



# Chairman's Message

## Recapping 2005 and a view of the road ahead

After a century of leading the global fresh citrus category, we find ourselves facing a multitude of challenges. Your Board approved strategies to address the most immediate of these concerns: unity, alignment, safety and quality are the four initiatives management is pursuing to further our strategic plan. What follows is a report of our progress in 2005 and the outlook.

### Unity

While we continue to work at unity within the Sunkist family, the California Citrus Growers Association (CCGA) is facilitating a new sense of industry unity and it gets better with each year.

Not only are we seeing the benefits of more orderly sales and industry stability, but also an advertising campaign to build a California citrus identity which finished its first season with orange sales up in the targeted U.S. markets. Seeing these results, our lemon industry formed the California/Arizona Lemon Growers Association and our mandarin growers now have the California/Arizona Mandarin Growers Association.

### Alignment

The Sunkist alignment strategy focuses on aligning the needs of our customers and their consumers with our growers and packers. Of all the initiatives, this one is the most difficult. It deals with:

- Organizing the co-op to deliver higher value
- Eliminating inefficiencies
- Aligning growers with consumers

An alignment strategy is expected to roll out in 2006, and I will expand upon it in my view of the road ahead.

### Safety

Customer and regulatory agencies continue to put pressure on the produce industry to initiate new and better food-safety systems to address an increase in reported foodborne illness outbreaks linked to produce over the past 15 years. The citrus industry is no exception. We have accomplished much in the last year:

- Our management team has held regional meetings to present our food-safety programs
- Sunkist added Good Agricultural Practices (GAPs) programs to its efforts, including all aspects of citrus growing, harvesting and packing
- Sunkist packinghouses have passed PrimusLabs' third-party audits and continue to be tested annually to ensure compliance

### Quality

The Sunkist quality initiative is a supply-chain strategy to deliver on the Sunkist brand promise – from the quality of the fruit to how our staff services our customers. PrimusLabs is engaged to develop a Web-based system to track a number of quality

unity



and service aspects to ensure we're achieving our commitment to quality. An annual scorecard will help ensure consistency – from the grove to point of purchase. Growers, packinghouses and Sunkist employees will be evaluated and held accountable to this new scorecard.

### **The road ahead**

Our global competitors not only have cheap land and labor, but they also have state-of-the-art food-safety systems and are rapidly improving product quality. They know that to compete in the export market, they have to deliver quality product – and they're doing it. We're seeing quality citrus coming to the U.S. market from Chile, South Africa and Australia. Spain is bringing in top-quality Clementines. Even China, with its sights on our lucrative Asian markets, is showing dramatic improvements in its citrus quality.

Consumers are driving the industry, and we need to thoroughly understand and respond to their ever-shifting desires. The good news is citrus is well positioned to capitalize on current trends if we have the right business model in place to seize opportunities. Consumers want fresh, ready-to-eat, good-for-you, natural, flavorful choices, that are convenient, portable and in many packaging options.

While our CEO Jeff Gargiulo is moving on, he has built a first-class team of talented professionals aggressively taking on the challenges of a dynamic marketplace. They're strategic and they're passionate about making a difference to the bottom line of Sunkist quality growers both today and well into the future. Our new CEO will have a powerful team in place to hit the ground running.

We inherited a great legacy from prior generations of Sunkist growers and managers who led the company through many difficult times. I think we all know the current status quo is not good enough. If we are to succeed in the coming decades, we must change the way we do business. We also recognize that while we see many signs of improvement, this is insufficient to meet the ever-increasing challenges of a fast-paced global market. This has been the focus of the Board's efforts for the past several months and will continue to be the most important issue we deal with in the 2006 term. We will communicate in the coming months about initiatives that will fundamentally change the Sunkist organization linking the consumer and grower while significantly enhancing growers' returns.



David W. Krause  
*Chairman of the Board*

