Annual Report 2010

DEVELOPMENT AND SPECIAL ACTIVITIESSpecial Capital Projects

The Demuth drum chipper has received substantial attention over the past year in an effort to improve its operating efficiencies.

In particular, much work has gone into re-designing the screens that control the chip size in an effort to alleviate problems associated with choking.

In addition, the bark feeder table has been installed as a compliment to the drum chipper. It is hoped that in the coming year the drum chipper will be fully operational on a continuous basis, thus allowing for the intended rationalisation and efficiency gains.

Experimentation on the Demuth de-barker was also carried out by a Saasveld honours student this past season and we eagerly await the results. Currently operational activity remains limited, however, it is anticipated that the machine will be fully utilised in the coming season. FUTURE OUTLOOKSugar Industry

Cost/price pressures remain high and much of UCL's future success will depend on our ability to maximize throughput while controlling annual costs. As has always been the case we are dependent on various externalities to compliment our internal efforts. A case in point has been the rapid increase in world raw sugar prices and the equally dramatic subsequent decline.

Relations between growers and millers continue to improve and significant progress has finally been made towards securing a favorable outcome to the long overdue Sugar Act and Agreement review process. The main objectives of this process is to secure local value for all stakeholders while concurrently addressing mutually agreed solutions to issues such as vertical slicing, pricing, redistribution and central services.

We will continue our efforts at increasing cane supply through new plantings although this remains a difficult proposition due to the lack of suitable available land and the reluctance of many farmers to switch from existing land use patterns.

UCL will remain a raw sugar miller and exporter for the foreseeable future although we continue to investigate alternatives to our basic sugar manufacturing process. Wattle Industry

In contrast to this time last year we are confidently looking forward to a year characterised by stable sales volumes and perhaps even an improvement on last season's performance statistics.

In addition, economists are predicting a slightly weaker Rand in relation to the US Dollar. However as we have so often seen in the past, such predictions are often rendered useless. Nevertheless, should both expectations prove to be correct we can look forward to significant gains in the coming year.

The newly adopted bark pricing mechanism will remain in place and we look forward to continued improvements with regard to bark quality. Sawmilling

Pressure on sales, particularly with regard to pricing, is not expected to lessen during the coming season. This will continue to put strain on margins and consequently raw material prices. It is however expected that certain rationalization activities resulting from the merger with KSM will contribute positively towards the bottom line. The long term industry outlook relating to national supply and demand remains highly favorable for saw millers and it remains incumbent upon us to see through the difficult times in anticipation of a positive future for saw milling. Trading

As has always been the case, our efforts remain focused on customer service and shareholder needs. While growth is not currently a strategic objective, diversity and a modern orientation certainly are. Agriculture

We remain very optimistic about the future potential of our Agri Division. With the appropriate management structures in place and complimented by specific capital investments the potential performance both in terms of financial returns and operating efficiencies is high.

Much work remains before we reach our optimum land use combinations and rotation cycles. MPP in particular is looking forward to establishing large areas of pine plantations over the next two to three years. SUPPLIER'S FORUM

The UCL Agri Supplier's Forum was inaugurated on 20th October 2005 and has an authorised terms of reference.

The objectives of the forum are as follows;-

To constitute a Suppliers Forum of the Suppliers to the Company;

To assist the Company insofar as may be practicable in attaining its objects.
To promote the interests of Suppliers and to serve as a medium for mutual advice and assistance as between suppliers and the Company.

MEMBERSHIP
Any entity who is in possession of a long term supply agreement and is entitled to deliver agricultural products to the Company shall be eligible for membership of the Forum and will be allowed to vote in matters pertaining to the forum. All eligible persons who agree thereto shall be a member when their name is registered in the Register of Members of the Forum in terms of paragraph 6.

The representatives of the Forum shall be those persons elected by the suppliers in a general meeting.

Each Agricultural Product shall be entitled to appoint representatives to the Forum in the following ratios:-
GROWER BOARDCane2 Appointed 1 Appointed Wattle3 Appointed 1 Appointed Sawlogs1 Appointed 1 Appointed Other1 Appointed Environmental1 Appointed Staff2 Appointed OR

Any such ratio that may be laid down by the Forum from time to time.

There will be an annual re-election of Forum members at the annual AGM. All members of the forum shall be eligible for re-election.

POWERS OF THE SUPPLIER’S FORUM
The Forum may for the purpose of achieving its objectives:
Generally do such things as are necessary for or conducive to the attainment of the objects of the Forum.

OFFICERS
1. The Officers of the Forum shall consist of a Chairman, vice-Chairman, Secretary, who shall be elected at the first meeting of the Forum following each Annual General Meeting of the Company.
2. Such Officers shall hold office until the next Annual General Meeting of the Forum, when they shall retire, but shall be eligible for re-election.
3. Only supplier members will be entitled to vote should the need arise.
4. At least three members of the forum shall be nominated by the Board of Directors of the Company to represent the Board of Directors of the Company on the Forum.
5. The Company shall nominate at least two members of staff of the Company to represent the Company on the forum or any such number which may be decided by the Company Board of Directors from time to time.

GROUP MANAGEMENT
The business of the Forum shall be managed by and, subject to paragraph 15 of this constitution. The powers of the Forum shall be exercised by the Forum consisting of not less than 6 members or their duly appointed representatives, who shall be elected at the Annual General Meeting of members. No person shall be elected as an Officer or to the Committee who is not in good standing, or is otherwise disqualified for membership.

The members of the Forum will be divided into such regions/districts that the Forum deem to be desirable, the boundaries of such regions/districts being determined by the Forum from time to time and ratified at each Annual General Meeting. In determining the boundaries of each region/district, the Forum shall take cognizance of geographic factors and utilize natural boundaries, where practical.

LIABILITY OF FORUM MEMBERS
Provided that they are is not guilty of any gross negligence, default, breach of duty or breach of trust in relation thereto, no forum member, manager, officer, secretary, servant or auditor of the Forum shall be liable for the acts, receipts, neglects of defaults of any other member or officer or for loss or damage suffered by the Forum.

AMENDMENT OF CONSTITUTION
This constitution may be altered or added to from time to time by resolution passed by a three-fourths majority of the suppliers present and entitled to vote at a General Meeting called for the purpose, and shall be approved by the Board of Directors of the Company.UCL AGRI SUPPLIER'S FORUM MEETING ATTENDANCEName of Member4th June 200910th Sept 200913th Oct 200912th Nov 20093rd Dec 20093rd Feb 201016th Mar 2010BOARD ELECTED MEMBERS M.J. Mason - ChairmanPresentPresentPresent Present PresentM.R. MeyerPresentPresentPresentPresentPresent PresentM.A. KlippPresentPresentPresent PresentPresentPresentA. Voigts PresentPresent Present PresentJ. StegenPresentPresent Present ELECTED MEMBERS C. FreesePresentPresent PresentPresentPresentPresentF. KlippPresentPresent Present PresentPresentK. BouviriePresentPresent Present PresentB. McMurrayPresent Present PresentI. Hill PresentPresent Present PresentCOOPTED MEMBER C. Van BredaPresentPresent PresentPresentPresent

CHAIRMAN’S ADDRESS TO THE UCL AGRI SUPPLIERS FORUM AGM 2010

Last year was another interesting year for UCL growers overall, but I think one where most can reflect that it has gone pretty well in most cases. The gloomy situation that we all sat in this time last year has generally improved, albeit not to the levels that most of us enjoyed in the boom times but generally better, most importantly—we are all still here!

COMMODITIES :

Sugar :
Cane suppliers generally had an easier year with the global recession putting downward pressure on the big input costs such as fertilizer and chemicals and fortunately the RV price didn’t follow the same trend. Good rains were experienced over most of our growing areas. The good spring rains were a contributing factor to UCL not achieving its original target of 800 000 tons crush, but were a great help to this year’s crop. Well done again to those growers who kept the mill going over Easter, this certainly was a great help.

A major point of contention last year was the UCL Brix factor. At last year’s suppliers forum AGM it was reported that it was suspected that a faulty refractometer was to blame for the problem. My thanks must be extended to the UCL Management and staff for their efforts in solving this problem, which turned out not to be of their doing.

The Board then agreed to financial compensation to affected growers even though the Company had not directly gained from this problem. I must thank the Board as well as the cane suppliers for their patience and understanding of this difficult situation.

Cane testing frequency is another very important point of concern. This has been raised before and please rest assured that your forum members as well as management, are constantly looking at ways of improving the test frequency with as little financial impact to the grower as possible.

Another development this year was the reintroduction of the clean cane campaign and the reintroduction of the ash penalty bonus system. Although this is not a huge sum of money, we believe that it is a good way of rewarding growers who take the extra effort to deliver cane free of excessive foreign matter.

Wattle :
From last year’s season of cut-backs and then increased demand for bark this season started with UCL again taking an optimistic view of the extract market which again proved to be spot-on. An increase in allocation during the season meant that UCL eventually processed 57 276 tons of bark for the season. This means that UCL was once again able to take advantage of the opportunities that presented themselves and although extract profitability for the Company was far less than last year, this was purely due to the exchange rate and growers are again to be commended for their commitment in delivering top quality bark to our Dalton factory.

Long debates were held at our forum meetings regarding adjusting suppliers’ BBA, but no clear cut rules to suit everybody could be found. Hopefully with seasons like we have been having discrepancies between over and under supplying growers will be ironed out over time. On this note — I must plead with all suppliers to be timeous and accurate in submitting data regarding your wattle plantations. This information is critical to both long and short-term planning for our agri-services staff.

Sawlogs :
The pine sawntimber market was one of the worst affected by the financial downturn. Demand as well as prices for sawn timber dropped off dramatically putting big pressure on the profitability of sawmilling businesses. Last year 9 sawmills closed down and over 50% of sawn board was sold at a loss. Recent months have seen an increase in demand albeit at lower prices. Many mills are still running at a loss and there continues to be downward pressure on sawlog prices from the big players. SOSM and KSM are fortunately still operating well and a stable supplier base as well as good management will no doubt continue to see these sawmills continuing to provide a good market for their sawlog suppliers.

RTMS :
UCL continues to set high standards regarding the amount of overloaded vehicles arriving at our factory. Our thanks to Chris Van Breda, Trishan and Prevesh for their efforts.

Agri Division :
Last year I reported on the many land sales and acquisitions that had led to a very different farming operation. More recently a property in the Karkloof, “The Forest,” was purchased in line with MPP’s policy of securing the long-term supply of pine sawtimber. The UCL farms have seen significant improvements over the last year and well done to all involved in theses efforts.

Acknowledgments :
The following thanks must be expressed :-
The Board of Directors of UCL
Members of the Supplier’s Forum

Management and Staff of UCL and particularly the Agri-Services division
All suppliers of UCL for your continued loyalty and effort in supplying top quality raw materials to our processing facilities.

M.J. Mason
Chairman UCL Agri Suppliers Forum
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