

“Our growers and shippers excel at producing and packing a great citrus product. And Sunkist, with its unmatched global footprint, excels at selling it. Together we make an unbeatable team.”

Russ Hanlin
*Senior Vice President
Sales and Marketing*

Year in Review

Sunkist has gone through a great deal of change in the past 12 months. We have lost a large member. We have gained some new grower-members. We have a new president and CEO.

These kinds of changes can be trying. However, the core group of Sunkist people has stayed on course. Not only have they kept the business on track and accomplished great things, they delivered the largest revenue year in the cooperative's history.

The 2005-06 Navel crop was exceedingly large with the industry total tallying more than 90 million cartons. And, as is usual when the fruit set is exceedingly large, the fruit size was exceedingly small.

Despite the difficulties in marketing a crop that was short on the larger sizes consumers prefer, Sunkist delivered a fair net return per acre to growers. All returns, however, were not equal. The difference between growers who had high per acre production and larger-sized fruit versus those who did not, was substantial.

The effect of the growing demand for sweet, seedless, easy-peel citrus on the Navel market became increasingly evident last season. As the large specialty citrus production currently in the ground begins to produce in commercial quantities, the front end of the Navel season will be fundamentally changed. Sunkist and its growers are preparing for that change. Economics and quality are driving the market. Growers who produce a quality piece of fruit will have a place in that market. Growers who don't, won't.

Another highlight of the 2005-06 Navel season was the excellent sales of late Navel varieties. Growers who had late Navels, and who farmed them correctly, enjoyed a great back-end of the season.

Sunkist growers had the best Valencia season in 10 years. The crop was an exceedingly short one, but with the continued improvement in its crop

estimating capabilities, Sunkist's sales staff knew well ahead of time the kind of crop it had to manage. That advance knowledge provided the tools to drive sales and maximize revenue. The excellent collaboration between Sunkist's Citrus Juice and Oil Unit and fresh fruit sales provided a juice floor that also helped boost per acre returns.

It was expected that the upcoming 2007 Valencia season would provide a clearer picture of the amount of acreage that has been taken out and how much production there is compared to a few years ago when the Valencia dynamic began to shift significantly. Is supply and demand now equivalent, or is the industry still in transition? 2007 should provide the answer. The impact of the freeze may delay that understanding.

Sunkist's 2005-06 lemon revenues set an all-time record, totaling more than \$339 million – this despite the incredible competition from Mexico, Chile, Spain and Argentina. Sunkist's understanding of these markets and its ability to accurately analyze them, drove revenue generation to new heights. Sunkist analysts used that information flow to assess and create market opportunities and to be more competitive, not just in the United States, but in all its markets.

An essential factor in the success of the lemon season was the accomplishments of Sunkist-affiliated shippers who did an excellent job ensuring the high quality of the fruit Sunkist put into the marketplace. The collaborative effort between the sales side and the supply side in managing the fruit was key. The cooperation between growers, shippers and the sales and marketing staff was exceptional. While every year is different, Sunkist is already on track to duplicate that performance in 2007.

The 2005-06 returns on grapefruit were excellent. Most markets still favor the super red grape fruit varieties and a great many more trees are being planted as the transition to Flames, Stars, Rios and Summer Ruby grapefruit continues.

However, pricing on grapefruit has been high for quite some time. The industry is in the third year of the Florida hurricane-driven pricing model and the question is – are these continually high FOBs beginning to impact the consumer?

There are many retail stores in the U.S., Japan and Canada where an individual grapefruit is selling for more than \$1. These rising prices in our most substantial grapefruit markets may be leading to a drop in consumption, a trend Sunkist is monitoring carefully. In the short term, however, grapefruit growers are doing well.

Sunkist drove record revenues for seasonal specialties in 2005-06. Revenues totaled almost \$42 million, a whopping 62 percent increase from just two years ago. These citrus varieties – specialty oranges, specialty grapefruits, tangerines and tangelos – are in great demand by customers and consumers alike and they are a dynamic and expanding part of Sunkist's portfolio.

One of the keys to Sunkist's successful specialties program is a strong focus on sales operations, which tailors sales programs to the specific needs of individual markets. Another key is Sunkist's large and



“Sunkist is continuing to work to increase market access by lowering tariff barriers and creating level playing fields for fair trade. We are more competitive than ever as we expand into new sales channels. And consumer research consistently shows the Sunkist brand brings added value in those global markets because consumers know and trust us.”

Mike Wootton
*Senior Vice President
Corporate Relations and
Administration*

diversified product mix. While there are some very popular varieties such as Cara Caras, Moro oranges and Minneolas – and there are some varieties that are not as popular with consumers such as Orlandos and Fairchilds – last season’s sales of nearly every variety reached record levels. Sunkist’s Cara Cara sales volume grew by 45 percent and FOBs also increased, a remarkable exception to the expectation that a substantial increase in volume results in a corresponding decrease in FOB value.

As a major category manager for its large trade partners, limes are an important part of Sunkist’s portfolio. In 2006, supplies from Mexico were the shortest they have been in the past five years due to unfavorable weather conditions. As a result, for much of the season, limes were selling at three to four times historical norms, depressing movement. The 2006-07 lime crop appears to be a normal one, which should align supply with demand.

In 2005-06, Sunkist Global LLC produced the best offshore selling season it’s had since the inception of the global sourcing program in 2003. In a well coordinated effort, Sunkist Global sourced fruit that filled the specific customer needs. The program has concentrated on fruit sourced from Australia and South Africa as well as limes from Mexico. Some domestically sourced fruit, grapefruit from Texas and non-member Clementines, are also handled under the global program. Much of the globally sourced fruit is sold in Southeast Asian markets, although some is marketed in the U.S. and Canada.

In 2004, Sunkist Global LLC began a test program marketing berries, initially strawberries and expanding into blueberries. A thorough cost benefit analysis of the berry business showed that due to changing circumstances the program was not anticipated to meet expectations, and in 2006 Sunkist Global exited the berry business.

Sunkist's national marketing programs provided excellent opportunities to help tie in customers for long periods of time. Relationships such as those with Little League Baseball and with Sesame Street Workshop have proved to be very positive. The sales team is able to support those national programs at the local level as well, helping Sunkist partner with retail customers in support of their community efforts. Every retailer has community outreach programs they support and they appreciate Sunkist's efforts.

Regardless of the marketing program, its most important goal is to generate excitement in retail. When a program has that excitement, it all comes together – the right product, the right placement, the right pricing and the right promotion. It's all about building displays and engaging the consumer.

Sunkist's largest customers consider Sunkist's category management program the gold standard in produce. Sunkist has developed comprehensive plans to help customers increase their business. These plans are based on data, and the data drives the program. This has helped increase not only Sunkist's sales, but also Sunkist's reputation as a valued partner. More and more buyers are turning to Sunkist to manage their citrus category. Category management does not come with a "one size fits all" template that the sales team can take to every customer. Each plan is customized, with substantive data to demonstrate to each retailer what can be done to promote sales in a particular store, in a particular location.

Sunkist Citrus Juice and Oil business has staked out a successful niche in its line of byproducts and is on track to become a leading supplier of value-added citrus products. It has also made great strides in reducing costs while increasing revenues.

Over the last three years, underutilized assets were sold and long-term contracts were renegotiated, both of which generated substantial cash flow. The Ontario and Tipton plants were modernized, productivity increased and workers' compensation costs decreased.

Juice quality is the finest it's ever been, and food safety and sanitation audit scores are at all time highs. And for growers, fruit price averages are the highest in ten years.

Sunkist's orange facility in Tipton, California, hit record processing levels in 2006. A large Navel crop and a good futures market helped generate greatly improved processed products returns to growers.

Not-from-concentrate (NFC) orange juice is a key market for Sunkist in supplying fresh quality juice to major brands. To accommodate this sales stream, Sunkist invested in an aseptic tank farm that allows it to supply customers with product year round. In addition, increased evaporation capacity and juice debittering and de-oiling systems have greatly improved product value.

The Tipton plant also continued to produce a high quality Navel Frozen Concentrated Orange Juice (FCOJ), breaking all previous efficiency records, and gaining new customers. Focus on quality and communication allowed Citrus Juice & Oil to divert a record percentage of the Valencia crop to NFC production providing the highest possible returns.



The Ontario facility is focused on processing lemon juices, oils and aromas. Installation of a “best-in-class” lemon extraction unit and a new pulp cell recovery system have added efficiencies.

In late 2006, in response to a petition filed by Sunkist, the U.S. International Trade Commission and the U.S. Commerce Department initiated antidumping duty investigations on imports of lemon juice from Argentina and Mexico. Sunkist’s petition alleged that these imports are sold in the United States at unfair prices, below their own third country prices and below their own costs of production, causing material injury to the domestic U.S. lemon juice industry. If the investigators find that these countries are indeed dumping lemon juice, the antidumping duties assessed will offset the unfair price advantage and allow U.S. producers to compete on a fair market price level. The outcome will be determined in 2007.

Sunkist Research & Technical Services (R&TS) relocated to Fontana this year when the Ontario facility was sold. The division is currently working on many new and exciting improvements to their product lines, as well as on some experimental installations for non-citrus products – an area with good growth potential. Despite the turmoil of transition, R&TS had a great 2006, not only covering their costs and the costs of the Fruit Sciences and Food Safety Departments, but also generating a profit.

Sunkist continued to make major improvements in its food safety and sanitation programs in 2006. As the citrus industry leader, Sunkist has always been at the forefront of food safety issues – and intends to stay there.

Sunkist exercises extremely tight quality control over all aspects of its citrus operations. To assure customers that the conditions under which Sunkist fruit is packed provide a wholesome, safe product, Sunkist has implemented a program of Safe Handling Practices in all its affiliated packinghouses. Continuous random sampling, daily visits by Sunkist inspectors

and regular third party audits by certified inspectors are just some of the measures that help ensure the Sunkist promise of safety and quality.

Sunkist’s global footprint continues to gain strength and prosper. In 2006 worldwide sales of licensed products approached \$1.4 billion, a 10.4 percent increase over 2005. Overall sales of licensed products are up in every region – the U.S., Asia, Europe and the Middle East.

New product introductions totaled 46 in 2006. Existing licensees are demonstrating great support for the brand with added marketing support and new products. For example, Haitai Beverages in Korea launched Lemonade and a sister product Orangeade, Sunkist M, and Smoothie N; Japan’s Morinaga Milk introduced Fruit Waters and a new 30 percent juice drink; and Mizkan is launching new and improved Sunkist Lemon Juice.

Among the many new licensees which entered the market in 2006 are: Wafer Foods in the Middle East; Ismail Beverages in Pakistan; Simply Lite, Concord Foods and WN Pharmaceuticals in the United States; and WN Pharmaceuticals in Korea. Sunkist’s newest licensees, Jelly Belly Candy Company and Old World Enterprises will have product on U.S. shelves in 2007.

In 2006, Sunkist developed systems that drove the year’s revenue increases – systems that can be continually added to and improved upon. Yes, the business is driven by what Mother Nature provides, but Sunkist has reached a point where efficiencies, processes and procedures are in place to help overcome seasonal variations. Sunkist has good people with a great deal of talent coordinating its business. The right people are in the right spots in the organization. Sunkist is well positioned for 2007 and beyond.



Fresh Fruit Varietal Summary

Shipments in thousands of cartons

	2006		2005		% Change	
	Cartons	Avg. FOB	Cartons	Avg. FOB	Cartons	Avg. FOB
Navels and Miscellaneous						
Domestic	20,345	\$ 10.78	20,962	\$ 10.26	-3 %	5 %
Export	7,437	\$ 13.22	5,727	\$ 13.23	30 %	0 %
*Products-grade	<u>1,343</u>	\$ 2.68	<u>1,522</u>	\$ 2.93	-12 %	-9 %
Total	<u>29,125</u>	\$ 11.03	<u>28,211</u>	\$ 10.47	3 %	5 %
Valencias						
Domestic	6,462	\$ 13.74	7,029	\$ 9.50	-8 %	45 %
Export	4,814	\$ 12.40	6,267	\$ 11.20	-23 %	11 %
*Products-grade	<u>1,822</u>	\$ 4.36	<u>2,067</u>	\$ 3.23	-12 %	35 %
Total	<u>13,098</u>	\$ 11.94	<u>15,363</u>	\$ 9.35	-15 %	28 %
Lemons & Limes**						
Domestic	16,635	\$ 17.21	16,343	\$ 15.37	2 %	12 %
Export	3,094	\$ 19.51	3,359	\$ 18.56	-8 %	5 %
*Products-grade	<u>-</u>	-	<u>-</u>	-	0 %	0 %
Total	<u>19,729</u>	\$ 17.57	<u>19,702</u>	\$ 15.91	0 %	10 %
Grapefruit						
Domestic	3,274	\$ 13.45	3,186	\$ 13.90	3 %	-3 %
Export	795	\$ 11.76	1,029	\$ 14.43	-23 %	-19 %
*Products-grade	<u>250</u>	\$ 4.43	<u>100</u>	\$ 4.15	150 %	7 %
Total	<u>4,319</u>	\$ 12.61	<u>4,315</u>	\$ 13.80	0 %	-9 %
Tangerines						
Domestic	1,797	\$ 16.33	1,556	\$ 16.13	15 %	1 %
Export	282	\$ 14.62	250	\$ 16.55	13 %	-12 %
*Products-grade	<u>23</u>	\$ 3.62	<u>64</u>	\$ 2.61	-64 %	39 %
Total	<u>2,102</u>	\$ 15.96	<u>1,870</u>	\$ 15.71	12 %	2 %
All Varieties						
Domestic	48,513	\$ 13.77	49,076	\$ 12.27	-1 %	12 %
Export	16,422	\$ 14.12	16,632	\$ 13.67	-1 %	3 %
*Products-grade	<u>3,438</u>	\$ 3.70	<u>3,753</u>	\$ 3.13	-8 %	18 %
Total	<u>68,373</u>	\$ 13.34	<u>69,461</u>	\$ 12.11	-2 %	10 %

* "Products-grade" relates principally to bulk sales of processing-quality fruit to outside processors and fresh juicers, accounted for under board-established policies as fresh fruit sales.

** Sunkist commenced marketing limes in 2004. A total of 280,897 and 282,508 cartons of limes are included in the Fiscal 2006 and Fiscal 2005 figures above, respectively.

Sunkist Growers, Inc. and Subsidiaries

Five-Year Summary

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Sales and Other Revenues <i>(In millions of dollars)</i>					
Fresh fruit, all varieties:					
Domestic sales	\$ 660	\$ 600	\$ 587	\$ 525	\$ 585
Export sales	<u>234</u>	<u>225</u>	<u>229</u>	<u>219</u>	<u>215</u>
Total	894	825	816	744	800
Fruit products, all varieties	<u>83</u>	<u>49</u>	<u>38</u>	<u>56</u>	<u>62</u>
Total Sales	977	874	854	800	862
Other revenues	<u>134</u>	<u>131</u>	<u>121</u>	<u>142</u>	<u>102</u>
Total Revenues	<u>\$1,111</u>	<u>\$1,005</u>	<u>\$ 975</u>	<u>\$ 942</u>	<u>\$ 964</u>
Payments to Members <i>(In millions of dollars)</i>					
Fresh fruit, all varieties:					
Domestic sales proceeds	\$ 625	\$ 567	\$ 562	\$ 491	\$ 553
Export sales proceeds	<u>214</u>	<u>205</u>	<u>210</u>	<u>201</u>	<u>195</u>
Total	\$ 839	\$ 772	\$ 772	\$ 692	\$ 748
Fruit products	<u>26</u>	<u>7</u>	<u>7</u>	<u>8</u>	<u>12</u>
Total Payments to Members	<u>\$ 865</u>	<u>\$ 779</u>	<u>\$ 779</u>	<u>\$ 700</u>	<u>\$ 760</u>
Production and Utilization <i>(Pool Year)</i>					
Fresh fruit shipments: <i>(In millions of cartons)</i>					
Domestic	49	49	50	53	49
Export	16	17	18	19	16
Products-grade	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>4</u>
Total	<u>68</u>	<u>69</u>	<u>71</u>	<u>75</u>	<u>69</u>
Products Fruit: <i>(In thousands of tons)</i>					
Navels	220	156	82	141	69
Valencias & misc	75	92	31	82	63
Lemons	256	258	190	346	177
Grapefruit	-	-	-	1	1
Tangerines	<u>15</u>	<u>5</u>	<u>8</u>	<u>5</u>	<u>5</u>
Total	<u>566</u>	<u>511</u>	<u>311</u>	<u>575</u>	<u>315</u>