable.

Average debtors
This is the gross monthly average debtors as defined in 3.6.1 above.

4. Trade division overview

Trade divisions in agribusinesses play an integral role in building client relationships and loyalty. The success of a trade division is a good indicator of the general health of the agribusiness. In 2012, an overview of the performance of trade divisions was included in the report. This year the data can be compared to the previous year, leading to useful insights and findings.

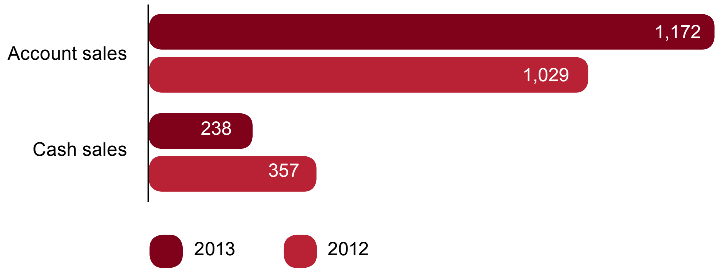
Trade related measurement	*Comments*	*Graphs*
Stock sales and direct sales	As in the previous year, a substantial percentage of sales are on account (68% for stock sales and 95% for direct sales). It is widely acknowledged that account and credit sales, when based on thorough decision-making and basic business principles, enhances profitable operations by expanding sales opportunities and broadening the market. However, it should be noted that if credit is being extended, then credit costs are being incurred and the agribusiness' profits are being impacted (Agribusiness Management, 2013). It is key that this process is carefully managed.	**Stock sales**  **Direct sales** 

Trade related measurement	Comments	Graphs

Average Rand sales per invoice

The average Rand sales per invoice were R1,172 for account sales and R238 for cash sales, pointing out that on average a client spends more on an account sale. This necessitates that account sales are followed up to ensure timely recovery of outstanding payments.

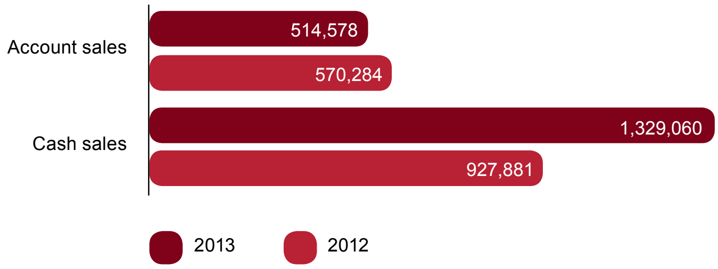
Average Rand sales per invoice



Invoices printed

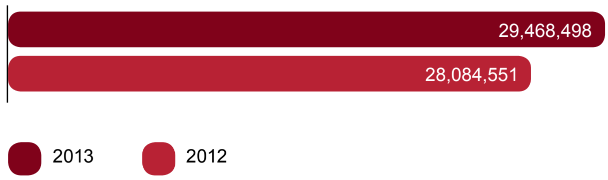
On average 514,578 invoices were printed for account sales and 1,329,060 for cash sales. As noted above, there are more cash sale transactions of smaller amounts.

Total invoices printed



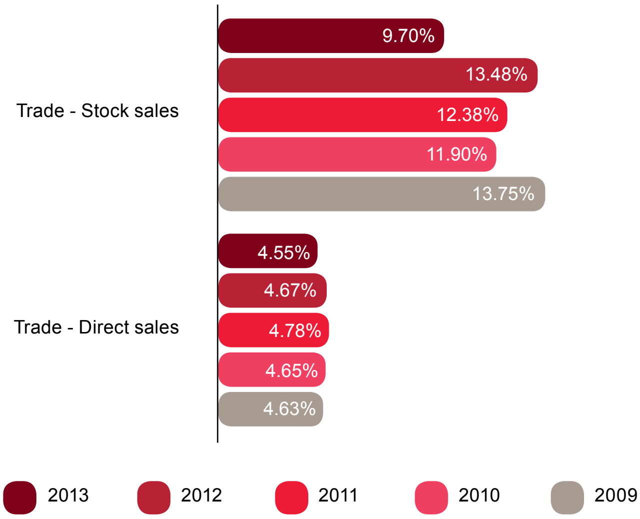
Average turnover per branch

The average turnover per branch has increased moderately from 2012 as illustrated in the graph.



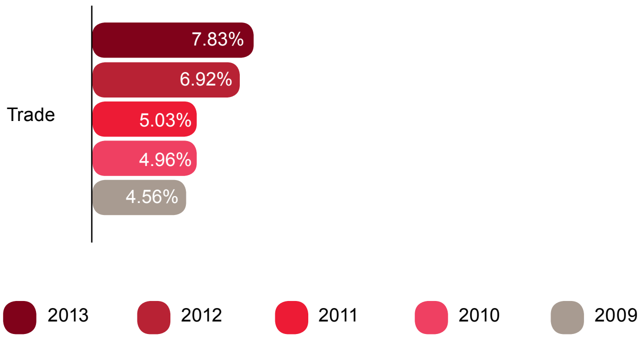
Gross profit

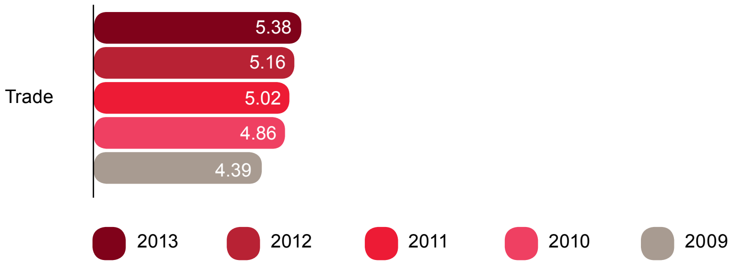
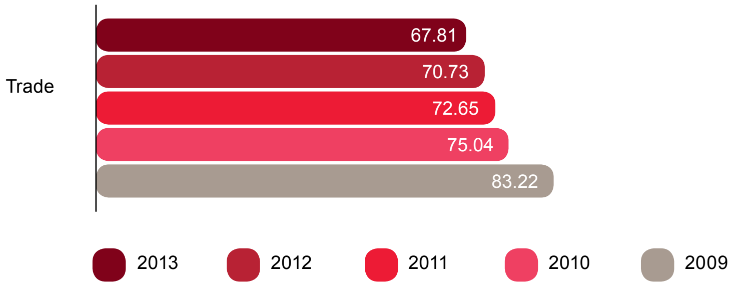
The gross profit percentages for stock sales (trade) decreased from 13.48% to 9.70%.



Personnel cost

Personnel cost showed an increase from 2011 to 2012.



Trade related measurement	Comments	Graphs
Stock turnover rate	Refer to 3.6.1	
Stock days	Refer 3.6.2	

5. Grain silos

5.1 An overview

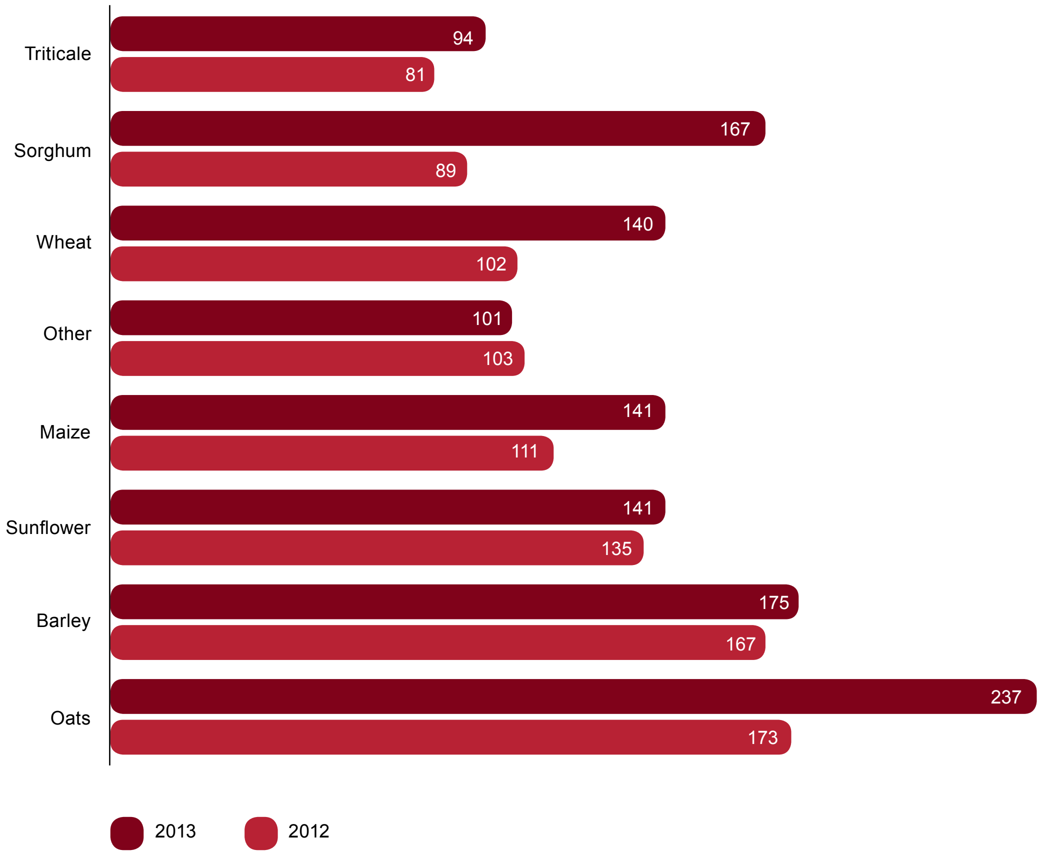
The continuing weakness in the global economy, the continued volatility in soft commodity prices and the Rand exchange rate, is expected to result in another challenging year in the South African grain industry. Consumers continue to remain under pressure as a result of rising costs, especially electricity and fuel costs and increased unemployment and competition in the sector is expected to remain intense. The expected decline in demand for maize meal will also mean a shift in focus for the companies involved in the milling of grain and the production of grain-based products. Although growth prospects look encouraging for the rest of the African continent, these economies are also affected by the volatile global economy (Mahomedy, 2013).

Grain silos are utilised for the mass storage of various grain types including barley, grain sorghum, oats, wheat, triticale, maize and sunflowers. Agribusinesses indicated that the average age of grain silos is 39 years. The expected utility duration (lifetime) of silos is 39 years, 3 years less than in last year's survey. Of the average total tonnes produced in the traditional service areas of the participating agribusinesses, 70% are currently supplied to the agribusinesses.

5.2 Number of days that grain is stored in silos

As illustrated in the graph below, participants provided feedback on the average number of days that grain is stored in silos. The average number of days that grain is stored in silos for the difference commodities range from 94 for triticale to 237 for oats. Note that the average number of days for grain in silos increased for all commodities, except barley and other.

Average days – grain in silos



5.3 Silo utilisation

Competition in the grain market, specifically in terms of silo utilisation, escalates every year and margins are under pressure. However, participants indicated that silos were being utilised at 72% on average, 4% less than the previous year, throughout the harvesting season.

Silo utilisation

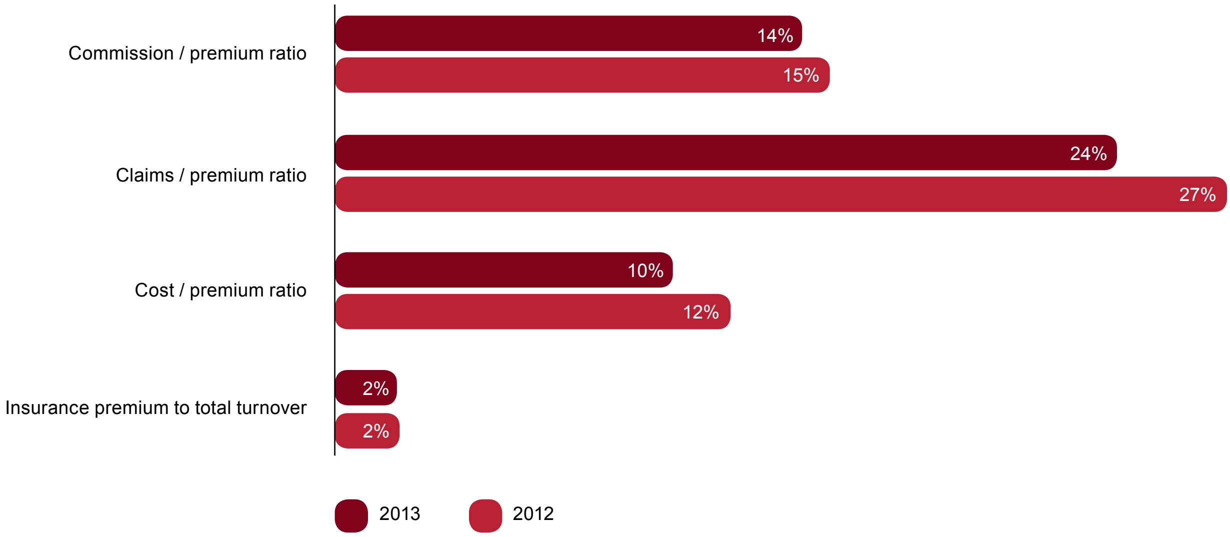
6. Insurance

Agriculture is a high risk industry due to its cyclical nature as well as risk of loss from fires and natural disasters. Consequently, it remains important for farmers to purchase insurance in order to prevent total loss of farm property and crops. In spite of this, agricultural insurance is often a relatively neglected risk management tool in the South African agriculture environment.

The fact that insurance policies are purchased when businesses are performing well and that it only becomes useful when farmers suffer a loss, which could be years down the line, makes it difficult for farmers to pay the premiums without immediate gratification. Farmers view insurance as an unnecessary expense rather than an investment to curtail future risk (Tsikirayi, Makoni and Matiza, 2013).

Respondents were prompted to provide insight into the insurance brokerage services that an agribusiness provides to its clients. Respondents provided information such as the commission earned on insurance, premiums received for insurance and the value of insurance claims. The main ratios are illustrated here:

Insurance – summary



7. Bibliography

1. Agbiz, 2013. Agbiz/IDC Confidence Index, third quarter 2013. [Online]. Available: http://www.agbiz.co.za/LinkClick.aspx?fileticket=4G86gI3JtyQ%3d&tabid=344 [Accessed: Jan 2014].
2. Agribusiness Management. 2014. Agribusinesses profits and the extension of credit. [Online]. Available: http://www.agribusiness-mgmt.wsu.edu/ExtensionNewsletters/cash-asset/AB_profits_credit.pdf. [2014].
3. Business Monitor International (BMI), 2013. South Africa Agribusiness Report, Q1 2014. [Online]. Available: www.businessmonitor.com [Accessed: Jan 2014].
4. Department of Agriculture, 2013. The Agri-Handbook for South Africa, 2013/2014.
5. Department of Agriculture, 2013. Annual Report for DAFF, 2012/13. [Online]. Available: www.gov.za/documents/download.php?f=200106 [Accessed: Jan 2014].
6. GCIS, 2012. SA Yearbook, 2012/2013. [Online]. Available: http://www.gcis.gov.za/content/resourcecentre/sa-info/yearbook2012-13 [Accessed: Jan 2014].
7. Institute of Directors in Southern Africa, 2009. King III Report on Corporate Governance. [Online]. Available: http://african.ipapercms.dk/IOD/KINGIII/kingiiireport/ [Accessed: Jan 2014].
8. Mahomedy, Y. 2013. Manufacture of flour and grain mill products. Who owns whom.
9. PwC South Africa, 2014. King III - Chapter 14: Remuneration of directors and senior executives. [Online]. Available: http://www.pwc.co.za/en/king3/remuneration-of-directors-and-senior-executives/index.jhtml. [2014].
10. Southern African trade Hub, 2011. Priority Value Chains Assessment and Selection, 2011. [Online]. Available: http://satradehub.org/home/priority-value-chains-assessment-and-selection-part-one [Accessed: Jan 2014].
11. The Bridge. 2011. Information Technology and Agriculture: Global Challenges and Opportunities. [Online]. Available: https://www.nae.edu/File.aspx?id=52553. [2014].
12. Tsikirayi, C.M.R., Makoni, E., and Matiza, J. 2013. Analysis of the uptake of agricultural insurance services by the agricultural sector in Zimbabwe. [Online]. Available: http://www.aabri.com/manuscripts/121360.pdf. [2014]
13. World Bank, 2013. Growing Africa – Unlocking the potential of Agribusiness.

This publication has been printed on LumiSilk
paper. The fibre used is from sustainable
managed forests and is recyclable.

Scan the QR code to download an electronic copy of this document.

www.pwc.co.za/agri-business

pwc