


# 2019

Sea Harvest

## OUR HARVEST FROM SEA TO SHORE

## INTEGRATED REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

# NAVIGATING OUR REPORT

## OUR CAPITALS

- FC Financial capital
- MC Manufactured capital
- NC Natural capital
- HC Human capital
- IC Intellectual capital
- SC Social and relationship capital

**Refer to pages 16 to 21.**

## OUR MATERIAL CARDINAL POINTS

- Operating efficiently
- Driving transformation
- Protecting our brands
- Managing relationships
- Acting responsibly
- Optimising financial capital

**Refer to pages 49 to 52.**

## OUR KEY STAKEHOLDERS

- Employees and labour unions
- Shareholders
- Funders
- Government and regulators
- Fishing industry partners
- Customers and consumers
- Suppliers and service providers
- Communities and non-governmental organisations (NGOs)

**Refer to pages 32 to 35.**




### Our Annual Financial Statements

The Sea Harvest Group Limited's Annual Financial Statements (AFS) is a comprehensive report of our financial performance and standing for the year ended 31 December 2019.




### Our Integrated Report

The Sea Harvest Group Limited's Integrated Report (IR) is our main report to our stakeholders. It details all the elements that contributed to our value-creation story for the year ended 31 December 2019.




### Our Notice of Annual General Meeting and Form of Proxy

The Sea Harvest Group Limited's Notice of Annual General Meeting and Form of Proxy comprises information required by the Companies Act, No 71 of 2008 to our shareholders.

Visit **www.seaharvest.co.za** for more information on our reporting suite.

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# OUR REPORT THEME AND RATIONALE




## Background

The theme and design rationale for the 2019 IR was inspired by the Sea Harvest Group's ability to engage with its stakeholders to weather economic, social and political storms, and to emerge stronger with each tide. It is this resilience and commitment to transformation and empowerment that has become the Sea Harvest trademark. It is what enables the Group to change direction in favour of harvesting and supplying not only the fruits of the sea, but the produce of the shore in a proven sustainable way.

With the Sea Harvest Group, stakeholders and the community at large can now savour the sea, and also savour the shore. Sea Harvest's commitment to this sweeping sense of sustainability and transformation is a key differentiator for the brand and central to its empowerment and value-creation story.

**KEY ELEMENTS AND SYMBOLS**

The key to weathering any storm is finding your true purpose and identifying the best course to maintain it. From there the compass rose was identified as the symbol for direction both at sea and on shore. Navigating an enterprise towards financial and environmental sustainability requires knowledge to predict the capital winds that sustain and move a company forward. It also requires experience to identify and mediate the magnetic influencers that impact the Group's true purpose.

**Governance**

The marine rope (SSS) symbolises the Group's ability to find and maintain its true purpose through effective governance.

**Operating context**

In turn, the Group's ability to provide guidance towards its true purpose in a competitive and challenging operating environment is symbolised by the solid line (▬).

The symbolism behind the marine rope and solid line also extends to the Group's enterprise reach at sea and on shore.

**Value creation**

The Group's business activities span the entire value chain and form a united fleet to steer its stakeholders towards many lucrative and empowered destinations on land and at sea.

# OUR REPORT

## Our reporting scope

The 2019 IR of Sea Harvest Group Limited (the Group or Sea Harvest) seeks to provide material information about the Group's operating companies and subsidiaries, including Sea Harvest Corporation Proprietary Limited (Sea Harvest Corporation), Cape Harvest Foods Group Proprietary Limited (Cape Harvest Foods), Sea Harvest Aquaculture Proprietary Limited (Sea Harvest Aquaculture), and Sea Harvest International Proprietary Limited (Sea Harvest Australia). The information pertaining to Sea Harvest Corporation covers the South African Fishing operations in Saldanha Bay on the West Coast of South Africa, as well as the Viking Fishing Division (VFD) in Cape Town, Mossel Bay and Durban; the information on Cape Harvest Foods pertains to dairy and related operations within Ladismith Cheese Company Proprietary Limited (Ladismith Cheese) and the Group's factory shops.

## Our report preparation

This report has been prepared in accordance with the following guidelines and frameworks:

- Recognition and measurement requirements of the International Financial Reporting Standards (IFRS)
- South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides, issued by SAICA's Accounting Practices Committee and Financial Reporting Committee applicable to summarised financial information
- Companies Act, No 71 of 2008 (Companies Act) of South Africa
- King IV Report on Corporate Governance™ (King IV™)[1]
- International Integrated Reporting Council's Integrated Reporting <IR> Framework
- Johannesburg Stock Exchange (JSE) Listings Requirements

## Our supplementary reports

A suite of supplementary reports has been produced to satisfy our stakeholders' specific information requirements.

The following reports are available for download on the Sea Harvest website (**www.seaharvest.co.za**):

- 2019 IR, including the summarised consolidated financial statements
- Company and Group AFS for the year ended 31 December 2019
- King IV™ Application Register
- Notice of Annual General Meeting (AGM) and Form of Proxy

## Our forward-looking information

This report contains forward-looking statements that, unless otherwise indicated, reflect the Group's expectations as at 31 December 2019. Actual results may differ materially from the Group's expectations if known and unknown risks or uncertainties affect its business, or if estimates or assumptions prove to be inaccurate. We cannot guarantee that any forward-looking statement will materialise. Readers are cautioned not to place undue reliance on any forward-looking statements. Sea Harvest Group Limited does not commit, and disclaims any obligation, to update or revise any forward-looking statement, even if new information becomes available because of future events, or for any other reason other than as required by the JSE Listings Requirements.

## Our information assurance

We have strived to achieve a high standard of disclosure that promotes accurate, transparent, balanced and complete reporting. Our Board of Directors (the Board), its committees and management were involved in finalising the disclosures made in this report and assume responsibility for the information contained herein. Deloitte & Touche South Africa has independently assured the consolidated financial statements and the summarised consolidated financial statements. Our non-financial information was not independently assured.

[1]*Copyright and trademarks are owned by the Institute of Directors in Southern Africa NPC and all of its rights are reserved.*

## Board approval

The Board acknowledges its responsibility for ensuring the accuracy of our 2019 IR and, in its opinion, the report addresses all material issues relevant to the business and presents an integrated view of the Group's performance in the year under review. The report was approved by the Board of Directors on **pages 10 and 11.**



**Frederick J Robertson**
*Non-executive Chairperson*



**Marshall Rapiya**
*Lead Independent Non-executive Director*



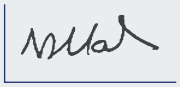
**Felix Ratheb**
*Chief Executive Officer*



**John Paul de Freitas**
*Chief Financial Officer*



**Muhammad Brey**
*Chief Investment Officer*



**André Hanekom**
*Independent Non-executive Director*



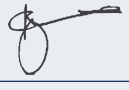
**Iqbal Khan**
*Non-executive Director*



**Kari Ann Lagler**
*Independent Non-executive Director*



**Tiloshani Moodley**
*Non-executive Director*



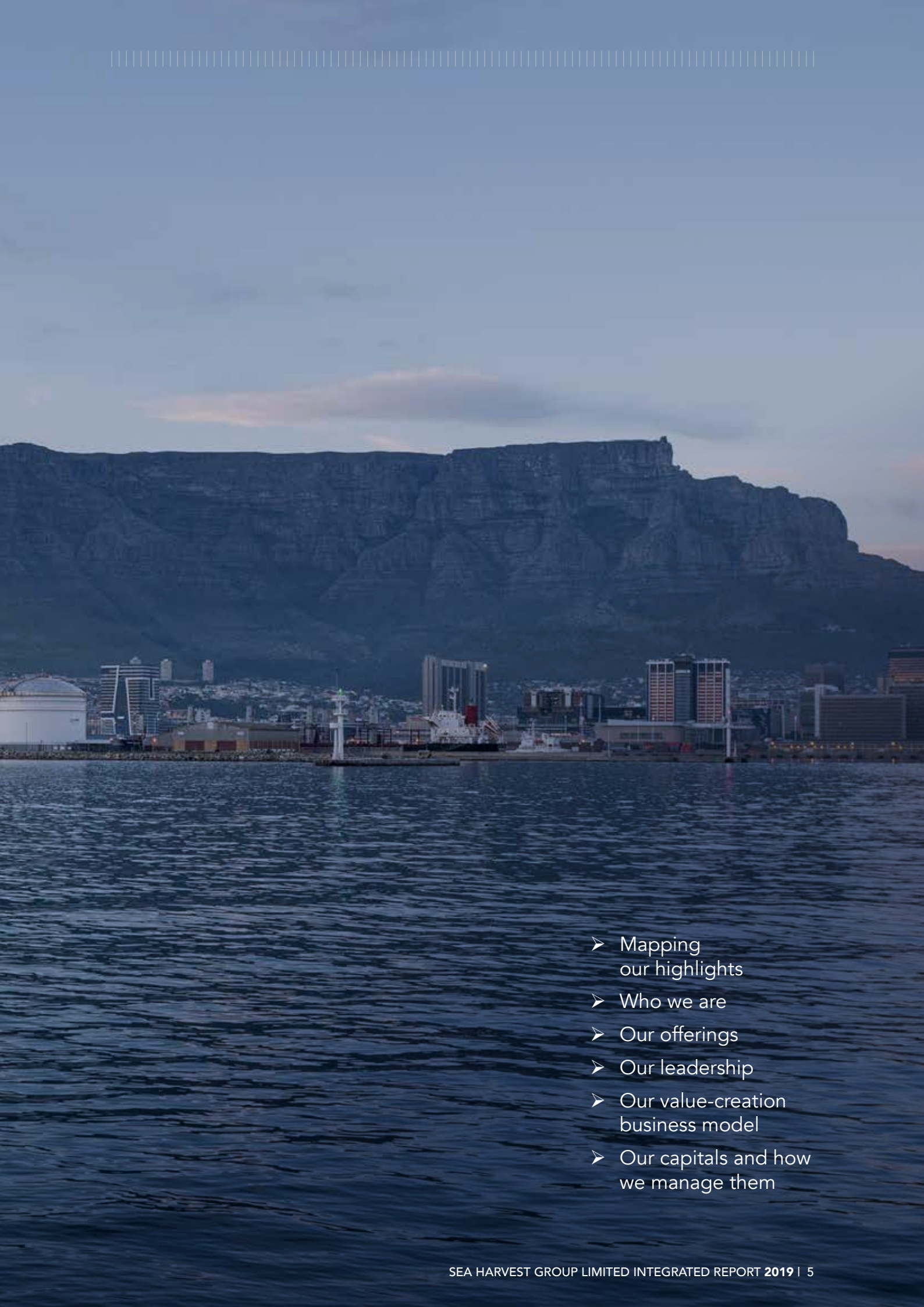
**Carol Kholeka Zama**
*Independent Non-executive Director*

## Our feedback

We value feedback from our stakeholders and would appreciate any correspondence that would allow us to produce reports that improve in quality every year. Any comments or requests for additional information can be emailed to **Anthea Abrahams** at **AntheaA@SeaHarvest.co.za**.

# 1° OUR BUSINESS – FROM SEA TO SHORE





- Mapping our highlights
- Who we are
- Our offerings
- Our leadership
- Our value-creation business model
- Our capitals and how we manage them

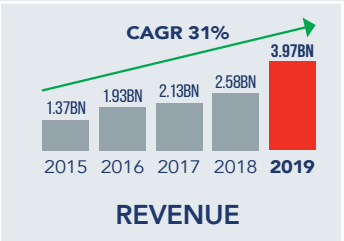
# MAPPING OUR HIGHLIGHTS

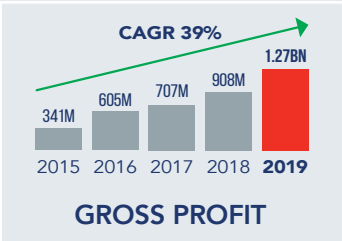
**REVENUE**
**54%**
TO R3.97BN
(2018: R2.58BN)

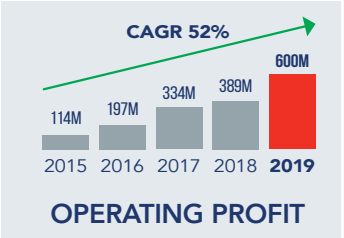
**GROSS PROFIT**
**40%**
TO R1.27BN
(2018: R908M)

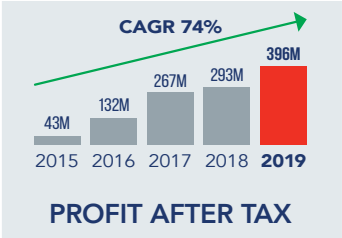
**HEADLINE EARNINGS**
**48%**
TO R410M
(2018: R278M)

**HEADLINE EARNINGS PER SHARE**
**33%**
TO 149 cents per share
(2018: 112 cents per share)




DELIVERED HEPS GROWTH OF **33%** TO **149 CENTS PER SHARE**, DRIVEN BY THE STRONG PERFORMANCE OF THE SOUTH AFRICAN FISHING OPERATION

ACQUIRED **100% OF THE SHARES OF LADISMITH CHEESE** ON 2 JANUARY 2019

## OUR INVESTMENT CASE

1. **LEVEL 1 B-BBEE CONTRIBUTOR 83% BLACK OWNED**
   Improved B-BBEE score of 104.44 (2018: 100.37)
2. **STRONG TRACK RECORD OF FINANCIAL PERFORMANCE**
   Five-year revenue CAGR of 31% and profit after tax CAGR of 74%
3. Geographically diverse customer base providing a **STRONG RAND HEDGE**
   with 44% of sales in hard currency within developed markets
4. **ATTRACTIVE INDUSTRY DYNAMICS**
   with global demand for premium, wild-caught, MSC-certified seafood exceeding supply

### SOUTH AFRICAN FISHING
- **34** VESSELS
- **6** PROCESSING OPERATIONS

SPECIES: HAKE | HORSE MACKEREL | PRAWN | ANCHOVY | PILCHARD | TUNA

Sea Harvest – Savour the sea

EMPLOYEES: **3 400**

### SEA HARVEST AQUACULTURE
- **9** AQUACULTURE OPERATIONS

SPECIES: ABALONE | OYSTERS | MUSSELS | TROUT

Viking Aquaculture

EMPLOYEES: **350**

### CAPE HARVEST FOODS
- **11** FACTORY SHOPS
- **1** PROCESSING OPERATION

PRODUCTS: CHEESE | BUTTER | MILK POWDERS

Ladismith Cheese

EMPLOYEES: **500**

### SEA HARVEST INTERNATIONAL
- **12** VESSELS

LICENCES:
- **10** SHARK BAY PRAWN FISHERY
- **2** SPANISH MACKEREL

SPECIES: PRAWN | SCALLOP | CRAB | SPANISH MACKEREL

Sea Harvest AUSTRALIA

EMPLOYEES: **110**

*Refer to our strategy, **pages 53 to 62**, for more information on our operational performance within the business segments.*

# WHO WE ARE

## OUR PURPOSE

Our purpose is to create value that fuels inclusive economic growth and benefits society through job creation, food security and social transformation.

## OUR VISION

We envision a Sea Harvest Group that is a leading, black-owned, responsible and diversified global agribusiness.

## OUR MISSION

To responsibly harvest, source and add value to natural and other resources in a way that exceeds stakeholder expectations, while providing sustainable employment and positively impacting the communities in which we operate and the stakeholders we serve.

## OUR VALUES

Our five core values anchor our behaviour to guide our engagements with all our stakeholders, namely:

1. We act **RESPONSIBLY**
2. We **DO WHAT WE SAY**
3. We respect **DIVERSITY**
4. We are **PASSIONATE** about our business
5. We **SAVOUR THE SEA AND THE SHORE**

## OUR HISTORY

**1964** – Pescanova, Southern Sea Fishing Company and Imperial Cold Storage (ICS) establish Sea Harvest Corporation in Saldanha Bay.

**1960s 1970s** – Increased focus on international markets and Cape hake is positioned as a premium species.

**1980s** – Sea Harvest Corporation acquires Atlantic Trawling and becomes one of the largest, vertically integrated deep-sea hake fishing companies in South Africa. However, sanctions prevent the company from operating beyond the country's borders.

**1990s** – Pescanova divests from Sea Harvest Corporation and ICS increases its stake to 62% and lists Sea Harvest Corporation on the JSE. Post-1994, international markets reopen and exports recommence. Tiger Brands acquires 100% of ICS and delists Sea Harvest Corporation from the JSE.

**Early 2000s** – Brimstone increases its ownership in Sea Harvest Corporation to 21%. In 2009, a black consortium consisting of Brimstone, Kagiso Investment Holdings and senior management acquire Tiger Brands' interest in Sea Harvest Corporation and establish Sea Harvest Holdings, of which Sea Harvest Corporation becomes a wholly owned subsidiary.

**2014** – A new management team is appointed and drives a bold investment strategy to renew the Sea Harvest fleet and factories and turn around the performance of the business.

**2015** – Sea Harvest Holdings' shareholders facilitate the acquisition of 4.4% of the business on behalf of employees through an Employee Share Trust.

**2016** – Brimstone acquires Kagiso's stake in Sea Harvest Holdings, increasing its shareholding to 85%. Sea Harvest acquires controlling interest in Mareterram Limited (Mareterram), a diversified agribusiness listed on the Australian Securities Exchange (ASX).

**2017** – Sea Harvest Holdings lists on the JSE as Sea Harvest Group Limited.

**2018** – Sea Harvest Group Limited leads a black empowerment consortium that acquires 100% of Viking Fishing and a majority share of Viking Aquaculture.

**2019** – On 2 January, the Group acquired 100% of Ladismith Cheese. In May, Sea Harvest acquired 100% of Mareterram, renames the business Sea Harvest Australia and delists it from the ASX.

## OUR FUTURE

**2020 +**

At the point of finalising our 2019 IR, the world is grappling with the coronavirus (Covid-19) pandemic. It is too early to determine the impact that the pandemic will have on the Group's business, with many countries around the world being subjected to a full or partial lockdown. However, as food producers are deemed "essential services" both in South Africa and Australia, Sea Harvest's operations are continuing with the introduction of additional stringent measures, aligned to new regulations, to safeguard the health and well-being of our employees. The Group will endeavour to update its stakeholders in future communication on the effect of the virus and the required response to it.

Furthermore, we patiently await the South African government's fishing rights allocation process (FRAP) in 2021, which could affect our fishing operations in South Africa. In the meantime, we will retain our focus on achieving organic and acquisitive growth to ensure the long-term sustainability of our business and we remain committed to delivering premium, sustainably harvested seafood and other food products demanded by our global customer base.

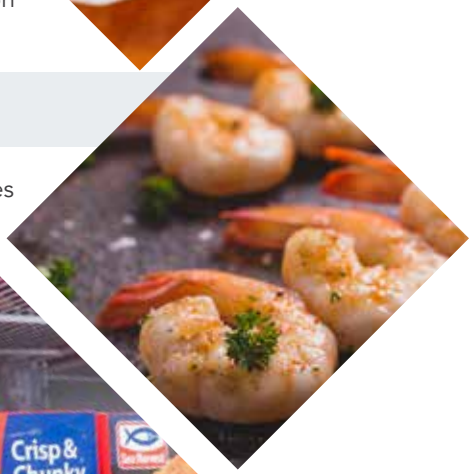
# OUR OFFERINGS

## What sets us apart



### 1 | INCREASING GLOBAL DEMAND FOR NATURAL WILD-CAUGHT FISH FROM SUSTAINABLE FISHERIES, WITH STATIC SUPPLY

According to the World Bank, the world's population is projected to grow by an average of 1% per year until 2025. Supporting the natural demand from population growth is a global rise in per capita fish consumption. Per capita consumption is projected to increase from an average of 20.2kg per annum in 2015 to 21.8kg per annum in 2025. On the supply side, supply of valuable wild-caught species remains static, with global supply of wild-caught white fish remaining relatively static at 7 million tonnes annually.



### 2 | MARKET-LEADING BRANDS

We have a number of market-leading brands that are household names in their respective categories. Sea Harvest also owns the established value-added dairy brand, Ladismith Cheese. In 2019, we established the Running Wild Fishing Co brand in Australia. Internationally, Cape hake is recognised as a valued brand in its own right and is supplied to leading international retailers in well diversified export markets.




### 3 | BROAD AND INNOVATIVE RANGE OF PRODUCTS

Sea Harvest has its own new product development (NPD) facility at our Saldanha Bay operations and the Group currently produces c. 330 different seafood and dairy product lines for local and international markets. In 2019, research also began to expand the Group's offering of value-added dairy and related products.



### 4 | STRONG RAND HEDGE DUE TO GEOGRAPHICALLY DIVERSE, LONG-STANDING INTERNATIONAL CUSTOMER BASE

Our consistently high-quality products and world-class business standards are reflected in the extensive track record of growing and fostering customer partnerships with leading international customers, some of whom have been purchasing from Sea Harvest for over 50 years. The Group generated 44% of its 2019 revenue in foreign currency, making it a strong Rand hedge. No single customer accounts for more that 10% of the Group's revenue.



## 5 | INTERNATIONALLY REPUTABLE BUSINESS SELLING PREMIUM SUSTAINABLE PRODUCTS THAT ARE DIFFICULT TO SUBSTITUTE

Sea Harvest's international reputation as a credible supplier of sustainable products is enhanced by its standing within the global industry. Both the South African Cape hake and Australian Shark Bay prawn fishing operations are Marine Stewardship Council (MSC) certified, the international gold standard for sustainable wild-caught fishing practices and a major differentiator in the markets where the species are sold.

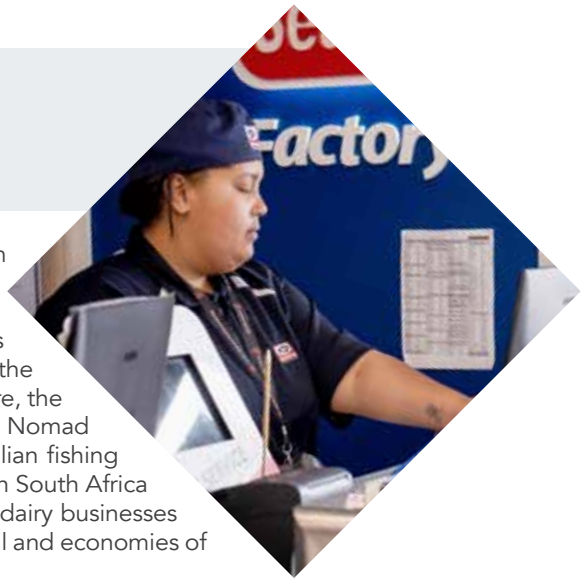




## 6 | EXPERIENCED, GROWTH-ORIENTATED MANAGEMENT TEAM

The executive management team has a successful track record of guiding the business through challenging times, including the global financial crisis and the current Covid-19 pandemic, while also facilitating the growth of the business. Furthermore, the team has experience in implementing key strategic expansion projects, making cross-border acquisitions and integrating them successfully.

## 7 | VERTICALLY INTEGRATED BUSINESSES WITH WELL-LOCATED, WORLD-CLASS FACILITIES IN AN INDUSTRY WITH HIGH BARRIERS TO ENTRY



Our business platforms extend across the entire value chain from harvesting and sourcing to production, sales and distribution, with significant investments throughout the entire value chain. Our factories are accredited by key international organisations, such as the international British Retail Consortium and MSC, and, locally, by the National Regulator for Compulsory Specifications (NRCS). Furthermore, the facilities enjoy accreditation by their key customers, including Nestlé, Nomad Foods and Woolworths (South Africa). The South African and Australian fishing industries are highly regulated with fishing rights issued for 15 years in South Africa and in perpetuity in Australia. Fishing, aquaculture and value-added dairy businesses are highly capital intensive, requiring expensive assets, working capital and economies of scale to be globally competitive.



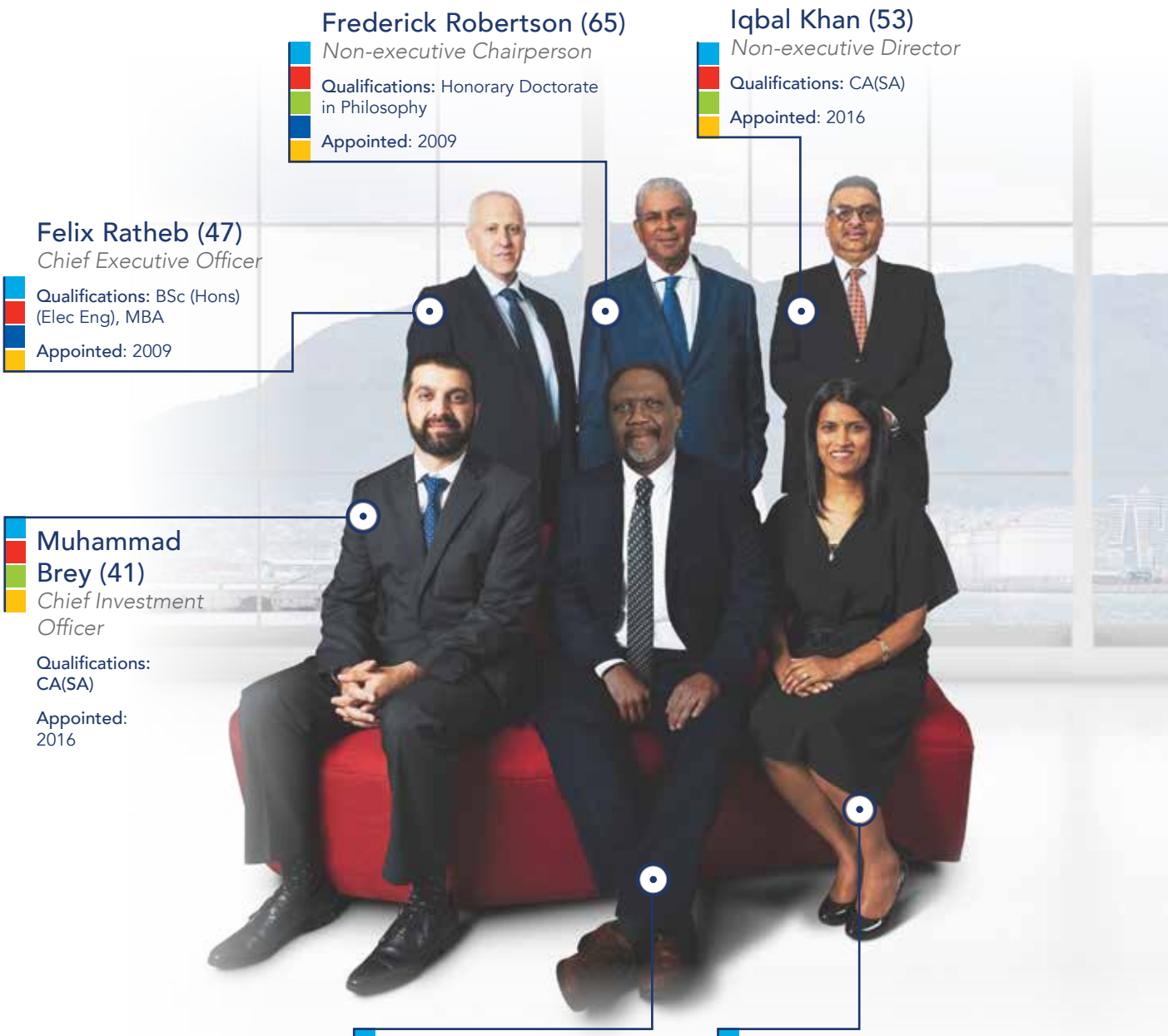
## 8 | DEMONSTRABLE COMMITMENT TO SOCIAL TRANSFORMATION AND SUSTAINABLE BUSINESS PRACTICES

Our commitment to social transformation is demonstrated by the fact that the Group has retained its Level 1 B-BBEE contributor status with an increased rating of 104.44 (2018: 100.37). Its controlling shareholder, Brimstone, is a black-owned, black-controlled and black-managed investment holding company. Our commitment to protecting the environment was the motivation for the business being a founding member of the Groundfish Forum, the world's leading industry whitefish forum; and Responsible Fisheries Alliance (RFA), which promotes an ecosystem approach to fishing and includes the World Wildlife Fund South Africa (WWF-SA), BirdLife SA and other fishing industry players.

# OUR LEADERSHIP

## Governance leadership

Our Board of Directors remains committed to ensuring the creation of value for all stakeholders over the long term. Collectively the Board possesses the requisite skills to realise the fulfilment of the Group's vision, mission and strategy. The composition of the Board ensures a balance of authority and does not permit individual dominance in the decision-making processes. The roles and functions of the Chairperson of the Board and the Chief Executive Officer are separate and clearly distinguishable. The composition of the Board for the 2019 financial year was as follows:



**Frederick Robertson (65)**
*Non-executive Chairperson*
**Qualifications:** Honorary Doctorate in Philosophy
**Appointed:** 2009

**Iqbal Khan (53)**
*Non-executive Director*
**Qualifications:** CA(SA)
**Appointed:** 2016

**Felix Ratheb (47)**
*Chief Executive Officer*
**Qualifications:** BSc (Hons) (Elec Eng), MBA
**Appointed:** 2009

**Muhammad Brey (41)**
*Chief Investment Officer*
**Qualifications:** CA(SA)
**Appointed:** 2016

**Marshall Rapiya (67)**
*Lead Independent Non-executive Director*
**Qualifications:** BAdmin
**Appointed:** 2016

**Tiloshani Moodley (45)**
*Non-executive Director*
**Qualifications:** LLB
**Appointed:** 2018



**John Paul de Freitas (50)**
*Chief Financial Officer*
Qualifications: CA(SA)
Appointed: 2013

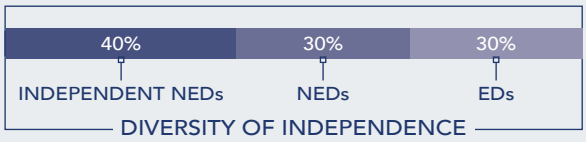
**Kholeka Zama (42)**
*Independent Non-executive Director*
Qualifications: CA(SA)
Appointed: 2018

**Kari Lagler (50)**
*Independent Non-executive Director*
Qualifications: CA(SA)
Appointed: 2018

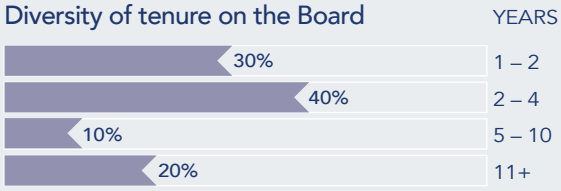
**André Hanekom (61)**
*Independent Non-executive Director*
Qualifications: CA(SA)
Appointed: 2016

# Board composition

The Group has a unitary board structure, presently comprising 10 directors, with four independent non-executives, three non-executives and three executive directors.



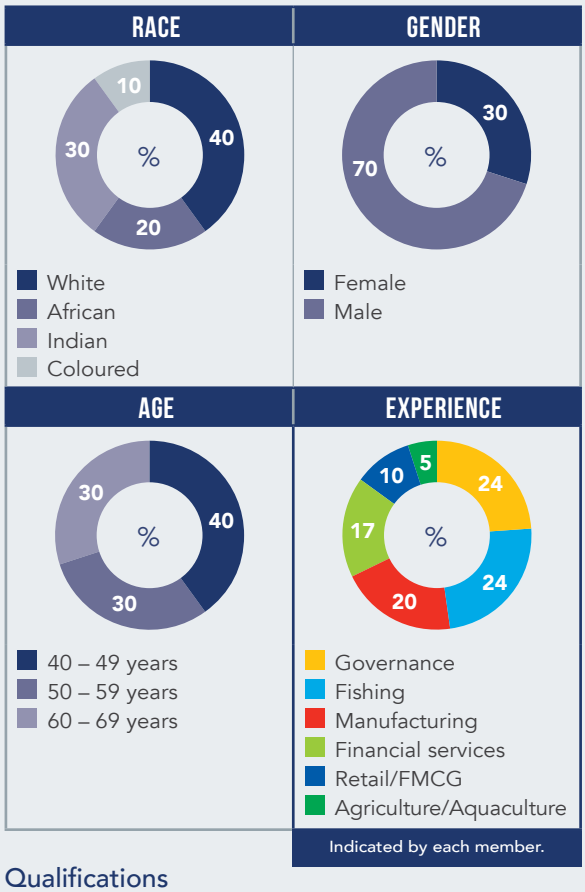

## Diversity of tenure on the Board



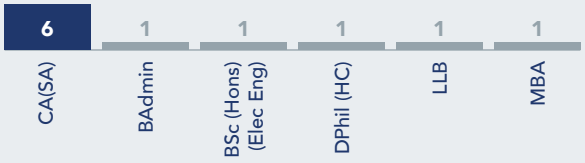

## Board expertise, demographics and racial diversity

The Board comprises the appropriate balance of knowledge, experience, skills and diversity to discharge its responsibilities. Our Board is an independent body with the relevant expertise to provide perspective and facilitate robust decision-making for the benefit of the entire Group.

The three-year diversity targets established by the Board indicate that by 2020, 70% of its members should be historically disadvantaged individuals and 30% should be female. The Board is satisfied that good progress has been made towards these agreed diversity targets.




## Qualifications



# OUR LEADERSHIP CONTINUED

## Our Executive Committee

The Executive Committee is primarily charged with the achievement of the Group's strategy as established by the Board. As the operational committee of the Group, the Executive Committee comprises all executives and directors of key subsidiary companies and divisions. The Committee meets regularly to determine, assess and monitor the implementation of strategies and policies approved by the Board while ensuring value creation. Assessing previously reported barriers and risks to the attainment of the Group's objective and identifying and mitigating newly identified ones are a key focus of the Executive Committee.

### Konrad Geldenhuys (50)
*Sales & Marketing Director*

**Qualifications:** MBA

**Appointed to the Exec:** 2013
**Years at Sea Harvest:** 11

### Mary-Lou Harry (60)
*Human Resources Director*

**Qualifications:** BCom (Hons), ND* HR Management, MPhil (HR)

**Appointed to the Exec:** 2008
**Years at Sea Harvest:** 12

### Felix Ratheb (47)
*CEO and Executive Director*

**Qualifications:** BSc (Hons) (Elec Eng), MBA

**Appointed to the Exec:** 2006
**Years at Sea Harvest:** 16



### Muhammad Brey (41)
*CIO and Executive Director*

**Qualifications:** CA(SA)

**Appointed to the Exec:** 2016
**Years at Sea Harvest:** 7#

### John Paul de Freitas (50)
*CFO and Executive Director*

**Qualifications:** CA(SA)

**Appointed to the Exec:** 2014
**Years at Sea Harvest:** 6

### Terence Brown (44)
*Operations Director*

**Qualifications:** ND* Mechanical Engineering

**Appointed to the Exec:** 2014
**Years at Sea Harvest:** 9

*#Including four years as a managing executive at Brimstone* **National Diploma*



## Madoda Khumalo (33)
*Strategic Services Executive*

**Qualifications:** BSc, MSc (Oceanography)

**Appointed to the Exec:** 2015
**Years at Sea Harvest:** 6

## Russell Hall (52)
*Fleet Executive*

**Qualifications:** Maritime Qualification, ND* Cost and Management Accounting

**Appointed to the Exec:** 2015
**Years at Sea Harvest:** 28

## Renaldo Groenewald (47)
*Ladismith Cheese: Chief Executive Officer*

**Qualifications:** CA(SA), MBA

**Appointed to the Exec:** 2019

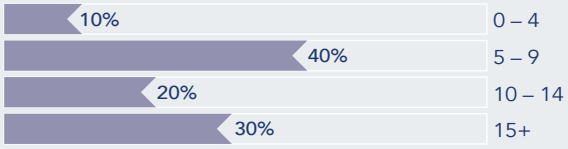
## Gerrit Nortje (51)
*Corporate Finance Executive*

**Qualifications:** CA(SA), ACMA

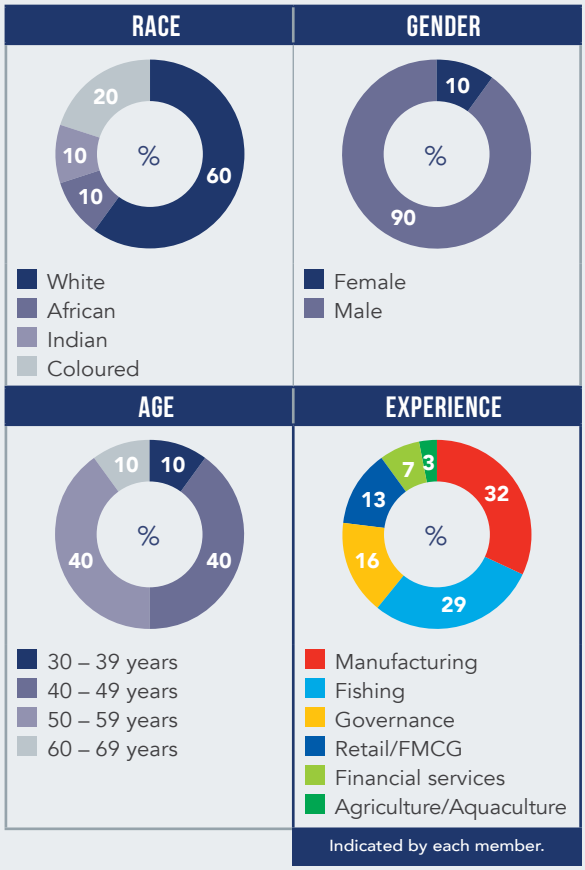
**Appointed to the Exec:** 2014
**Years at Sea Harvest:** 18

# Executive Committee composition

### Diversity of tenure at Sea Harvest

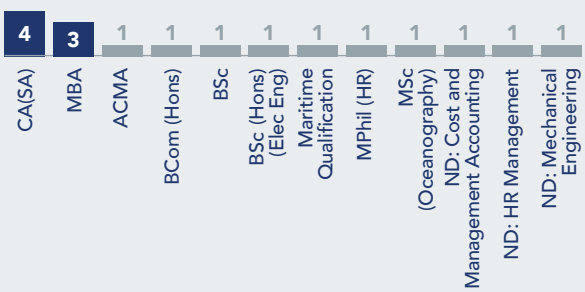



### Diversity of experience, expertise and qualifications




Indicated by each member.

### Qualifications



# OUR VALUE-CREATION BUSINESS MODEL

See relevant pages no. for more information.

GOVERNANCE

The value-creation business model is influenced by two overarching elements from start to finish and from sea to shore.

16 **FC FINANCIAL CAPITAL**

Equity, debt and internally generated capital to fund organic and acquisitive growth

17 **MC MANUFACTURED CAPITAL**

Vessels, processing facilities, offices, cold store and distribution facilities, and aquaculture production facilities

18 **NC NATURAL CAPITAL**

Natural resources, including various fish species, milk, water, energy and land

19 **HC HUMAN CAPITAL**

Employees – both skilled and semi-skilled

20 **IC INTELLECTUAL CAPITAL**

Brands, trademarks, reputation, employees' know-how and experience

21 **SC SOCIAL AND RELATIONSHIP CAPITAL**

Stakeholder relationships and socio-economic investments

## Value-adding activities 56 to 62

**SOUTH AFRICAN FISHING**

Catching, processing and marketing Cape hake, horse mackerel, small pelagics (anchovies and pilchards), large pelagic (tuna) and prawn

**CAPE HARVEST FOODS**

- Ladismith Cheese – sourcing and processing milk into a variety of dairy products such as cheese, butter and powdered milk, and the marketing of these products
- Sea Harvest factory shops

**SEA HARVEST AQUACULTURE**

Farming and marketing abalone, oysters, mussels and sea trout

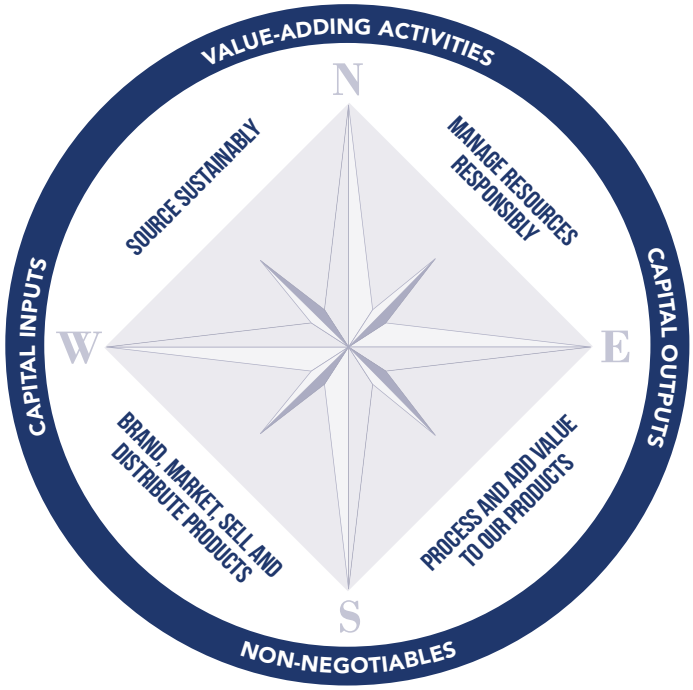
**SEA HARVEST INTERNATIONAL**

- Catching, processing and marketing of prawn, scallops, crab and Spanish mackerel
- Importing and marketing traded product, including Cape hake

### Our material cardinal points

49 to 52

## The business model




## Outputs

**C. 330 PREMIUM QUALITY SEAFOOD AND DAIRY PRODUCTS** for our customers who are retailers, foodservice providers, and food producers locally and internationally in **37 COUNTRIES AROUND THE GLOBE.**

## Our top risks

1. Covid-19 pandemic
2. Retention of fishing rights
3. Macroeconomic factors
4. Sustainability of resource
5. Failure of food safety standards
6. Loss of major assets
7. Business interruption
8. Negative impact on reputation
9. Market concentration risks
10. Dilution of black shareholding

37

OPERATING CONTEXT

Governance (marine rope) Operating context (solid line)

# Targets

Refer to **pages 53 to 62** for a detailed overview of our strategy, objectives and KPIs.

## Capital outcomes

- + 54% increase in Group revenue to R3.97bn (2018: R2.58bn)
- + 33% increase in HEPS to 149c per share (2018: 112c)
- + 25% increase in dividends per share to 50c per share (2018: 40c)

- + Number of days at sea: 8 665 (2018: 6 477)
- + Cold storage capacity: 12 807 tonnes (2018: 9 250 tonnes)
- + Land-based total production output:
  - Fish and shellfish: 18 039 tonnes (2018: 16 212 tonnes)
  - Dairy: 19 571 tonnes
- + Number of product lines: c. 330 (2018: 220)

- + MSC certification retained for South African hake and Australian Shark Bay prawn products
- + Cape hake biomass at maximum sustainable yield (MSY)
- + 50% reduction in the Group's dependency on the municipal water supply
- + 99% score achieved in Marsh environmental audit

- + R890 million paid in salaries and wages
- + 4 360 jobs sustained

- + R38 million spent on skills development initiatives
- + 743 staff upskilled
- + VFD trained on new software systems

- + Retention of Level 1 B-BBEE contributor status, with improved score of 104.44 (previously 100.37)
- + Increased black ownership to 83%
- + Spent R492 million procuring goods and services from 745 small, medium and micro enterprises (SMMEs)
- + Provided continued support to two new black SMME entrants into South African fishing sector
- + Supported small-scale fishing and allied sectors through the South African Fisheries Development Fund
- + Sea Harvest invested c. R4.5 million in community projects

Refer to **pages 16 to 21**

## Strategic performance

52 to 61

As part of our JSE listing in 2017, we devised a three-year organic and acquisitive growth strategy. Our delivery against the strategy in 2019 is indicated below.

### ORGANIC GROWTH

#### 1 VOLUME GROWTH

- 10% increase in hake total allowable catch (TAC) effective 1 January 2019
- Branded retail volumes boosted by global sourcing through co-packing and importing of raw material
- 11% increase in Shark Bay prawn catches in Australia
- Increase in production output due to enhanced capacity driving volume growth across all Ladismith Cheese segments
- Growth in Aquaculture biological standing stock
- Traded product increased by 6% year on year

#### 2 MARGIN ENHANCEMENT

- Delivery of synergies relating to Viking Fishing acquisition drives margin enhancement in SA Fishing
- Marel project improved both labour and yield efficiency
- State-of-the-art cutting and forming equipment to improve production efficiency
- Increase in mix of higher margin frozen at sea production

### ACQUISITIVE GROWTH

#### 3 SOUTH AFRICAN SEAFOOD

- VFD successfully integrated into the Group in 2019
- Various capex projects to expand the Viking Aquaculture operations

#### 4 INTERNATIONAL

- The balance of Mareterram shares acquired, delisted and rightsized during 2019
- Now known as Sea Harvest Australia, a 100% subsidiary of Sea Harvest Group

#### 5 SOUTH AFRICAN FOOD

- Acquired 100% of Ladismith Cheese – a value-added cheese, butter and milk powder producer
- Investment in the growth potential of Ladismith Cheese through organic expansion to increase production capacity of cheese, butter and powder

## Value creation

Refer to **pages 32 to 35** for more information about our key stakeholders and value-creation activities.

**TRUE PURPOSE** | Desired position

32
- Provided 4 360 sustainable jobs
- R890 million paid in salaries and wages
- R38 million spent on skills development
- c. R3 million paid in dividends to employees through Employee Share Trust

32
- Share price increased 6% to R14.53
- Dividend per share increased 25% to 50c
- Adhered to continuous disclosure requirements

33
- Repaid R214 million of net borrowings
- R101 million paid in net interest
- All covenant requirements were met

33
- Maintained a Level 1 B-BBEE contributor status with a score of 104.44
- Increased black shareholding to 83%
- R1.4 billion generated in foreign currency revenue

34
- Supported small-scale fishers
- Participated in share-fishing with boat skippers in Carnarvon
- Retained our MSC certification for hake and prawn products

34
- Internationally accepted food safety practices
- Fully traceable products (shelf to source)
- Competitive and fair terms to all customers

35
- Spent R1.1 billion on procurement with majority black-owned suppliers
- Total of R19 million contributed to supplier development and R5 million to enterprise development
- R492 million spent on SMMEs

35
- Invested R4.5 million in projects aimed at benefiting local communities
- Supported community projects and events
- Worked with various non-governmental organisations (NGOs) to conserve nature

## Our stakeholders

- Employees and labour unions
- Shareholders
- Funders
- Government and regulators
- Fishing industry partners
- Customers and consumers
- Suppliers and service providers
- Communities and NGOs

Achieved | Increase | Decrease

# OUR CAPITALS AND HOW WE MANAGE THEM

## FC Financial capital

**RELATED MATERIAL CARDINAL POINTS**

### Introduction

The Group's financial capital is comprised of equity, debt and internally generated capital to fund and sustain our organic and acquisitive growth targets.

**INPUTS**

- Equity funding: R2.4 billion of stated capital and reserve with 294 million shares in issue
  - On 7 January 2019, the Group issued 21.4 million shares, raising R300 million in the form of a Vendor Consideration Placement to partly fund the Ladismith Cheese acquisition
  - Repurchased shares of R51 million during the year
- Debt funding: R1.2 billion long-term and short-term interest-bearing borrowings, with net debt of R994 million
- Internally generated capital: R768 million internally generated cash from operations

### ACTIVITIES TO ENHANCE OUTCOMES

- Following our JSE listing in 2017, we accessed equity capital and settled our existing South African debt and built a platform to execute our organic and acquisitive growth strategy.
- In 2017, subsequent to the listing, we entered into a new debt package to further support our growth ambitions.
- Over the past two years the Group has utilised its externally sourced and internally generated financial capital and has largely executed upon the growth strategy articulated at listing, thereby delivering significant growth across all financial performance measures.

**OUTCOMES**

- Revenue increased by 54% to R3.97 billion (2018: 2.58 billion).
- Profit after tax attributable to shareholders of the Group increased by 46% to R412 million (2018: R281 million).
- Headline earnings per share (HEPS) increased 33% to 149 cents per share (2018: 112 cents).
- Dividends per share increased 25% to 50 cents per share (2018: 40 cents).
- Repaid net borrowings of R214 million during the year.
- Return on capital employed improved to 18.1% (2018: 16.4%).

| IMPACTS ON AND TRADE-OFFS BETWEEN CAPITALS | POSITIVE | NEGATIVE |
|---|---|---|
| Investment in manufactured capital will deplete financial capital in the short term. | MC | FC |
| Maintaining a Level 1 B-BBEE rating requires significant investments in skills development, supplier and enterprise development, and social development, which depletes financial capital, but enhances human capital and natural capital (through the protection of fishing rights) and social and relationship capital. | HC NC SC | FC |
| Paying a dividend meets the expectations of our shareholders, positively impacting social and relationship capital, but depletes financial capital available for investments. | SC | FC MC |

**GOALS**

- Invest in organic projects and acquisitions that deliver an appropriate margin above the Group's cost of capital.
- If no investment opportunities exist that deliver an appropriate margin above the Group's cost of capital, then pay down debt and return capital to shareholders.
- Deleverage, reducing net interest-bearing bank borrowing to earnings before interest, taxes, depreciation and amortisation (EBITDA) ratio to less than 1 times.
- Achieve a target return on capital employed of 3% above the Group's weighted average cost of capital (WACC).

5 Refer to section 5 of this report (**pages 98 to 118**) for an overview of our annual financial statements.

# MC Manufactured capital

**RELATED MATERIAL CARDINAL POINTS**

## Introduction

Vessels, processing plants, tankers, cold stores, distribution facilities, workshops, aquaculture farms and factory shops

**INPUTS**

- Number of vessels: 46 (2018: 47)
- Number of fish processing facilities on land: 6 (2018: 6)
- Number of dairy processing facilities: 1 (2018: nil)
- Number of cold store facilities: 13 (2018: 8)
- Number of aquaculture facilities: 11 (2018: 11)
- Asset care spend on maintenance: R291 million (2018: R213 million)
- Capex spend on business enhancement: R91 million (2018: R140 million)

## ACTIVITIES TO ENHANCE OUTCOMES

- The Group operates a best-in-class asset care programme to optimise the effectiveness, efficiency and reliability of its vessels, fish and dairy processing facilities and its aquaculture farms.
- The Group spent R291 million on maintaining its asset base using a combination of in-house engineering capability and specialist outside contractors.
- Management monitors the effectiveness of key production assets using industry standard monitoring information.

**OUTCOMES**

- Number of days at sea increased to 8 665 days (2018: 6 477).
- Cold storage capacity increased to 12 807 tonnes (2018: 9 250).
- Land-based production output increased by 132% to 37 610 tonnes (2018: 16 212):
  - Fish and shellfish: 18 039 tonnes (2018: 16 212); and
  - Dairy: 19 571 tonnes.
- c. 330 fish, shellfish and dairy product lines produced across the Group (2018: 220).

| IMPACTS ON AND TRADE-OFFS BETWEEN CAPITALS | POSITIVE | NEGATIVE |
|---|---|---|
| Investment in the Group's manufactured capital depletes the Group's financial capital in the short term. This investment should have a positive impact on financial capital over the long term through improved reliability and efficiencies. | MC, FC | FC |
| Investing in technology upgrades in factories improves production efficiencies that could result in job losses. | IC, FC | HC |
| Reducing spend on preventative asset maintenance for short-term financial gain, at the expense of poorer efficiency and reliability in the longer term. | FC | MC |
| Increasing water self-generation will reduce the local municipal revenue generation impacting social capital. | FC | SC |

**GOALS**

- Optimise our fleet reliability.
- Production facilities operating at design capacity.
- Expansion of abalone production capacity in Kleinzee.
- Increase production capacity at Ladismith Cheese plant.
- Develop alternative power generation capability to reduce dependency on national electricity grid.

# OUR CAPITALS AND HOW WE MANAGE THEM CONTINUED

## NC Natural capital

**RELATED MATERIAL CARDINAL POINTS**



## Introduction

At Sea Harvest, we catch and farm the following species: Cape hake, horse mackerel, small pelagics (anchovies and pilchards), large pelagic (tuna), prawn, scallops, crabs, Spanish mackerel, abalone, oysters, mussels and salmon trout. We also process milk into a variety of dairy products such as cheese, butter and powdered milk through our subsidiary, Ladismith Cheese.

### INPUTS

- TAC held for hake: c. 31.2%
- TAC held for horse mackerel: c. 5.9%
- TAC held for small pelagics: c. 0.29%
- Permits held for large pelagics: 1
- Permits held for prawn: 2
- Licences held for Shark Bay prawn: 10
- Licences held for Spanish mackerel: 2
- Biological stock of abalone, oysters, mussels and sea trout
- 74 200 tonnes of milk
- 508 million litres of water used per annum in our production facilities
- 1 811 tonnes of natural feed used in our aquaculture farms per annum
- 32 million litres of diesel fuel used by our fleets per year

## ACTIVITIES TO ENHANCE OUTCOMES

- Although Sea Harvest has achieved greater levels of efficiency in our use of natural capital, we recognise that our activities result in a reduction in the balance of natural capital available. We fish, farm and source natural resources sustainably and continue to strive to reduce and mitigate our impacts on the environment through:
  - actively encouraging an ecosystem approach to manage fish resources and working with regulators to promote the health of the marine environment and the resource biomass to achieve MSY in South Africa and maximum economic yield (MEY) in Australia;
  - stormwater management to prevent pollution finding its way to the ocean;
  - alternative energy measures at one of our aquaculture sites to reduce our carbon footprint;
  - water conservation and reduced dependency on municipalities;
  - educating our stakeholders and the communities in which we operate about sustainability and environmental stewardship;
  - mandatory deployment of bird scaring (or tori) lines at the start of every trawl; and
  - waste recycling programmes implemented across the Group through the EcoBrick Exchange programme (**www.ecobrickexchange.org**).
- We comply with international and local legislative requirements as well as voluntary frameworks, including United Nations Sustainable Development Goals.
- South African Cape hake products and Australian Shark Bay prawn are MSC certified.
- We are a co-founder and active member of the RFA.

### OUTCOMES

- Cape hake evaluated at MSY, resulting in a 10% increase in the hake TAC in early 2019.
- Shark Bay prawn catches increased by 11% to 599 tonnes (2018: 540 tonnes).
- Adhered to all harvesting restrictions and requirements, scoring 99% environmental control system compliance at our largest site.
- Litter traps instilled on municipal stormwater drains diverted more than 12 tonnes of plastic from entering the ocean over a two-year period.
- Buffeljags wind turbines produced 1.3 MW wind power capacity and reduced electricity costs at the site by about 65%.
- Saldanha desalination plant has led to a 50% reduction in the Group's dependency on municipal water supply.
- Built three concrete spectator benches at Karitas Spesiale Skool with EcoBricks filled with over 1.4 tonnes of plastic waste diverted from landfills.
- Helped curb single-use plastics pollution by introducing biodegradable food-grade paper strips on our quayside bins.

| IMPACTS ON AND TRADE-OFFS BETWEEN CAPITALS | POSITIVE | NEGATIVE |
|---|---|---|
| By implementing our intellectual capital to find alternate materials and operational practices we can limit the impact on our natural resources. This also has a positive impact on our social and relationship and human capitals. However, this impacts negatively on our financial capital based on the capital outlay requirements. | IC NC SC HC | FC |
| Reduction in TAC will result in short-term reductions in landings and as a result revenue and earnings. However, over the longer term the reduction in TAC will result in the improved health of the resource biomass, which will in turn drive efficiency gains and improved margins. | NC | FC |

### GOALS

- Engage with our stakeholders to ensure a collaborative approach to environmental management and conservation.
- Continue to support industry initiatives to work with regulators to ensure effective management of fish resources.
- Maintain our MSC certification for the Cape hake and Shark Bay prawn fishery.
- All biomass of species we harvest to reach and be maintained at MSY in South Africa or MEY in Australia.

# HC Human capital

**RELATED MATERIAL CARDINAL POINTS**

## Introduction

Our employees' collective skills, knowledge and abilities create economic value for the Group, for our stakeholders and for the communities in which we operate. Our human capital is comprised of our permanent and casual workers, excluding contractors and service providers.

**INPUTS**

**HUMAN CAPITAL**

- The Group employed a total of 4 360 permanent and temporary employees. 94% of South African employees are African, Coloured and Indian (ACI)

**HUMAN CAPITAL INVESTMENT**

- We had 288 learnerships, 72 apprenticeships, 11 cadetships, 46 graduate placements and internships, and 40 management development and mentorship programmes during 2019
- The Group spent R38 million on skills development
- Additional financial benefits included medical aid, retirement benefits, death and disability benefits, long-service awards, bursaries and study assistance funding

## ACTIVITIES TO ENHANCE OUTCOMES

- The Group's investment in apprenticeships, cadetships and learnerships met the skills development objectives set out in our employment equity plans.
- We have complied with all legislation related to human capital management.
- An onsite clinic in Saldanha Bay provided a collection facility for chronic medication.
- A number of employees were trained as peer educators and tasked with educating fellow employees and community members on the Group's vision regarding various social aspects affecting the workplace.
- We have increased the skills levels and workplace experience of the unemployed youth in the communities in which we operate, while developing and improving the skills levels of employees, with a focus on the previously disadvantaged.
- Sea Harvest employed the Department of Labour's guidelines on the economically active population for the Western Cape and subscribes to the National Skills Development Plan.

**OUTCOMES**

- R890 million paid in salaries and wages
- R3 million paid in dividends to participants of employee share trusts
- ACI employees: 94% (2018: 94%) of South African employees
- ACI employees in senior management: 67% (2018: 76%) of South African employees
- 187 employees received long-service awards for service to the Group ranging from 10 to 40 years
- 743 Group employees were upskilled, of which 28 earned new qualifications through the Management and Leadership Development Programmes (MLDPs)

| IMPACTS ON AND TRADE-OFFS BETWEEN CAPITALS | POSITIVE | NEGATIVE |
|---|---|---|
| Challenge to find scarce skills and experience to fill critical positions, particularly in remote locations, impacted mandate to appoint from ACI groups. | | HC |
| Challenges to increase the number of African employees in senior corporate positions. | | IC HC |
| Investment in leadership development programmes to assist with succession planning and availability of scarce skills. | HC IC | |

**GOALS**

- Continue expanding our existing talent pool through focused recruitment and targeting candidates from previously disadvantaged groups.
- Use the current development programmes as a feeder into this talent pool.
- Maintain our collaborative relationship with relevant trade unions.
- Maintain our Level 1 B-BBEE score.
- Identify a new group of high potential employees to increase our talent pool.
- Be an employer of choice, attracting and retaining talented employees, particularly from previously disadvantaged groups.
- Successfully fill key critical roles within the Group from the talent pool.

# OUR CAPITALS AND HOW WE MANAGE THEM CONTINUED

## IC Intellectual capital

**RELATED MATERIAL CARDINAL POINTS**



### Introduction

Our intellectual capital refers to the expertise and knowledge inherent in our organisation. It includes our know-how, systems, processes and strong brands, all of which are critical to our success when operating at a global level in a highly competitive and regulated industry.

**INPUTS**

- Extensive specialist know-how with respect to catching and processing of fish, farming of shellfish and fin-fish, processing of cheese, butter and milk powders, and the marketing of our range of c. 330 premium products globally to 37 countries
- A number of market-leading FMCG brands that are household names in their respective frozen fish categories and recently acquired well-established brand in value-added dairy
- Strong reputation as a credible supplier with long established customers across 37 countries that we trade with
- Skills development initiatives and programmes, including our MLDPs, mentorships, apprenticeships, cadet programmes and skills-specific learnerships
- The Group spent R38 million on skills development initiatives in 2019

### ACTIVITIES TO ENHANCE OUTCOMES

- The Group recruits, develops and retains highly qualified and experienced people and has a comprehensive succession plan in place in respect of critical skills.
- Change management processes to protect our diverse range of intellectual property.

**OUTCOMES**

- During the year, the Group acquired Ladismith Cheese, a value-added dairy company with significant know-how with respect to cheese, butter and milk powder production, and a well-established brand.
- Implemented a new enterprise resource planning (ERP) and inventory management system at VFD, requiring significant training of VFD staff on new systems and related processes.
- Significant development of internally generated intellectual capital relating to optimisation of Marel fish processing facility in Saldanha Bay.
- NPD of 'best ever' fish finger recipe in Sea Harvest fishing, and 8g butter tub, white gouda and condensed milk powder in Ladismith Cheese.
- Through benchmarking exercises, taste panels and increased interaction with customers through social media platforms, we obtained a better understanding of our customers' perception of our brand and products.

| IMPACTS ON AND TRADE-OFFS BETWEEN CAPITALS | POSITIVE | NEGATIVE |
|---|---|---|
| The cost of facilitating training initiatives in the rural communities required substantial financial capital investment. | HC IC | FC |
| Members of our senior and top management serve on external industry bodies to the benefit of stakeholder relationships at a financial cost. | SC | FC |

**GOALS**

- Maintain a brand leadership position and a strong reputation as a credible supplier across the global markets which we trade with.
- Maintain category-leading products through continued NPD activities.
- Align systems and process across the Group where appropriate, without negatively impacting agility and the focus on costs.
- Identify and address critical skills shortages through skills development initiatives, supplemented by targeted recruitment activities.

# SC Social and relationship capital

**RELATED MATERIAL CARDINAL POINTS**

## Introduction

Investments in key stakeholder relationships, including social transformation and empowerment initiatives and community upliftment programmes.

### INPUTS

- Support extended to SMME businesses operating in small-scale fishing and allied sectors through the South African Fisheries Development Fund that Sea Harvest co-founded
- R4.5 million investment in local community projects, while Sea Harvest Australia's management identified and supported community initiatives in Western Australia
- Tertiary study bursaries (28) and school holiday programmes for our employees' children to the value of R400 000.
- As a result of procurement policies, we spent R1.1 billion to support majority black-owned suppliers

## ACTIVITIES TO ENHANCE OUTCOMES

- Active engagement with key stakeholder groups to better understand their expectations through a combination of face-to-face meetings and electronic communications.
- Integration of newly acquired business brands into the Group structure.
- Entrenching the Sea Harvest values throughout the Group.
- Number of projects/organisations supported by the Sea Harvest Foundation (NPC) increased to c. 169 (2018: c.100).
- Relocation and refurbishment of the Western Cape Department of Social Development's Saldanha offices.

### OUTCOMES

- Retained Level 1 B-BBEE contributor status and improved our score from 100.37 to 104.44.
- Increased Group's black ownership from 80% to 83%.
- The Group has enjoyed the goodwill of its stakeholders and evidence of this is the fact that there was no industrial action nor fines or penalties imposed on the Group or its subsidiaries.
- Provided continued support to two new black entrants in the fishing sector, established as part of Viking acquisition.
- Development of an insurance policy to protect, and the provision of training and coaching to small-scale fishing sector operators through the South African Fisheries Development Fund which was co-founded by Sea Harvest.
- The Group spent c. R1.1 billion on procuring goods and services from majority black-owned businesses.
- The Group spent R492 million on procuring goods and services from 745 SMMEs, mainly in the rural communities in which we operate.

| IMPACTS ON AND TRADE-OFFS BETWEEN CAPITALS | POSITIVE | NEGATIVE |
|---|---|---|
| The highly regulated environment in which Sea Harvest operates means that the business is dependent on meeting the reasonable expectations of its stakeholders, including that of the fisheries branches of the South African and Australian governments, local communities, employees and customers in 37 countries. | SC | FC |
| Meeting government and society's expectations on fishing regulations impacts on our financial resources. | SC NC | FC |

### GOALS

- Our commitment to growing our social and relationship capital is to always respond to the reasonable expectations of stakeholders and to engage with them in a timely and meaningful manner.



# 2° NAVIGATING A TURBULENT CONTEXT



- Our Chairperson's report
- Our operating locations and context
- Our key stakeholders
- Our risks and mitigations
- Addendum: Covid-19

# OUR CHAIRPERSON'S REPORT

I present this report under the most trying and unprecedented circumstances. As a country, South Africa has faced many big challenges over the past 100 years. We have witnessed world wars, defeated apartheid and come face to face with the HIV/Aids epidemic, but today we stand in unison with the entire world fighting Covid-19, a devastating pandemic of unseen proportions and scale in modern history.

As a business we know that we cannot contract with the sea, other than that we operate in an environment where variables are generally known, and we make assumptions of the unknown; but what we now face is an epic unquantifiable catastrophe and this Covid-19 pandemic will write a new chapter in the history of our country, our economy and the world. The rapid evolution of the coronavirus outbreak makes it difficult to predict the full effect of the tragic human, economic and geopolitical consequences with any certainty. The longer the duration of Covid-19, the larger will be the impact on economies especially the poorer and less developed economies.

Governments around the world have enforced strict measures to contain the spread of the deadly and highly infectious virus in their attempt to "flatten the curve". Social distancing and isolation measures across much of the world has caused over 3 billion people to be in lockdown, and created an external shock to global trade resulting in a swift and sharp negative reaction in investment markets.

The timing of Covid-19 could not have come at a worse time for South Africa, given its vulnerability to external shocks as the country was already experiencing a recession after a prolonged period of stagnant economic growth. As many governments announced monetary and fiscal stimulus packages, South Africa followed suit cutting the repo rate to historically low levels and announcing a R500 billion support package.

As if the timing of Covid-19 alone was not bad enough, South Africa was officially downgraded to non-investment grade by Moody's, and Fitch downgraded South Africa a further notch maintaining a negative outlook. This downgrade to "junk" status implies that the country is a riskier investment proposition and foreign investors will thus demand a higher rate of return on their investments in South Africa. It is expected that this higher cost of capital will impact the whole economy as it results in an increase in the cost of doing business, which will reduce disposable income levels.

We have to commend President Cyril Ramaphosa and the leadership of our country for all their efforts in facing up to the dual challenge of containing a pandemic and balancing this with the need to rescue the economy at the same time. We should call on all South Africans to be patient, disciplined and to play their part in overcoming and curbing the spread of this disease, and encourage all our stakeholders to contribute to the many initiatives aimed at alleviating the economic plight of the nation.



> "I HAVE FAITH THAT COLLECTIVELY WE SHALL **OVERCOME ALL THESE CHALLENGES.**

South Africa experienced the third recession since 1994 in the second half of 2019, as the economy shrank by more than 2%. According to Statistics South Africa, overall economic growth was down for the third consecutive year from 1.4% in 2017 to 0.8% in 2018 and 0.2% in 2019. A big contributing factor was load shedding and ongoing corruption. I am sure that President Cyril Ramaphosa, will be resolute in dealing with both issues in honour of the many people who fought so hard to liberate our country. We owe future generations a society free of corruption and poverty.

Fred Robertson

In the context of a weak domestic economic environment and a bleak and uncertain 2020, I present the 2019 Integrated Report of Sea Harvest Group and its stellar results for the year ended 31 December 2019. Financial performance highlights include a strong growth in Group revenue for the year increasing by 54% to R3.97 billion from R2.58 billion in the previous year. Profit after tax increased by 35% to R395.5 million from R293.1 million in the previous year. This translated into headline earnings growth of 33% to 149 cents per share. Consequently, dividends declared increased by 25% and this year consisted of an ordinary dividend of 45 cents per share and a special dividend of 5 cents per share. This robust performance also included the first full year of results from the recent acquisitions of Viking Fishing, Viking Aquaculture and Ladismith Cheese, an early vindication of our acquisition strategy.

Benchmarking the Group's performance against our three-year organic and acquisitive growth strategy, I am very pleased with the outcomes over the past year. In terms of our volume growth target, traded product increased by 6% year on year. The Marel fresh fish processing facility improved both labour and yield efficiencies, and the installation of state-of-the-art cutting and forming equipment has improved production efficiencies. The delivery of synergies relating to the Viking Fishing acquisition has driven margin enhancements. Ladismith Cheese was seamlessly integrated into the Group and reported good performance in the first year post acquisition.

Sea Harvest is a business operating in multiple geographies, producing and marketing multiple products, trading in multiple currencies, and engaging with multiple cultures. During the year under review Sea Harvest acquired the remaining 43.7% shareholding in its Australian business that it did not previously own. Sea Harvest Australia is now a wholly owned subsidiary of Sea Harvest.

The South African Fishing operations has seen improved catch rates compared to the previous year and demand for wild-caught, MSC-certified seafood remains very strong both internationally and locally. We have seen the postponement of the South African government's fishing rights allocation process (FRAP), by the Ministry of Environment, Forestry and Fisheries to January 2022. While this has presented some uncertainty within the business, we support the Honourable Minister's aim to familiarise herself with the industry dynamics before approving the outcome of such an important process, which directly impacts the livelihood of a vast range of stakeholders. We hope that we will at least retain our rights to enable the Group to continue its empowerment journey in the interest of all its stakeholders, including its employees and local communities. The Group's success has allowed it to add value to natural resources with maximum beneficiation where it is harvested or sourced.

Sea Harvest is a founding member of the South African Fisheries Development Fund, a joint initiative with Brimstone Investment Corporation Limited. The Fund is devoted to empowering small-scale businesses and co-operatives in the fishing and allied sectors. The primary objective of the Fund is to transform the fishing industry from the ground up by assisting smaller quota holders and new entrants to acquire boats, catch their quotas, process catches, and access markets. Sea Harvest supports these SMMEs via the Fund by providing marketing assistance, vessels and assets, management expertise, training and mentoring, and processing of fish to promote enterprise development. We also provide them with soft skills training like conflict management, and assist them in acquiring accidental death and disability insurance cover.

Sea Harvest remains key to uplifting many local communities who are an integral part and closely associated with the fishing sector. During the year under review Sea Harvest Foundation disbursed in excess of R4.5 million in support of its various corporate social investment (CSI) projects covering education and sports, early childhood development, bursaries and healthcare. Similarly, Sea Harvest Australia's management has identified and supported community initiatives in Western Australia. As a result of the Group's procurement policies, approximately R1.1 billion has been spent on procuring goods and services from majority black-owned suppliers and R492 million with SMMEs.

Sea Harvest retained its Level 1 B-BBEE contributor status with an improved score during the year under the review. The Group's black ownership increased from 80% to 83% in the period. This is indeed a milestone for the Group, especially in a listed environment.

In line with the Board's mandate to ensure good governance, the process of ensuring the same governance practices, policies and systems throughout each subsidiary company within the Group remains a work in progress. For the year ahead, the Board's focus will also be on ensuring the creation of a cohesive culture driven by ethical behaviour and a zero tolerance for fraud, supported by clear and visible communication and engagement.

The Group employs more than 4 000 employees, of which 3 257 were permanent staff at year end and the remainder consisted of casual or temporary employees. In terms of diversity, 92% of all employees were female and from previously disadvantaged communities. At top and senior management level, approximately 67% are from previously disadvantaged communities. I wish to thank the entire staff for their unwavering commitment to every aspect of the business and also for contributing to the vision of the Group and building Sea Harvest into a truly global business.

I would like to thank all my fellow Board members for their guidance and support. I also wish to congratulate and thank our CEO Felix Ratheb and his executive team for their sterling effort and the fantastic results produced for the year under review.

> To all our stakeholders, including shareholders, suppliers, customers, unions, regulators, advisors and associates, thank you for your support as we navigate the oceans and anchor all our efforts in remaining **a responsible corporate citizen in every respect.**



**Fred Robertson**
*Non-executive Chairperson*

# OUR OPERATING LOCATIONS AND CONTEXT

## OPERATING CONTEXT

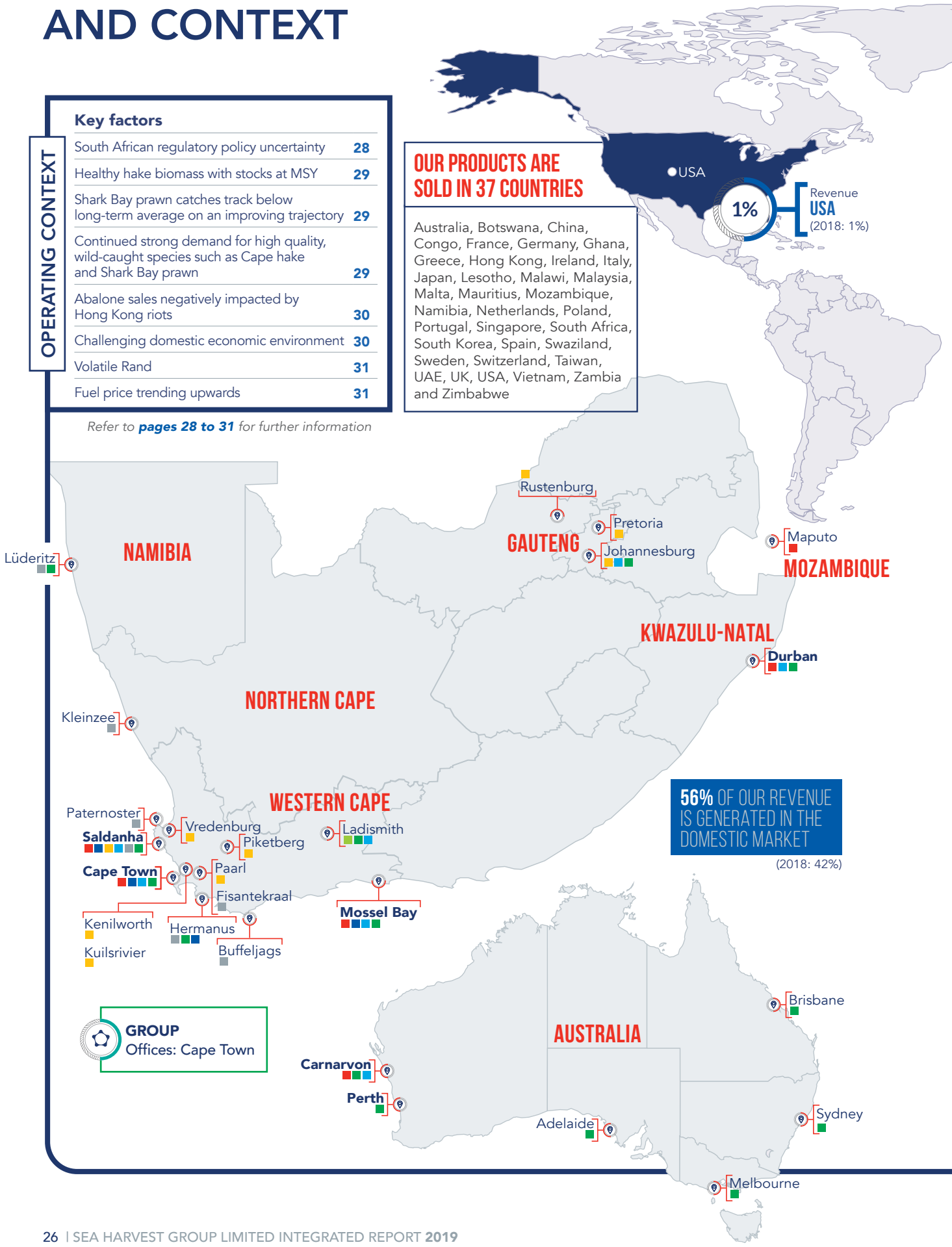
### Key factors

| | |
|---|---|
| South African regulatory policy uncertainty | 28 |
| Healthy hake biomass with stocks at MSY | 29 |
| Shark Bay prawn catches track below long-term average on an improving trajectory | 29 |
| Continued strong demand for high quality, wild-caught species such as Cape hake and Shark Bay prawn | 29 |
| Abalone sales negatively impacted by Hong Kong riots | 30 |
| Challenging domestic economic environment | 30 |
| Volatile Rand | 31 |
| Fuel price trending upwards | 31 |

*Refer to **pages 28 to 31** for further information*

## OUR PRODUCTS ARE SOLD IN 37 COUNTRIES

Australia, Botswana, China, Congo, France, Germany, Ghana, Greece, Hong Kong, Ireland, Italy, Japan, Lesotho, Malawi, Malaysia, Malta, Mauritius, Mozambique, Namibia, Netherlands, Poland, Portugal, Singapore, South Africa, South Korea, Spain, Swaziland, Sweden, Switzerland, Taiwan, UAE, UK, USA, Vietnam, Zambia and Zimbabwe

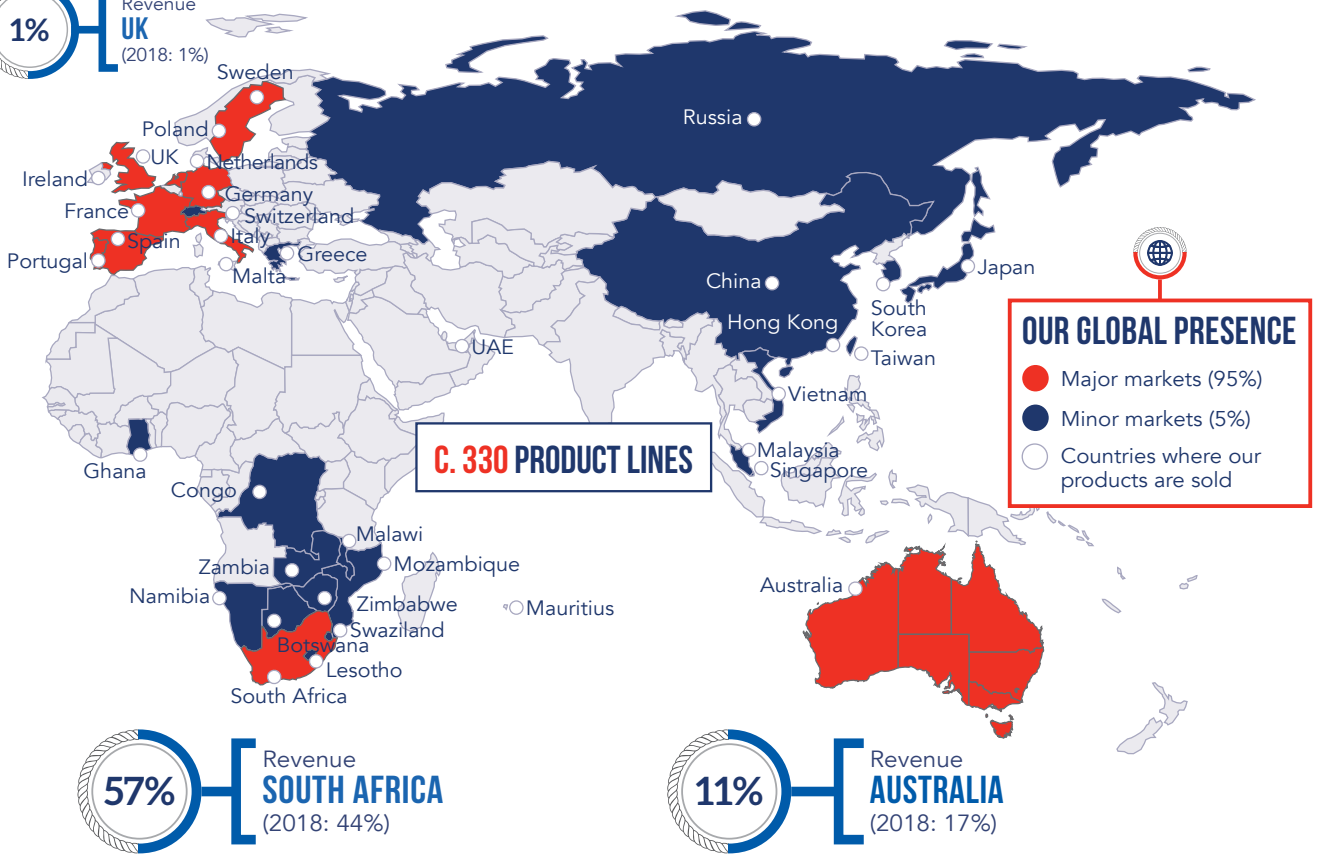


**25%** Revenue **SOUTHERN EUROPE** (2018: 28%)

**3%** Revenue **NORTHERN EUROPE** (2018: 7%)

**4%** Revenue **OTHER MARKETS** (2018: 5%)

**1%** Revenue **UK** (2018: 1%)




**57%** Revenue **SOUTH AFRICA** (2018: 44%)

**11%** Revenue **AUSTRALIA** (2018: 17%)

| SOUTH AFRICAN FISHING | SEA HARVEST AQUACULTURE | CAPE HARVEST FOODS | SEA HARVEST INTERNATIONAL |
|---|---|---|---|
| ➢ Saldanha Bay<br>➢ Cape Town<br>➢ Mossel Bay<br>➢ Durban<br>➢ Maputo | ➢ Lüderitz<br>➢ Kleinzee<br>➢ Paternoster<br>➢ Saldanha Bay<br>➢ Hermanus<br>➢ Fisantekraal<br>➢ Buffeljags | ➢ Ladismith | ➢ Carnarvon |
| ➢ Saldanha Bay<br>➢ Cape Town<br>➢ Mossel Bay | ➢ Saldanha Bay<br>➢ Hermanus | ➢ Ladismith | ➢ Carnarvon |
| ➢ Saldanha Bay<br>➢ Cape Town<br>➢ Johannesburg<br>➢ Durban<br>➢ Mossel Bay | ➢ Saldanha Bay | ➢ Ladismith<br>➢ Johannesburg<br>➢ Cape Town | ➢ Perth<br>➢ Carnarvon<br>➢ Adelaide<br>➢ Melbourne<br>➢ Sydney<br>➢ Brisbane |
| ➢ Saldanha Bay<br>➢ Cape Town<br>➢ Mossel Bay<br>➢ Johannesburg<br>➢ Durban | ➢ Hermanus<br>➢ Lüderitz | ➢ Cape West Coast (Vredenburg, Saldanha Bay, Piketberg)<br>➢ Cape Town (Paarl, Kenilworth, Kuilsrivier)<br>➢ Johannesburg (Xavier, Boksburg)<br>➢ Pretoria (Silverton, Centurion)<br>➢ Rustenburg | |

FISHING OPERATIONS | SEAFOOD PROCESSING FACILITIES | FISH FACTORY SHOPS | COLD STORAGE AND DISTRIBUTION | DAIRY PRODUCTION FACILITIES | AQUACULTURE OPERATIONS | OFFICES

# OUR OPERATING LOCATIONS AND CONTEXT CONTINUED

## OPERATING CONTEXT

The Sea Harvest Group is a global fishing, aquaculture and food business with operations in South Africa, Mozambique, Namibia and Australia. We catch, source, process, market and distribute premium, sustainably sourced seafood, value-added dairy and other food products to 37 countries around the world.

The external environment in which we operate has a direct influence over our business model and impacts our ability to create value for our various stakeholders. Understanding our operating context is important as it influences what we do to mitigate risks identified within the external environment and harness emerging opportunities. We have analysed the political, economic, social and environmental factors that influence our business in the jurisdictions in which we operate and have identified the following eight trends that have already, or may in the future, materially impacted Sea Harvest's operations and our ability to create value for all our stakeholders in the short, medium and long term.

Management is cognisant of the impact that Covid-19 has had and will continue to have in the short to medium term on the Group's operating context. However, the operating context set out below is relevant to the financial year under review.

## 1. SOUTH AFRICAN REGULATORY POLICY UNCERTAINTY

- During 2019, the forestry and fisheries divisions of the Department of Agriculture, Forestry and Fisheries (DAFF) were merged with the Department of Environmental Affairs to form the Department of Environment, Forestry and Fisheries (DEFF) under a new minister, Barbara Creecy.
- Previously, the FRAP for the hake deep-sea trawl, small pelagics, KwaZulu-Natal prawn trawl and tuna pole-line sectors was scheduled to be completed during 2020, with new rights coming into effect from 1 January 2021.
- In August 2019, the previously announced FRAP timetable was withdrawn and it was announced that the rights allocation process for the hake deep sea trawl, small pelagics, KwaZulu-Natal prawn trawl and tuna pole-line sectors would be delayed by a year, with the new rights coming into effect on 1 January 2022.
- The delay in the FRAP will allow the DEFF to undertake a full economic impact assessment and properly plan and execute the application process.
- At the time of writing our IR, the general and sector-specific policies that govern the upcoming rights allocation process were being drafted and expected to be published during the first half of 2020. Until these policies are published, the evaluation criteria that will be used remain unclear.
- There is a risk that there will be a greater focus on increasing participation of new entrants within the relevant sectors, potentially negatively impacting the allocation of rights to existing participants, as the total allocation is likely to remain the same, to the detriment of jobs and investment.

### IMPACT

- A potential reduction in Sea Harvest's quota allocation will result in lower catches, and consequently proportionally lower sales tonnes and revenue.
- Quota allocations are proportional to the number of jobs created, and therefore a quota reduction will likely translate into job losses within the rural communities in which we operate.
- A potential reduction in Sea Harvest's quota could result in stranded assets and a reduction in investment in the fishing sector.

### OUR RESPONSE

Sea Harvest has invested significant effort and resources to align with government's objectives of transformation, job creation, investment and growth.

- We supported government's transformation objective by:
  - increasing black shareholding from 21% in 2005 to 83% in 2019;
  - retaining a Level 1 B-BBEE contributor status with an improved score of 104.44 (2018: 100.37); and
  - spending R318 million in 2019 within our South African Fishing operations to procure goods and services from 618 predominately black SMMEs.
- We supported government's job creation objective by increasing the number of jobs in our South African Fishing operations to c. 3 400, from approximately 2 000 at the time that the long-term hake rights were last awarded in 2005. In 2019, the Group paid R890 million in salaries and wages to our employees.
- We supported government's investment and growth objective by investing significantly in the South African fishing sector. Since our long-term hake rights were last awarded in 2005, it is estimated that the Group has invested approximately R1.9 billion in acquiring new and maintaining existing vessels and production facilities.

## 2. HEALTHY HAKE BIOMASS WITH STOCKS AT MSY

- The DEFF, supported by scientists from the University of Cape Town and industry, actively manage South Africa's fishing resources by limiting fishing efforts and allocating a scientifically evaluated annual TAC.
- Surveys and stock assessments for targeted species are conducted throughout the year to evaluate the health of the fish species and adjustments are then made to the TAC or fishing efforts where necessary.
- In the hake sector, since its peak of 156 000 tonnes in 2013, the TAC has decreased by 15% to 134 000 tonnes in 2018 to allow for the growth of the species. This has also been undertaken in other sectors, such as small pelagics, to achieve growth objectives.
- Stock assessments undertaken in 2018 indicated that, as a result of the reductions in TAC over the preceding five years, the hake biomass had reached MSY.
- Small pelagics (anchovies and sardines) are still under pressure and further TAC cuts are possible in the near future.

### IMPACT

- As a result of the hake biomass reaching the MSY, the hake TAC for 2019 was increased by 10% to 147 000 tonnes, which translated into a proportional increase in catches and revenue from the species.
- In 2019, the improved health of the hake biomass resulted in improved catch rates and size mix compared to 2018, reducing the trawling cost per kilogram, which in turn benefited the South African Fishing operation margins.

### OUR RESPONSE

- Through our leadership roles in the South African fishing industry, Sea Harvest actively promotes the sustainable management of our marine resources through responsible fishing practices.

## 3. SHARK BAY PRAWN CATCHES TRACK BELOW LONG-TERM AVERAGE ON AN IMPROVING TRAJECTORY

- The 2019 Shark Bay prawn catch volumes of 599 tonnes were 11% higher than the multi-decade low prawn catch experienced in the 2018 prawn season. However, this is still well below the long-term average prawn catch of 800 tonnes.

### IMPACT

- The lower-than-average prawn catch, and smaller size mix, has had a proportional negative impact on the revenue of Sea Harvest Australia's prawn operation, negatively impacting margins and earnings.

### OUR RESPONSE

- Sea Harvest Australia has successfully engaged with the Western Australian Fisheries Department to motivate a later start to the prawn catching season in 2020.
- The later start to the prawn season is expected to allow the resource an opportunity to grow, improving volumes and size mix.

## 4. CONTINUED STRONG DEMAND FOR HIGH QUALITY, WILD-CAUGHT SPECIES SUCH AS CAPE HAKE AND SHARK BAY PRAWN

- Increasing global populations, together with a growing global trend towards healthier proteins, is driving an increased global demand for fish.
- The supply of wild-caught fish remains static, with global wild-caught white fish supplies remaining stable at c. 7 million tonnes.
- An increasing demand for seafood from China is absorbing global seafood supplies, positively impacting pricing in our traditional markets.
- Cape hake and Shark Bay prawn are sought after wild-caught, MSC-certified species, with limited supply, which are in high demand globally, and in particular in our key markets of Europe and Australia.

### IMPACT

- The global demand for wild-caught species such as Cape hake and Shark Bay prawn exceeds supply, which creates a positive dynamic that enables continued firm pricing in the markets in which we operate.

### OUR RESPONSE

- Export revenue from the South African Fishing operation has increased 26% compared to 2018, and the export mix of revenue has increased to 53%, from 52% in 2018.
- Sea Harvest continues to leverage its global sourcing strategy to supplement the local market, using co-packed product and raw material, enabling valuable MSC-certified catches to be directed to more lucrative MSC-sensitive markets.

# OUR OPERATING LOCATIONS AND CONTEXT CONTINUED

## 5. ABALONE SALES NEGATIVELY IMPACTED BY HONG KONG RIOTS

- South African abalone is a valued species and historically has been in high demand in Hong Kong and China. Our two abalone farms will produce 500 tonnes of abalone at capacity, mostly sold live to Hong Kong and China.
- In the year under review, abalone sales were severely hampered by the riots in Hong Kong which plagued the region for much of the second half of 2019.

### IMPACT

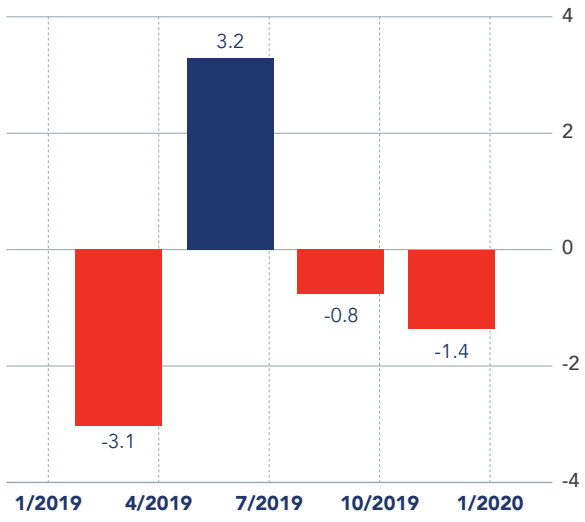
- Lower short-term demand for abalone due to geopolitical factors in the region resulted in lower sales volumes and negative pricing pressure.
- Sales revenue from abalone during the second half of 2019 was significantly lower than expected and the prior year, resulting in revenue from the Aquaculture segment for the second half of 2019 being 47% lower than the same period in 2018.
- As a result, Sea Harvest Aquaculture recorded an operating loss of R30 million for the year, compared to an operating profit of R3 million for the six months post acquisition on 2 July 2018.
- Consequently, the Sea Harvest Aquaculture earn-out target for 2019 was not achieved, resulting in a fair value gain of R44 million being recorded in the year.
- Lower sales rates of abalone resulted in an increase in the density of abalone in our tanks, which negatively impacted growth rates.

### OUR RESPONSE

- The expansion of the Kleinzee abalone farm in the Northern Cape has been accelerated to provide additional tank capacity for the increased number of abalone, due to lower sales rates, to mitigate the negative impact on growth rates.
- We are diversifying the market concentration risk away from Hong Kong by identifying alternative markets for South African abalone.
- We are increasing the production of canned abalone and investigating the production of other product formats, including frozen and dried, to appeal to an increased customer base.

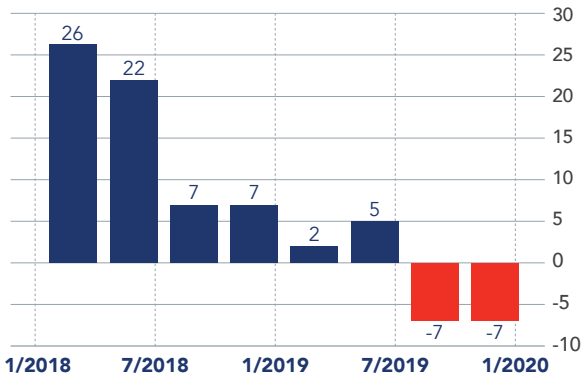
## 6. CHALLENGING DOMESTIC ECONOMIC ENVIRONMENT

- On the back of the worst rolling blackouts in history, in the fourth quarter of 2019 the South African economy entered its second recession in successive years, with the economy contracting by 1.4%, following the contraction of 0.8% in the third quarter.




*Source: Tradingeconomics.com*
*Statistics South Africa*

- South Africa's Consumer Confidence Index has declined sharply over the past two years from its high of 26 in the first quarter of 2018, following President Cyril Ramaphosa's election, and has stood at -7 for both the third and fourth quarters of 2019, the lowest level since the fourth quarter of 2017, preceding the resignation of former President, Jacob Zuma.
- Consumer spending was under continued pressure during 2019, impacted by a tighter income squeeze amid slower wage growth, high tax rates and soaring electricity prices.




*Source: Tradingeconomics.com*
*Bureau for Economic Research (BER)*

### IMPACT

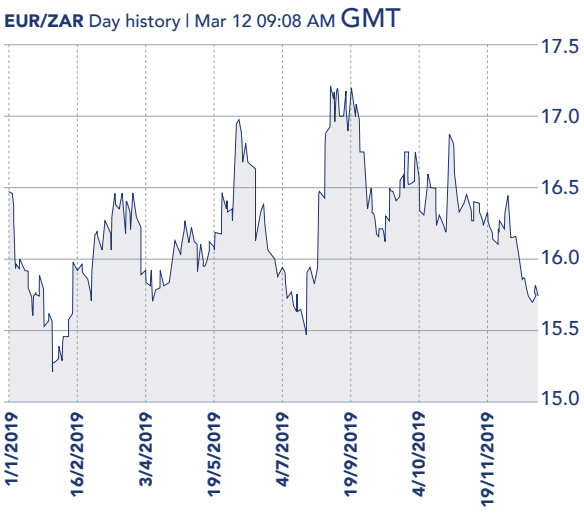
- The challenging South African economic environment saw retail sales under pressure during 2019, with the retail revenue from the South African Fishing operation declining by 14% year on year.

### OUR RESPONSE

- In South African Fishing, we reduced our dependency on the retail channel, which saw our retail mix of revenue reduce from 15% in 2018 to 10% in 2019.
- Within Cape Harvest Foods, which includes Ladismith Cheese and Sea Harvest's factory shops, the retail mix of revenue is stable at c. 30%.

# 7. VOLATILE RAND

- The Rand remained extremely volatile during 2019, starting the year on a rate of R16.49 and ending 5% stronger at R15.69 against the Euro. However, through the course of the year the rate varied widely from its strongest position of R15.18 to the Euro in early February 2019, to its weakest position of R17.17 to the Euro in August 2019.




*2020 © Exchangerates.org.uk*

## IMPACT

- In 2019, exports made up 53% of Sea Harvest's South African Fishing revenue and 57% of Sea Harvest Aquaculture's revenue, which meant the volatility of the Rand exchange rate had a significant and direct influence on our reported revenue.
- During 2019, the average movement of the Rand compared to 2018 had a positive 3% impact on Sea Harvest's reported export revenue.

## OUR RESPONSE

- To mitigate the impact on the Group's result of a strengthening Rand, Sea Harvest has an established hedging policy which is reviewed annually and approved by the Investment and Hedging Committee and the Board.
- In accordance with the approved hedging policy, Sea Harvest hedges 50% of its export sales as a matter of course, and up to 75% with the specific approval of the Investment and Hedging Committee.
- In 2019, Sea Harvest covered 73% of the Euro and 51% of the Australian Dollar exposure respectively using forward exchange contracts, and recorded a foreign exchange gain of R41 million for the year.

# 8. FUEL PRICE TRENDING UPWARDS

- The price of Brent Crude was also volatile during 2019, beginning the year at US$54 per barrel, increasing initially to US$75 per barrel in April 2019 then decreasing again to US$59 per barrel in May 2019, and then increasing progressively through the rest of the year to end the year on US$68 per barrel.
- The Rand opened the year at R14.37 and ended the year at R14.11 against the US Dollar. However, as against other currencies, the Rand remained volatile against the US Dollar, tracking between its strongest position of R13.31 against the US Dollar in February 2019 to its weakest position of R15.46 against the US Dollar in August 2019.
- As a result of the above two factors, the Rand cost of fuel increased by 19% during the course of 2019, from R779 per barrel at the start of the year to R925 per barrel at the end of the year.




*2020 © Exchangerates.org.uk*

## IMPACT

- The Sea Harvest fleet consumed c. 32 million litres of diesel fuel in 2019, and as a result the movement in the price of Brent Crude and the Rand and Australian Dollar exchange rates relative to the US Dollar had a significant impact on the cost of fuel, which comprised c. 15% of our total cost of sales.

## OUR RESPONSE

- To mitigate the impact of rising fuel prices over the course of 2019, Sea Harvest hedged 50% of its diesel exposure for the year under review.
- During 2019, Sea Harvest recorded fuel hedge gains of R6 million during the year, partially offsetting the impact of the higher average fuel price.

# OUR KEY STAKEHOLDERS

## Introduction

Our key stakeholders are those who are directly or indirectly affected by our business activities. As one of our material cardinal points, managing our relationships with our key stakeholders is prioritised throughout the year. We are always mindful of their expectations and how we can best respond for a mutually beneficial outcome.

## EMPLOYEES AND LABOUR UNIONS

HC IC SC

### WHY THEY MATTER

Our employees provide the workforce, the skills and the qualifications that we need to create value. The majority of our employees belong to labour unions that represent their interests during negotiations with management.

### THEIR EXPECTATIONS

Our employees and labour unions expect fair remuneration and other financial and non-financial benefits to reward performance; safe and stimulating working environments; relevant and timely information about our business; opportunities for career and skills development; and job security.

### HOW WE ENGAGED

Members of the Group's executive team held at least three face-to-face engagement sessions with all our employees during the year under review. In addition, we communicated through various printed and electronic channels, including an internal magazine and a newsletter for sea-going crew. We also rewarded our employees with long service awards and end-of-year celebrations.

### HOW WE RESPONDED

We remunerated our employees on a competitive basis and in many cases salaries and wages were above the market-related average. Our employees were also able to further share in the Group's wealth through capital growth and dividends via the Employee Share Trusts (ESTs).

In addition, employees benefited from various learning and development opportunities, as well as health and safety and environmental programmes.

### VALUE CREATED

- Sustained 4 360 jobs across the Group
- R890 million paid in salaries and wages
- Ensured that staff share in the wealth created by the Company through ESTs, through which employees received c. R3 million in dividends
- R38 million spent on providing training and skills development opportunities

## SHAREHOLDERS

FC SC

### WHY THEY MATTER

Our shareholders carry the most risk, because their investment provides the financial capital needed to grow our business.

### THEIR EXPECTATIONS

Our shareholders expect to receive an appropriate return on their investment through a combination of an increase in share price and dividends; that wealth is not only created, but also shared; and transparent information is provided about our business that demonstrates the Group's adherence to good corporate governance.

### HOW WE ENGAGED

We had regular face-to-face engagements with shareholders through events and meetings, while information was also shared electronically, online and through the media by way of announcements through, among others, the Stock Exchange News Service (SENS), advertorials, press releases, and our IR and results presentations.

### HOW WE RESPONDED

We continued to deliver on our organic and acquisitive growth strategy with benefits flowing from various efficiency projects. During the year, our domestic and global footprint increased with the acquisition of 100% of Ladismith Cheese, and the remaining 43.7% of the shares in Sea Harvest Australia not already owned by the Group.

### VALUE CREATED

- HEPS growth of 33% to 149 cents (2018: 112 cents)
- Share price increased 6% to R14.53 (2018: 13.75)
- A dividend of 50 cents per ordinary share was declared in respect of the 2019 financial year, an increase of 25% compared to 2018
- The Group adhered to continuous disclosure requirements to keep shareholders fully informed
- Ongoing communication, including one-on-one meetings with executives and results presentations were hosted to ensure adequate access to information

Achieved Increase Decrease

## FUNDERS

### WHY THEY MATTER
Our funders provide the financial capital we need to grow the business.

### THEIR EXPECTATIONS
Our funders expect repayment of their loan capital and interest according to the agreed terms, that we operate within agreed covenants and that we communicate timeously regarding the performance of the business and risks faced.

### HOW WE ENGAGED
The Group engages on a regular basis with its funders through a combination of face-to-face meetings and electronic communication. Our funders attend all results presentations and have access to budgets and transparent financial information relating to the operation of the Group.

### HOW WE RESPONDED
We honoured our commitment to the agreed loan terms and provided our funders with accurate information on a regular basis.

### VALUE CREATED
- The Group repaid a net R214 million of borrowings (2018: raised a net R630 million)
- R101 million was paid in net interest (2018: R44 million)
- Through active management of the debt facility the Group is reducing interest leakage
- All covenant requirements were met during the period

## GOVERNMENT AND REGULATORS

### WHY THEY MATTER
Government and other regulators provide us with the licence, services and infrastructure we need to operate our business.

### THEIR EXPECTATIONS
Government and other regulators expect us to adhere to legislative and regulatory requirements. This is in addition to supporting its various objectives to ensure the overall well-being of its citizens, individually and as a collective, as well as providing accurate and timely information.

### HOW WE ENGAGED
We have engaged with Government and our regulators, including the DEFF in South Africa and the Department of Primary Industries and Regional Development (DPIRD) in Australia, through active participation in various industry bodies. In South Africa we hold the Chair of the South African Deep-Sea Trawling Industry Association (SADSTIA) and the Chair of SADSTIA's Scientific Committee. As Chair of SADSITA's Scientific Committee we also hold a seat on the DEFF's Demersal Scientific Working Group. We regularly engage through face-to-face meetings and e-mail correspondence with other key regulators, including NRCS, South African Maritime Safety Authority (SAMSA) and the Department of Labour.

### HOW WE RESPONDED
The Group has invested significant effort and resources in supporting government's objectives of transformation, job creation, investment and growth. For more details on this see 'our response' on **page 28**. In addition, the Group's operations have complied with all regulations set by our key regulators, including the DEFF, DPIRD, the Department of Labour, NRCS and SAMSA. Regulatory compliance is audited by our internal auditors. During the year we did not breach any licence conditions.

### VALUE CREATED
- Maintained a Level 1 on the B-BBEE scorecard with a score of 104.44 (2018: 100.37)
- Increased black shareholding to 83%
- The Group harvested its quota fully and as a result maximised the jobs created within its South African Fishing operation
- The Group invested R243 million on its fleet and factories to improve efficiencies and increase production capacity
- The Group invested R727 million in growth through the acquisition of Ladismith Cheese and the remaining shareholding in Sea Harvest Australia
- The Group focused on creating and protecting jobs within local communities providing c. 4 360 jobs across the Group
- Paid taxes and levies in excess of R270 million and generated R1.4 billion in foreign currency revenue
- Actively support SMMEs involved in small-scale fishing and allied sectors through the South African Fisheries Development Fund which Sea Harvest co-founded
- The Group complied with all regulations affecting its operations; no fines or penalties were incurred during the year under review, and all licences and permits were retained
- Sea Harvest Australia worked with the Australian government to delay the start of the prawn fishing season to promote sustainable catches; adhered to Federal and State laws in relation to import and labelling of products for export, as well as the DPIRD regulations; and retained a throughput permit for direct export/import of local product processed in Thai Union in Thailand

# OUR KEY STAKEHOLDERS CONTINUED

## FISHING INDUSTRY PARTNERS

SC

### WHY THEY MATTER

In many instances, we rely on our partnership with various industry bodies to meet the expectations of government and other stakeholders.

### THEIR EXPECTATIONS

Our industry partners expect honest and open communication, as well as the timely execution of agreed actions in line with our shared objectives.

### HOW WE ENGAGED

Our engagement with industry partners was mostly in the form of face-to-face dialogue, while information was also made available online and through the media.

### HOW WE RESPONDED

We continued to be an active member of the SADSTIA with our Operations Director appointed as the Chairperson, the RFA, the Global Whitefish Forum, the Australian Quarantine and Inspection Service, Western Australian Fishing Industry Council, as well as other industry bodies.

### VALUE CREATED

- In 2019, two of Sea Harvest Corporation's executive members held executive positions, including the role of Chairperson, within SADSTIA, while Sea Harvest Corporation was also a member of the RFA and Sea Harvest Australia was a member of the Australian Quarantine and Inspection Service, the Western Australian Fishing Industry Council, and other industry bodies
- SMMEs in small-scale fishing and allied sectors benefited from training and other support funded by the South African Fisheries Development Fund which Sea Harvest co-founded
- During 2019 we actively continued to support two new black entrants into the South African fishing sector established as part of the Viking acquisition
- Sea Harvest Australia continued to participate in a share-fishing arrangement with the boat skippers who operate their 12 fishing vessels in Carnarvon
- The Group implemented practices to retain the MSC certification of its hake products in South Africa and prawn products in Australia

## CUSTOMERS AND CONSUMERS

FC IC SC

### WHY THEY MATTER

Our customers and consumers are our reason for being, they are who we produce for and whose expectations we aim to exceed.

Our consumers are families, communities, people who care about eating healthily, and nutritious and great tasting food. They care about quality and value, but most of all, they care about one another and our shared future.

### THEIR EXPECTATIONS

They expect premium quality brands, competitive pricing, adherence to food safety standards, sustainable and ethical business practices, as well as product traceability. That means entering into competitive trade agreements and providing a continuous supply of products to meet their demands.

### HOW WE ENGAGED

It is our responsibility to manage our customers' and consumers' expectations in terms of their demand for our products, a growing population, and limited natural resources.

We ran several marketing campaigns during the year under review, including the Make It Hake, Fish Finger Mealtime Heroes, and Fish & Tips campaigns.

National in-store activities, digital marketing initiatives and social media spend, along with experiential marketing and traditional print advertising were aimed at building brand awareness and customer engagement.

### HOW WE RESPONDED

In 2019, we continued to invest in building our brands and ensuring the quality of our products.

We channelled supply of our products to our different sites in such a way so as to reduce the impact of load shedding on quality and supply. We had our best production year to date and we will install generators throughout our operations in 2020.

We endeavoured to respond to the increased need for communication to manage the expectations of our customers and consumers.

### VALUE CREATED

- Through acquisitions, the Group has been able to offer a more diversified product range (c. 330 products in 2019 (2018: c. 220)) to a wider range of customers, across an increased mix of countries (37 in 2019 (2018: 27))
- We delivered better value products in the retail market (fish fingers and Crisp & Chunky), which were very well received, and we expect to see the market share benefits in 2020
- Sea Harvest has established quality assurance protocols which customers and consumers can rely upon to ensure the safety of products produced
- We did not meet our market share expectation in the domestic retail market

Achieved Increase Decrease

## SUPPLIERS AND SERVICE PROVIDERS

### WHY THEY MATTER

We depend on our suppliers and service providers to provide and render quality products and services and operate according to their required industry standards as these impact on our ability to produce premium quality products and safeguard our own reputation.

### THEIR EXPECTATIONS

Our suppliers and service providers expect adherence to ethical and fair business practices, timely payments as well as relevant and up-to-date information.

### HOW WE ENGAGED

Engagement with this stakeholder group was mostly in the form of telephonic, electronic communication and regulator structured face-to-face meetings. They also had access to information published online and through the media.

### HOW WE RESPONDED

We continued to focus on promoting enterprise and supplier development, especially black-owned businesses, through our procurement policies, and ensured that all contractual obligations were met within the required time.

### VALUE CREATED

- The Group's procurement policies resulted in R1.1 billion (2018: R738 million) being spent during the 2019 financial year with 223 (2018: 189) majority black-owned suppliers
- R19 million (2018: R24 million) was contributed to supplier development during 2019
- R5 million (2018: R13 million) was contributed to enterprise development during the year
- R492 million (2018: R255 million) was spent on 745 (2018: 370) SMMEs during the year

## COMMUNITIES AND NON-GOVERNMENTAL ORGANISATIONS (NGOs)

### WHY THEY MATTER

The majority of our employees reside within the local communities in and around which we operate. As a result, we rely on the goodwill of these communities to ensure that our operations are not disrupted during any mass action.

### THEIR EXPECTATIONS

Local communities and NGOs expect us to contribute towards their economic and social welfare, not only through job creation, but also by offering discounted pricing on our products, investing in various projects and community organisations as well as supporting individuals who demonstrate academic and athletic potential.

### HOW WE ENGAGED

We engaged with members of local communities and NGOs at events and meetings organised and hosted by the Sea Harvest Foundation as well as through information shared on our website and through the media.

### HOW WE RESPONDED

During 2019, we continued to provide sustainable jobs, invest in communities and NGOs through the Sea Harvest Foundation, and support the small-scale fishing sector through the South African Fisheries Development Fund.

### VALUE CREATED

- Through the Sea Harvest Foundation, the Group invested R4.5 million (2018: R3 million) on community-based projects, including bursaries, healthcare initiatives, early childhood development (ECD), donations and the support of youth sports development
- Supported small-scale fishing sector by providing training and coaching, and developing specialist insurance policy providing fishermen in this sector with death and disability cover
- In Australia, Sea Harvest Australia supported various projects in Carnarvon and the Gascoyne region, including community organisations and sporting events
- Worked with various NGOs, such as the Khayelitsha Canoe Club and EcoBrick Exchange, in recycling waste, as well as the WWF-SA and BirdLife SA to conserve nature and promote an ecosystems approach to fisheries


Baby Hake
Baby Hake

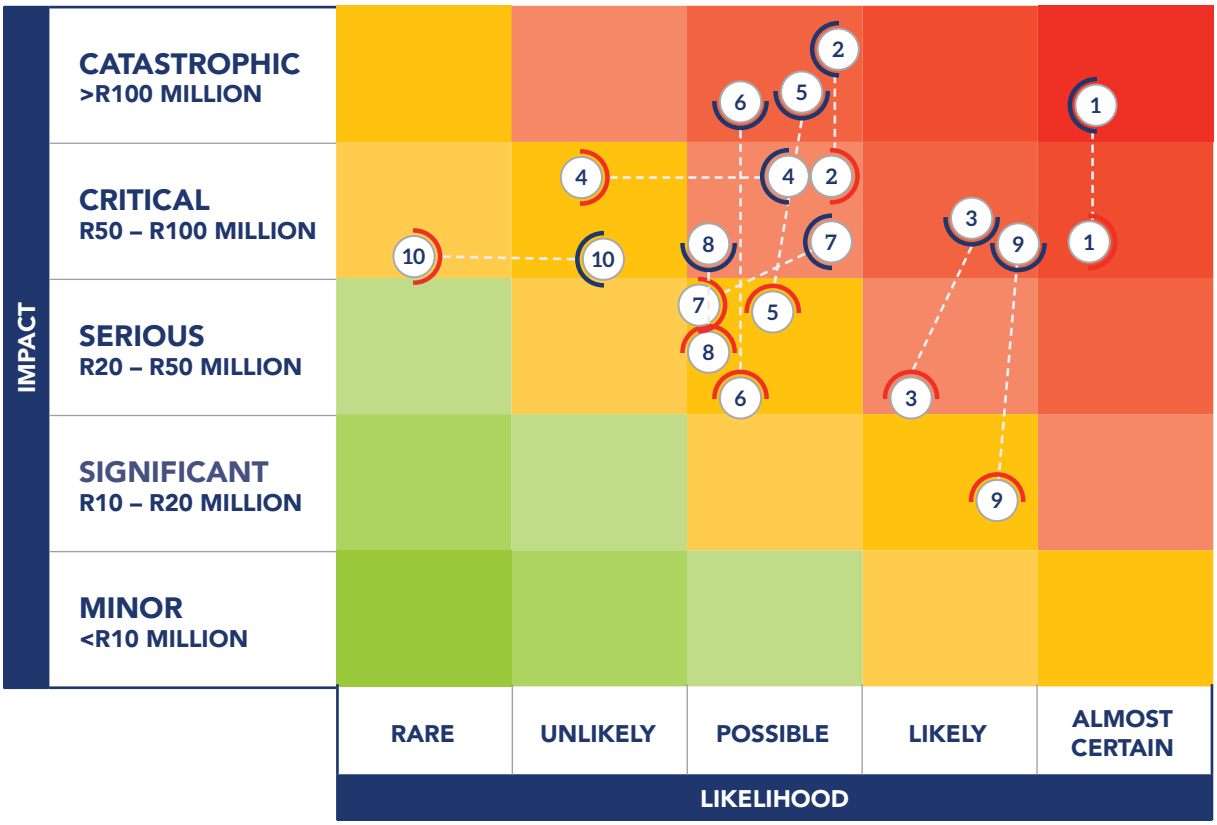
# OUR RISKS AND MITIGATIONS

The Group has developed a comprehensive risk management framework, which is approved by the Audit and Risk Committee consistent with its Board-delegated functions. In terms of this framework, material risks are identified with relevant mitigation plans on a regular basis and monitored by the Audit and Risk Committee at each meeting.

Risk mitigation remains a management function and is robustly managed to be within the Group's risk tolerance and appetite. The risk rating position on the heat map below considers both the inherent and residual risk positions after considering the effectiveness of mitigation strategies and actions. We have ranked these risks in order of magnitude, although we recognise that these positions may change during the year. Associated controls and mitigations may include a forward-looking view of the risks and opportunities, which may have an impact on the future performance of the Group.

Given the significance of the potential impact of business interruption due to the Covid-19 pandemic, this risk and the related mitigations have been incorporated into this report, despite the fact that the virus outbreak was only declared a pandemic in quarter 1 of 2020. Management is committed to providing users of this report with the most up-to-date view of the key risks facing the Group and the actions taken by management to mitigate these risks.

1. Covid-19 pandemic
2. Retention of fishing rights
3. Macroeconomic factors
4. Sustainability of resource
5. Failure of food safety standards
6. Loss of major assets
7. Business interruption
8. Negative impact on reputation
9. Market concentration risks
10. Dilution of black shareholding



# OUR RISKS AND MITIGATIONS CONTINUED

| RISK | INHERENT RISK CONSIDERATIONS | IMPACT ON VALUE CREATION |
|---|---|---|
| 1 **Covid-19 pandemic** | ➢ Supply chain interruptions<br>➢ Labour availability due to outbreak in a facility or vessel<br>➢ Product demand reduction due to global lockdown impact on HORECA trade (hotels, restaurants and catering)<br><br>Refer to **pages 42 and 43** for our addendum on the Covid-19 considerations. | FC HC MC IC NC SC |
| 2 **Retention of fishing rights** | ➢ Uncertainty about the regulator's policy regarding the allocation of fishing rights<br>➢ New entrants into the fishing sector, with the resultant fragmentation, may result in the reduction of fishing rights allocated to the Group | FC HC MC SC NC |
| 3 **Macroeconomic factors** | ➢ **Currency**: Changes to the political landscape and international sentiment towards South Africa resulting in Rand strength that will result in lower revenue from export sales<br>➢ **Fuel**: Increasing international fuel costs resulting in cost of sales increases<br>➢ **Global economic factors**: Interest rate increases, GDP growth rates in markets in which the Group trades, foreign governments' monetary policies, etc. can impact consumer confidence and the demand for our premium products<br>➢ **Hedges:** Lower fuel prices and the weaker Rand cause hedges to move into an out of the money position resulting in hedge losses being incurred | FC |
| 4 **Sustainability of resource** | ➢ Poor health of biomasses could negatively impact catch rates and size mix, driving up catch costs<br>➢ Poor management of resource by government by not following scientific advice for TAC levels could impact resource viability and marketability of catch<br>➢ Climate change could affect availability and health of fish biomasses<br>➢ Climate change could affect milk supply and availability | FC HC NC |

KEY

**THREAT LEVELS**

Low Medium High

## CONTROL AND MITIGATION

- The Sea Harvest Group, as a food producing company, has been classified as an essential service provider, and as a result has been exempt from the lockdown that came into effect on 26 March 2020
- A comprehensive Covid-19 prevention and response plan has been developed and communicated to all staff including:
  - Prevention interventions such as social distancing on facilities to minimise the risk of transmission, deep cleaning and disinfecting of hot spots
  - Segregation of people and facilities to reduce risk of production and fishing interruptions
  - Prioritisation and diversion of as much production as possible to retail
  - Conserving cash across the Group

**LIKELIHOOD:** Almost certain
**IMPACT:** Critical

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- Enhanced transformation credentials by retaining Level 1 on the B-BBEE scorecard and maintaining black ownership greater than 80%
- In SA Fishing, supported job creation and retention in economically depressed towns such as Saldanha Bay – 3 400 direct full-time quality jobs and 10 000 indirect jobs in fishing operations with a 2019 wage bill of R715 million
- Maximum beneficiation in South Africa thereby maximising jobs
- Globally competitive and profitable business model adding value across the supply chain through vertical integration and thereby paying taxes and levies in excess of R270 million in South Africa
- Export revenue in excess of R1.4 billion making the Group a large contributor of foreign exchange for the country
- Strategically located in semi-urban and rural towns, being a significant socio-economic contributor, employing more than 30% of the town
- South African Fishing operations supported 618 predominantly black SMMEs across the value chain with a procurement spend of R318 million. These SMMEs are reliant on Sea Harvest operations and would collapse if Sea Harvest had to close facilities due to the loss of quota
- Conducted independent socio-economic impact studies proving the hake deep-sea sector does not lend itself to further fragmentation without destroying jobs, closing factories and destroying long-term investment and hence growth in the sector
- Engaging with government stakeholders through a rigorous stakeholder management process to illustrate the strategic importance of the above eight points

**LIKELIHOOD:** Possible
**IMPACT:** Critical

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- The Group applies sound foreign currency and fuel hedging practices in line with approved policies and South African Reserve Bank criteria
- Pricing/market mix action to mitigate the impact of Rand volatility
- Cost reduction and efficiency plans to compensate for lost revenue to protect bottom-line earnings
- Deliver efficiency benefits from investments in fleets and factories
- Ability to redirect products to different markets to limit exposure to negative currency position

**LIKELIHOOD:** Likely
**IMPACT:** Serious

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- Active participation in industry standard-setting organisations to champion sustainability including MSC, SADSTIA Chairperson, scientific subcommittee Chairperson, alliance partner with RFA, DPIRD, Western Australian Fishing Industrial Council and Milk SA
- Continued support of an ecosystem approach to fisheries management underpinned by robust scientific research
- Industry support to ensure continued stock assessments occur
- Supporting government and industry to ensure effectiveness of research
- Championing MSC accreditation of the South African Cape hake and Shark Bay prawn fisheries

**LIKELIHOOD:** Unlikely
**IMPACT:** Critical

# OUR RISKS AND MITIGATIONS CONTINUED

| RISK | INHERENT RISK CONSIDERATIONS | IMPACT ON VALUE CREATION |
|---|---|---|
| 5 **Failure of food safety standards** | ➢ Failure in food safety standards may result in product recall, thus negatively affecting the Group's brand, reputation and earnings per share and share price | FC NC |
| 6 **Loss of major assets** | ➢ Loss of major assets due to vessel sinking or a fire within a production facility<br>➢ Loss of biological assets due to disease or events such as red tide | FC NC MC |
| 7 **Business interruption** | ➢ Prolonged (>1 month) disruption of business operations due to lack of availability of key services, e.g. water and electricity<br>➢ Industrial action resulting in extended periods of lost productivity (>1 month)<br>➢ Business disruption as a result of a cyber attack | FC HC NC SC |
| 8 **Negative impact on reputation** | ➢ Negative social media comments/campaigns<br>➢ Loss of MSC certification | FC IC SC |
| 9 **Market concentration risks** | ➢ Within Viking Aquaculture, abalone sales are heavily dependent on the Hong Kong market which were negatively impacted during 2019 by geopolitical unrest | FC MC NC |
| 10 **Dilution of black shareholding** | ➢ Loss of long-term fishing rights if the Group's black shareholding falls below the level it was when rights were issued or change in control when rights are transferred<br>➢ Reduction of Brimstone's black shareholding | FC HC NC SC |

KEY

**THREAT LEVELS**

Low Medium High

## CONTROL AND MITIGATION

| | |
|---|---|
| ➢ Strict compliance with the highest food safety standards which are regulated and audited by various local and international regulatory bodies<br>➢ Specialised in-house quality assurance teams in place<br>➢ Comprehensive public liability insurance<br>➢ Constant social media intelligence monitoring and engagement with specialist public relations service providers | **LIKELIHOOD:** Possible **IMPACT:** Serious |
| ➢ Fit-for-purpose maintenance strategies and business continuity plans are in place<br>➢ Fire defence, including fire teams and training with suitable fire-fighting equipment<br>➢ A comprehensive safety-at-sea programme implemented<br>➢ The acquisition of Viking Fishing allows for multiple operational sites in the event of a continuity incident<br>➢ Multiple aquaculture sites to manage biological risk or disease<br>➢ Comprehensive asset replacement and business interruption insurance in place | **LIKELIHOOD:** Possible **IMPACT:** Serious |
| ➢ Desalination plant installed at Saldanha Bay facility<br>➢ Back-up generator for Saldanha Bay cold store and ice-making facilities, and for Ladismith Cheese in place<br>➢ Wind turbines installed at Buffeljags aquaculture farm<br>➢ Focused disaster recovery plans in place within individual business units<br>➢ HR climate survey conducted and focused communication strategy implemented<br>➢ Operational diversification through Viking acquisition providing alternative operational sites in the event of a continuity incident<br>➢ Information technology (IT) disaster recovery plan in place<br>➢ Comprehensive cyber security strategy in place<br>➢ Business interruption insurance in place | **LIKELIHOOD:** Possible **IMPACT:** Serious |
| ➢ Maintenance of MSC certification until 2020, with recertification underway at the time of writing this report<br>➢ Crisis Communication Framework developed<br>➢ Constant media intelligence monitoring and skilled in-house reputation management capability | **LIKELIHOOD:** Possible **IMPACT:** Serious |
| ➢ Leveraging depth of skills to secure alternative markets in Asia<br>➢ Development of new product formats other than "live", including canned, frozen and dried<br>➢ Growth of biological stock and future profitability | **LIKELIHOOD:** Likely **IMPACT:** Significant |
| ➢ Careful management of the share register and placement of equity preferably with black shareholders<br>➢ Brimstone subscribed for additional shares via a vendor consideration placing in early 2019, resulting in an increase in shareholding to 54.2%, showing continued commitment to the future strategy of the Group | **LIKELIHOOD:** Rare **IMPACT:** Critical |

# ADDENDUM: COVID-19

The severity and scale of the spread of the coronavirus (Covid-19) started reaching the world's news headlines as the Sea Harvest Group ended the financial year under review. As the Group's leadership team continued to monitor the unfolding story about the spread and impact of the virus, the Group's CEO assembled an Executive Task Team in February 2020 to formulate the Group's response to the virus in an effort to prioritise the safety of our employees, protect the continuity of all operations and ensure our ability to continue meeting stakeholders' expectations in terms of product demand. By early March, an Initial Response Guide was developed and finalised by the task team. A multi-disciplinary task team was subsequently established at each site across the Group to contribute to a holistic and effective effort against the virus.

The Initial Response Guide dealt with how to prevent the infiltration or spread of Covid-19 within the organisation, and how all of the Group's subsidiaries should navigate the potential disruption during the Covid-19 pandemic through extensive business continuity plans. The prevention and business continuity components were underpinned and supported by a comprehensive communications plan, which was applied to all of the employees in the Group and relevant stakeholders. The varying nature of the Group's activities at all of its sites necessitated a dexterous approach to the implementation of the key components with site-specific standard operating procedures (SOPs) which, among other things, guide the procedure on how a site should deal with the Covid-19 risk and what mechanisms should be in place at the site to ensure that the threat is neutralised as far as possible.

As a responsible corporate citizen and fundamental to the Group's ability to deal with the Covid-19 threat was creating a safe working environment for all of our employees, where all sites through their respective SOPs implemented increased comprehensive disinfecting cleans and developed rotational work schedules in order to facilitate social distancing, and also furnished employees in our factories with additional personal protective equipment. All of these workplace transformations culminated in extensive personal hygiene education in order to combat the virus, such as constant hand sanitiser use and handwashing, how an employee should recognise Covid-19 symptoms, and what do to in the event that they are overcome with such. Furthermore, as the Covid-19 pandemic spread into South Africa and Australia, the Group initiated a local and international business travel ban as an additional measure to limit employee exposure to the virus.

During the crisis, the Group's operations in South Africa and Australia were designated as "essential services" due to them being food producers, and were therefore exempt from any partial or full lockdown that either country implemented. While the response of each Group site was different due to its unique requirements, through their SOPs, each site was able to provide clear and actionable guidance for employee safety protection, early detection and emergency procedures. Supplementary to this, all essential employees who utilised public transport during the lockdown in South Africa, as a mode to get to work, were provided with private transport by the Group in order to further limit and safeguard employees from large gatherings and confinement where the risk of Covid-19 transmission was high.

Below is an illustration of some of the activities we undertook in order to safeguard the business and facilitate business continuity through an uncharted pandemic to ensure that our employees were safe and that we were able to still continue creating value for all of our stakeholders:

## 1. HYGIENE PROCEDURES

- **Handwashing:** Additional handwashing stations with soap and air blowers were installed at some sites in response to increased demand.
- **Hand sanitisers:** Dispensers with sanitiser that contained 60% to 90% alcohol were made available at each site, and where possible a refillable dispenser was distributed to every employee.
- **Site cleaning:** An external service provider was contracted to disinfect working areas and surfaces, in particular identified hot spots such as entrances, cloakrooms and canteens. This extended to all of the Group's vessels, as well as transport provided to staff.



## 2. PHYSICAL DISTANCING

- Employees were instructed to keep a minimum physical distance of one metre between each other, further facilitated through distance markers at some sites in employee work areas.
- Shift and break times were changed to reduce foot traffic.
- Most meetings take place electronically; where face-to-face engagement is required, the gathering size is controlled to facilitate physical distancing.
- Where physical distancing between employees was not possible, perspex screens have been installed between work stations.



## 3. PERSONAL PROTECTIVE EQUIPMENT (PPE)



- Employees will be issued with face masks.
- Masks and other disposable PPE must be disposed of appropriately as medical waste.
- The procedure for handling laundry on site was changed.

## 4. PHYSICAL ACCESS POINTS



- Only one access point was kept open and the fingerprint scanning access device was replaced with access card machines.

## 5. HEALTH SCREENING





- All employees and persons who enter the Group's sites are subjected to a body temperature screening using an infrared temperature gun. If a temperature of 37°C or higher is recorded, the person is referred to the site health service during working hours or sent home for precautionary isolation.
- A medical nursing sister is stationed at entrances to the main operating sites to be a first response to suspected cases. The sister is required to screen possible cases of infection before deciding on the required action to take.

## 6. TRAVEL AND TRANSPORT



- All business travel is restricted, with local and international travel cancelled.
- Additional staff transport is provided to ensure that the required physical distance is maintained by staff.

## 7. WORKING FROM HOME AND RETURN AFTER ABSENCE



- Essential staff are required to work from home where possible.
- At certain sites any person who has not been to site for three days or more, including weekends, must report for medical screening before entering the site.

## 8. ENHANCED COMMUNICATION



- New and innovative platforms for communication, including skits, vision boards and regular SMS communication, were introduced to enhance existing communication platforms and to ensure that our employees are informed about and have access to relevant, accurate and current information about Covid-19.

## 9. SEGREGATING PRODUCTION FACILITIES AND WORKFORCE



- Split the facilities into smaller units to segregate teams. This ensures that should there be an outbreak of coronavirus in any of our plants, full production is not lost and only the team identified to be positive will be required to go into isolation.

## 10. DEMAND-SIDE MITIGATION



- The HORECA sector, where food is consumed "out of home", will be severely affected by the coronavirus during and post lockdowns. Retail production where possible has been prioritised.

## 11. SUPPLY CHAIN DISRUPTIONS



- This is the biggest risk with the Covid-19 pandemic. This includes disruptions at ports, with road freight and documentation with regulators, both in South Africa and the markets we export to. Slipways will be affected which service vessels. The biggest disruption would be staff getting sick and not being able to produce and therefore sell. Contingency plans, where possible, have been put in place with SOPs to limit the disruptions where possible.

## 12. CONSERVING CASH



- With demand, side shocks and supply chain disruptions, cash generation will be under pressure. To conserve cash, and be prudent with cash management, all capex has been suspended. Working capital is the main focus area in terms of financial measures, especially focusing on debtors as customers start potentially defaulting and keeping inventory to a minimum.



# 3° CHARTING OUR WAY FORWARD



- Our CEO's report
- Our material cardinal points
- Our strategy
- Our CFO's report

# OUR CEO'S REPORT

**GROUP REVENUE**
**54%**
**TO R3.966 BILLION**
(2018: R2.583 BILLION)

**OPERATING PROFIT**
**54%**
**TO R599 MILLION**
(2018: R389 MILLION)

**HEADLINE EARNINGS**
**48%**
**TO R410 MILLION**
(2018: R278 MILLION)

**DIVIDENDS PER SHARE**
**25%**
**TO 50 CENTS PER SHARE**
(2018: 40 CENTS PER SHARE)



After the landmark year of listing on the JSE in 2017 and the successes of 2018 for Sea Harvest – through the major evolution of the Group facilitated by organic and acquisitive growth – 2019 became the year that our strategic ambitions matured, positioning Sea Harvest for the future. However, before I comment on the results for the year under review, it is appropriate to address the matter that has and will most likely continue to rattle markets and dominate global news headlines for months to come, namely the coronavirus.

> "WHILE IT IS STILL TOO EARLY TO COMMENT FULLY ON THE IMPACT THE VIRUS WILL HAVE ON THE GROUP'S BUSINESS, WHAT WE HAVE EXPERIENCED TO DATE IS PROBABLY WHAT WE WILL NEED TO LIVE WITH IN TERMS OF OUR "NEW NORMAL" UNTIL THE END OF THE YEAR.

Felix Ratheb

Looking first at the demand-side impacts on our business. All our products sold through retail channels in all markets that we operate in have not been affected, as these products are consumed at home and are part of people's staple diets. This will include frozen hake, cheese and butter. We have seen demand increase, even in countries severely affected by the virus, such as Spain and Italy. Retail is expected to outperform for the balance of the year, as people stay indoors and adhere to social distancing requirements. The HORECA sector, also called the foodservice channel, has and will continue to be severely affected. In many countries' seafood is consumed "out of home" and this trade has virtually come to a standstill. Markets such as Australia, the USA, UK and South Africa, where a very large proportion of seafood is consumed "out of home", will be hit. Products such as kingklip, monkfish, prawns and fresh hake are all consumed in restaurants and smaller hake is predominantly destined for the HORECA market. These species will all be affected.

The business that has been and will continue to be heavily affected is our aquaculture business. It has been the "perfect storm" for all companies in this sector. It started with the extended red tide in the first quarter of 2019, followed by the Hong Kong riots for the balance of the year. As sales started to pick up towards the end of 2019, the coronavirus hit China and we had a complete lockdown and closing of the live trade in Hong Kong and China. As China started to emerge from the crisis, the virus spread to many parts of the rest of the world leading to a lockdown in South Africa and cancellation of flights for more than six weeks. It will take time for this segment to recover as, even when lockdowns are lifted, people will still limit their visits to restaurants where abalone is predominantly consumed.

However, with the Group being well diversified in terms of retail versus foodservice, and across many geographies, species and channels, these effects will be mitigated to an extent.

The bigger issues we are expecting are with supply-side interruptions. As food producers that form a critical part of food security for the country, the Sea Harvest Group of companies were classified as "essential service" providers, both in South Africa and Australia, during the lockdowns. Our most important "asset" in ensuring we can continue to operate is our people. Unfortunately, when people start getting sick from the virus – and judging by the ease of spread of the virus I believe this is ultimately inevitable – we would experience factory closures, vessels out of operation and a decline in output and productivity. This will affect both the revenue line and lead to an increase in costs. We have also seen backlogs in ports, both in Cape Town and also in all the markets we export to. This will increase as more people are infected, which will affect road and air freight, vessel maintenance in slipways, supplies such as packaging and others. It is too early to evaluate the extent of this, but this to me is a bigger concern than the demand-side effects which can, to an extent, be mitigated.

A Covid-19 task team led by myself was established early in the crisis to ensure necessary measures were put in place at each of our sites to prevent and combat the spread of the virus. More information about this is available on **pages 42 and 43**.

Returning the focus to our 2019 financial year-end results, even though our ambitions have seen the Group diversify into aquaculture and agri-processing,

> "SOUTH AFRICAN FISHING STILL REMAINS THE HEARTBEAT OF SEA HARVEST.

Instrumental in consolidating and growing the most critical part of the business was utilising our transformation credentials to facilitate an acquisition of scale in Viking Fishing in 2018. The complementary nature of the acquisition of Viking Fishing has allowed our South African wild-capture fishing operations to participate in segments of the market which it hadn't before, such as the wholesale informal market in South Africa, and consolidate its position in southern Europe. Beyond the synergies gained in our fishing operations in 2019, the acquisition proved critical in harnessing the operational efficiencies still available in our South African wild-capture operations. This proved most beneficial during load shedding, where our increased scale through additional vessels and operating sites allowed for greater flexibility in operational circumstance.

During 2019, it was crucial that the performance of the first full year of the acquisition was supported by ensuring that we caught all of our government allowed quota, which is the core driver of the fishing business's performance as well as the wider Group. This segment of the business was transformed in 2019 through the acquisition of Viking Fishing, delivering a strong performance, where its operating margin increased from c. 15 % (before the acquisition and integration of Viking Fishing) to 20% in the first full year. Our South African Fishing segment now employs c. 3 200 people and operates 34 vessels at six operating sites throughout South Africa, putting us at the forefront as one of the largest whitefish companies in the southern hemisphere. Even though 2019 saw us extract a great performance from our South African Fishing operations, opportunity still remains to gain additional efficiencies through further organic growth and also through market optimisation where we sell our products.

Growth in wild-caught fishing does however have its limitations due to resource availability, and we've earmarked our investment in aquaculture as the strategic position where growth in seafood resides. Even though 2019 was punctuated with difficulties in our aquaculture operations, predominantly on the market side, our farming operations, particularly in abalone still remain poised to seize the opportunity when markets rebound to normalcy. In the interim, we continue with our investment cycle in order to

# OUR CEO'S REPORT CONTINUED

increase our production capacity and we are currently investigating prospects in product variation that will provide us with greater flexibility, thus allowing for greater market adaptation in the future.

Our Australian operation continues to be our focal point in our international operations and a beachhead into that strategic market, which remains crucial for Sea Harvest. In 2019, in order to allow the organisation in Australia the best opportunity to position itself for future growth, we consolidated our position in the business and became the sole owner of the company and delisted it off the Australian Stock Exchange and renamed it Sea Harvest Australia. The cyclical nature of the business, which catches predominantly king and tiger prawns off the coast of Western Australian, continues to hinder its performance as catches remain volatile. However, we are continuously building a dialogue with the Australian fisheries regulator to explore ways to continue managing the resource sustainably while increasing the catch rates and size mix in the sector. Even though we are now the sole owner of the business, the ambitions and goals for Sea Harvest Australia remain the same, as we continually seek out growth opportunities through an acquisition of scale in the fishing sector in that locale.

In 2019, strategically all that remained for the Group to complete its objectives was an acquisition in the "food space" outside of wild-capture and farmed fishing. Our first venture outside of seafood has seen us acquire a value-added dairy company, Ladismith Cheese, which specialises in processing and marketing butter, cheese and milk powder. The company, situated in the Klein Karoo of South Africa, as with Viking Fishing, delivered a strong performance in its maiden year as part of the Sea Harvest Group.

Our intention as a management team has always been to allow the new acquisitions to continue to flourish and not encumber them in anyway, but always ensure that we instill adequate controls, while not hampering our ability to extract the synergies between all of the companies in the Sea Harvest Group. To that end, acquiring family-owned businesses, as we have done, doesn't come without its challenges during the alignment process. In 2019, we implemented a new ERP system at our Viking Fishing Division in order to manage our fishing operations in a seamless manner between the new and old fishing divisions in the Group. As is to be expected, such a large-scale change for a previously family-owned business doesn't come without its difficulties, particularly relating to change management. However, after some minor "teething troubles" the process was completed and should hold the Viking Fishing Division and our entire South African Fishing operations in good stead well into the future.

At the Sea Harvest Group we are not only about profits and the bottom line. A big part of who we are as an organisation is anchored in our social responsibility to our staff and also to the communities in which we operate. In 2019 we continued to heed government's call for job creation through our maximum beneficiation of products within South Africa's borders. A central tenet to who we are is increasing the circle of benefit to all of our stakeholders, whether it be through broad-based black economic empowerment or staff participation in the Company as shareholders, we will always strive to add value where we can.

> "Driving transformation is a non-negotiable for Sea Harvest, and the Company has worked hard to ensure that it **supports government's endeavour to empower the previously disadvantaged**.

This has taken Sea Harvest from a Level 4 B-BBEE company 10 years ago to a Level 1 company in 2019. Over the past decade, Sea Harvest has achieved consistent success on its ambitious transformation journey, resulting in a c. 83% black-owned group (up from 21% 15 years ago) that supports over 700 small to medium enterprises throughout its value chain and a vast network of community social initiatives, particularly in rural and semi-rural coastal areas of South Africa.

As we look forward into 2020, the fishing rights application process becomes the single most important strategic venture of our business, and we are satisfied that we have delivered on government's objective to create a leading black-owned and managed fishing company that serves not only itself, but the wider fishing industry through the South African Fisheries Development Fund, and also enhances South Africa's competitiveness on the world stage.

Beyond 2019, further opportunity remains untapped. We are confident that we are at the beginning of creating an agribusiness that is fit-for-purpose and ready to capture the opportunities and demands presented in the global food sector.



**Felix Ratheb**
*Chief Executive Officer*

# OUR MATERIAL CARDINAL POINTS

## Introduction

At Sea Harvest, our material cardinal points provide the direction we need to navigate our way on our journey to achieving our vision, while fulfilling our true purpose. These material cardinal points dictate the course of action in every situation and for every decision made across the Group.

## OPERATING EFFICIENTLY

FC HC IC SC

### WHY IT MATTERS

Sea Harvest operates in a global market where economies of scale and margin determine competitiveness. We compete with large corporations from developed and developing economies. Operating efficiently is key to delivering sustainable operating margins and protecting the long-term future of the business for the benefit of all stakeholders.

### CHALLENGES

- Slower than planned ramp up of the Marel fresh fish processing factory in Saldanha Bay had a negative impact on the efficiency of the factory and on margins of the South African Fishing operation.
- Lower than expected prawn catches in Australia negatively impacted the operating efficiency and margins of the business.
- Lower abalone sales resulted in higher tank density which has negatively impacted abalone growth rates in the year.
- The acquisition of the lower margin Ladismith Cheese business has resulted in a dilution of the Group's gross profit margin.

### THE OPPORTUNITIES

- The Marel fresh fish processing facility has reached its design capacity and is expected to deliver the planned efficiency benefits.
- Synergies delivered through the acquisition of Viking Fishing resulting in improved operating margins, with further benefits expected.
- Prawn catches in Australia improving towards the long-term average of 800 tonnes per annum, improving efficiencies and operating margins.
- The opening of the Hong Kong and Chinese markets following the Hong Kong riots and Covid-19 will increase sales rates of abalone, freeing up space in the tanks and allowing for normal growth rates.

### ASSOCIATED RISKS

1 2 4 6

### OUR RESPONSE

- The South African Fishing operation caught its full allocation of hake TAC in 2019.
- The integration and acquisition of the Viking Fishing Division enabled the delivery of operating synergies that enhanced the efficiency of the South African Fishing operation with operating profit margin improving to 20% in 2019 (2018: 17%).
- Our fresh fish processing facility in Saldanha Bay reached its design capacity in the second half of 2019.

### MOVING FORWARD

GOALS

- Sea Harvest Group Limited: Maintaining historic operating profit margins through the cycle.
- South African Fishing operation:
  - Prepare for FRAP 2021/22.
  - Maintain profitability of Viking Fishing Division post vendor exit.
- Sea Harvest Australia: Prawn resource recovery towards long-term average.
- Cape Harvest Foods: Capacity expansion in Ladismith Cheese.
- Sea Harvest Aquaculture: Strategic evaluation of Saldanha Bay trout aquaculture operation.
- Sea Harvest Aquaculture: Abalone market recovery and business turns to profit.
- Sea Harvest Aquaculture: Abalone production expansion.

# OUR MATERIAL CARDINAL POINTS
CONTINUED

## DRIVING TRANSFORMATION

FC HC IC SC

### WHY IT MATTERS

Not only is transformation an imperative in the South African context, it is crucial to the long-term viability of the Group. Our transformation strategy drives the requisite human capital changes that are vital to our vision of being a diversified fishing and food business – a globally competitive group with an employee base that is representative of the various communities in which we operate. Our operating licence in the South African Fishing sector is dependent on our commitment to driving transformation, which means the risks far outweigh any short-term gains we might achieve by compromising.

### CHALLENGES

- Driving transformation is a non-negotiable and vital aspect of our business. The acquisition of less transformed businesses than Sea Harvest has created the challenge of raising the standard of these businesses so as not to dilute the overall transformation credentials of the Group.

### THE OPPORTUNITIES

- Strong transformation credentials could result in a favourable outcome in the upcoming FRAP.
- We are able to implement our transformation strategy through the skills development programmes offered to previously disadvantaged employees.
- Our skills programmes offer unemployed youth the opportunity to gain skills and workplace experience towards a trade or profession and gainful employment.
- Sea Harvest is committed to wealth-sharing through our Employee Share Trust.
- We invest in our local communities through social and health cohesion programmes.

### ASSOCIATED RISKS

1 7 9

### OUR RESPONSE

- Through a focused effort on driving transformation Sea Harvest has retained a Level 1 B-BBEE contributor status with an improved score of 104.44 (2018: 103.37).
- Sea Harvest has actively supported the establishment of two new black SMME entrants into the South African fishing sector and is a co-founding member of the South African Fisheries Development Fund, a joint initiative with Brimstone, to establish a fund devoted to empowering small-scale businesses in the fishing and allied sectors.
- During the year Sea Harvest spent R492 million procuring goods and services from 745 SMMEs.
- The Group spent R38 million on various skills development initiatives.
- Sea Harvest Foundation spent R4.5 million on community-based projects, including the provision of bursaries, healthcare initiatives, donations and the support of youth sports development.
- Over 40 employees enrolled in management and leadership programmes at various universities and other higher education and training institutions.
- As an extension to management and leadership development, we initiated a mentorship programme for our junior employees.
- Our skills programmes include apprenticeships, learnerships, internships and cadet programmes.

### MOVING FORWARD

GOALS

- Retain Level 1 B-BBEE contributor status.
- Maintain black shareholding above 80%.
- As an active social partner, Sea Harvest contributes to the communities in which we operate by providing financial and social development support to local crèches, homes for the aged, and other care-giving institutions.
- Skills development programmes that support national initiatives.
- Quarterly employment equity progress reports are submitted to the Department of Labour on an annual basis.
- Our recruitment, performance management, and learning and development programmes are aimed at retaining key talent.
- SMME development by supporting both new and established local majority black-owned businesses.
- Employment equity is entrenched in our recruitment, learning and development, and talent management processes as platforms to promote transformation.
- Through succession planning we identify candidates to succeed our leadership to ensure continuity and competitive organisational performance. Our rising "black stars" are identified based on their talent and potential and are fast-tracked through the various development programmes.
- We adhere to the requirements of the Employment Equity Act by developing five-year plans for each division and in consultation with the relevant trade unions.
- The specialised skills that are required throughout the Group and its subsidiaries are not readily available in the previously disadvantaged communities, therefore, we have made this requirement a development and retention focus area.

# PROTECTING OUR BRANDS

FC HC IC SC

## WHY IT MATTERS

The Sea Harvest brand cannot be separated from our corporate identity, and our identity is one of authenticity, trustworthiness and value. It is these qualities that our consumers relate to when they interact with us and with our products, which makes it critical that we protect the Sea Harvest brand.

## CHALLENGES

- Balancing the allocation of a static fish supply between the local market to support the Sea Harvest brand and export markets which offer higher returns.
- In a challenging local economic environment, balancing the achievement of acceptable returns with protecting the brand market share through pricing action and promotions.
- Aligning acquisitions with the existing customer and consumer brand expectation.

## THE OPPORTUNITIES

- In the South African market, we had the opportunity to do a benchmarking exercise to determine how our customers perceive our brand and what emotive connotation they have with it.
- We conducted independent taste panels in Cape Town, Gauteng and KZN to determine how we rate in the frozen fish and cheese markets, and our products rated highly across the board. Our new fish finger came out on top.
- We invested in expanding our range of factory shops, based on what we've learnt works best in which location, and in doing so we were able to formulate a blueprint for those shops, a valuable touchpoint with our customers.

## ASSOCIATED RISKS

1 3 5 7 8 10

## OUR RESPONSE

- Protecting our brands is a continuing journey, which is why we made a large investment in our brand equity, especially in the domestic retail market in 2019.
- We increased interaction with our consumers on social media, specifically on our Facebook page where we've been able to tap into our consumer market, and the feedback we've received has been invaluable.
- We have delivered new products to meet our customers' needs and expectations, including:
  - Sea Harvest, the launch of a new fish finger and Crisp & Chunky; and
  - Ladismith Cheese, the launch of an 8g butter tub, white gouda and condensed milk powder.

## MOVING FORWARD

GOALS

- Continue delivering on our customers' expectations.
- Invest in our brands through in-store activities, advertising and more.
- Improve stakeholder engagement on our value offering.
- Engage with our new consumer landscape through new sales platforms.
- Aligning customer and consumer brand expectation with respect to new acquisitions.
- As we increase our global footprint, we plan on taking part in more trade shows.
- Give our global customers a better idea of our sustainable approach to our quality-driven value offering.

# MANAGING RELATIONSHIPS

FC NC HC SC

## WHY IT MATTERS

As a Group, our successes are built on and inextricably linked to our relationships with our stakeholders. As a global corporate citizen, Sea Harvest is dependent on mutually beneficial relationships with our stakeholders in order to achieve our mutual targets and to ensure an economically viable and sustainable future.

## CHALLENGES

- The amount of time spent managing each stakeholder relationship is based on the individual nature and requirements of our stakeholders.
- Due to time being a limiting factor in our ability to engage with all of our stakeholders, we are restricted in our opportunities to equitably manage all relationships.

## THE OPPORTUNITIES

- Understanding the needs of our stakeholders.
- Conveying the Group's needs to our stakeholders.
- Communicating our strategic direction to our stakeholders.
- Determining how we as a Group can foster and develop mutually beneficial relationships with our stakeholders.

## ASSOCIATED RISKS

1 2 5 7 9

## HOW WE RESPONDED

- During the year we constantly engaged with stakeholder groups, keeping them up to date on the Group's strategy and adherence to plans for the year. The management of relationships was to ensure that a mutual understanding between the Group and stakeholders was achieved while building trust and a symbiotic relationship.

## MOVING FORWARD

GOALS

- Maintain our stakeholder management framework to ensure that all stakeholders are appraised of the Group's plans and objectives moving forward.
- Frequent reassessment of the state of our stakeholder interactions to improve and build on our relationships.
- Actively build and maintain long-term, constructive and transparent relationships with our stakeholders.

# OUR MATERIAL CARDINAL POINTS
CONTINUED

## ACTING RESPONSIBLY

FC MC NC

### WHY IT MATTERS
As a Group, this mandate speaks to the core of our business, namely our reliance on natural resources. However, acting responsibly also extends to our responsibilities as a corporate citizen, the way we treat our employees and our stakeholders, as well as our corporate governance.

### CHALLENGES
- The nature of our wild-capture fishing operations results in incidental bycatch of non-targeted species and impacts on the seabed. However, we continue to manage those species in a precautionary manner through limiting our catches and only trawling in previously trawled areas.
- Within our dairy business we work with the farmers to balance the supply of milk by paying competitve prices.
- Within aquaculture, our sea trout cages are located in Saldanha Bay and we are focused on minimising the ecological impact of the facility on the local environment.

### THE OPPORTUNITIES
- We remain committed to our stakeholders and to working with them to mitigate and manage any risks the Group may face.

### ASSOCIATED RISKS
1 2 4 7

### OUR RESPONSE
- We continuously engaged with our stakeholders to maintain stability and confidence in the Group.

### MOVING FORWARD
GOALS
- Keep our stakeholders informed of our responsible actions regarding resource use and management.
- Following the recent acquisitions and incorporations, we aim to align all of the Group's subsidiaries in terms of this material cardinal point.
- Continue to proactively respond to stakeholder expectations and ensure ongoing compliance with the conditions of the Group's MSC certification.

## OPTIMISING FINANCIAL CAPITAL

HC IC SC

### WHY IT MATTERS
Financial capital is a scarce resource that must be used to optimise the value we create for our shareholders and other stakeholders. Organic and acquisitive investment decisions are evaluated to meet the required cost of capital hurdle rates to deliver an appropriate, risk-adjusted return above our cost of capital. Optimising our financial capital not only ensures long-term sustainable profitability, but also meets our shareholders' return expectations while protecting existing jobs and creating new jobs.

### CHALLENGES
- Financial capital must be rationed between organic and acquisitive investment opportunities so as to optimise returns. Capital allocation decisions are often based on projected performance which may not materialise, resulting in the expected returns not being achieved.
- Lower than expected prawn catches in Australia have negatively impacted margins and returns on the capital deployed in this segment.
- Market issues in Hong Kong and China due to the Hong Kong riots during 2019 and Covid-19 in 2020, have affected abalone sales volumes, negatively impacting returns on capital deployed to this segment.
- Balancing between paying a dividend, internally funding future growth, and repaying debt.

### THE OPPORTUNITIES
- Effective capital management enables investments in internal projects to drive operating efficiencies and earnings accretive acquisitions.
- Margin enhancement and earnings per share growth enable growth in total shareholder return (TSR), supporting access to further equity capital.
- Improved financial performance provides access to further debt funding for future growth investments.
- Recovery of prawn stocks in Australia will drive margin enhancement and improve the returns on capital deployed within this segment.
- Recovery of Hong Kong and Chinese markets following Covid-19 will enable the business to meet its sales forecasts and deliver the expected returns on capital deployed in this segment.
- A higher dividend ratio if the Group generates excess cash.

### ASSOCIATED RISKS
1 2 3 4 6

### OUR RESPONSE
- The Viking and Ladismith acquisitions exceeded the required earnings targets used in the acquisition valuation.
- Maintained dividend cover of 2.7 times, within range of dividend policy of between 2.5 and 3 times.
- The 2018 acquisition of Viking Fishing resulted in an operating profit margin expansion in the South African Fishing operation to 20% in 2019 (2018: 17%).
- The return on capital employed grew to 18.1% in 2019 (2018: 16.4% ).

### MOVING FORWARD
GOALS
- Invest in organic projects and acquisitions that deliver an appropriate margin above the Group's cost of capital.
- Surplus cash will be used to pay down long-term debt and then returned to shareholders.
- Deleverage the balance sheet so as to reduce the net interest-bearing bank debt to EBITDA ratio to less than 1 times.
- Achieve a targeted return on capital employed target of 3% above the Group's WACC.
- Maintain dividend cover of between 2.5 and 3 times.

# OUR STRATEGY

## Introduction

Our strategy remained unchanged in 2019 with our focus remaining on securing organic and acquisitive growth in line with the five growth pillars that we articulated in the Group's Pre-listing Statement published prior to the Group's listing in 2017. Our strategy is based on our foundation of strong brands, access to 37 markets globally, exceptional transformation and sustainability credentials, solid financial performance, a strong balance sheet and a strong management team.

## Strategy, objectives and key performance indicators (KPIs)

### Overview

Sea Harvest's strategy has been established around five pillars, split between organic growth and acquisitive growth.

Organic growth focuses on volume growth and margin enhancement, while acquisitive growth targets South African seafood, international seafood and the broader South African food market.




## Our strategic goals

**Our short-term focus:**

1. Prepare our South African Fishing operations for FRAP 2021.
2. Enhance the margins within the South African Fishing operation following our investments in EBIT-enhancing projects over the last few years.
3. Complete the integration of VFD, Viking Aquaculture and Ladismith Cheese and continue to maximise synergies from these acquisitions.
4. Viking Aquaculture will look to successfully complete the expansion of the Kleinzee abalone farm.
5. Sea Harvest International's focus will be to rightsize the business and look for bolt-on acquisitions to further strengthen the operations in Australia, while in the longer term identifying and executing an acquisition of scale.
6. Ladismith will aim to grow organically through various expansion projects that commenced in 2019.

Sea Harvest's long-term strategic goal is to become a leading black, vertically integrated FMCG business focused on high-value protein sectors like seafood and dairy. Our aim is to be geographically diversified with >50% of earnings generated in hard currency outside of South Africa.

Short term Long term

## How we move forward

The way forward in 2020, the focus will be on FRAP and getting the business fit for the rights allocations that will come into effect at the beginning of 2021.

# OUR STRATEGY CONTINUED

## Measuring our performance

### 1 VOLUME GROWTH

FC NC HC

#### HOW THIS DRIVES OUR VALUE CREATION

**Fish stocks (biomass recovery)** – By supporting regulators and the use of scientific guidelines in fisheries management, Sea Harvest is able to contribute to the sustainability of the biomass.

**Co-packing and substitution** – Sea Harvest leverages its strategic relationships with global partners to pack the Sea Harvest brand for the South African market (primarily in primary hake) and to supply whitefish to produce additional value-added products utilising Sea Harvest's available manufacturing capacity.

**Capacity expansion** – The Group will invest in increasing the capacity of both its dairy and aquaculture facilities, thereby securing additional volume growth in non-quota constrained segments.

#### OUR KPIs

- Cape hake biomass at MSY
- Shark Bay prawn catches to return to long-term average
- Increase the percentage of local sales that are derived from imported/ traded species, allowing for a greater export mix while maintaining optimal service levels with local customers

#### CHALLENGES AND OPPORTUNITIES

- A 10% increase in the hake TAC in 2019 was a significant opportunity which Sea Harvest capitalised on by catching its allocated quota
- Capex approved for expansion of Ladismith Cheese capacity in 2020
- Capex approved for expansion of abalone facility at Kleinzee in 2020
- An increase in production volume within the Group's dairy operation
- An increase in the biological standing stock value of abalone

#### HOW WE PERFORMED AGAINST OUR KPIs

- The Group continues to support an ecosystem approach to fisheries management, which is underpinned by a robust scientific assessment process. Since 2007, the aim for Cape hake has been to rebuild the resource to MSY. In 2014/15, through sound management between the then DAFF and the industry, the hake resource reached its MSY (i.e. the largest yield [or catch] that can be taken from a species' stock over an indefinite period). However, in late 2015 and 2016, stock assessments showed that the resource had dipped slightly below its target and needed to be rebuilt again. The need to rebuild the stock led to reductions in the TAC from 2016 to 2018. As a result, this resource responded positively to the rebuilding strategy undertaken. The most recent 2018 stock assessments show that the Cape hake resource is now estimated to be above its biomass target of MSY. This has resulted in a 10% increase of the hake TAC being announced with effect from 1 January 2019.
- Sea Harvest continues to leverage its strategic relationships with global partners to pack the Sea Harvest brand for South African consumers.
- Sea Harvest's value-adding factory in Saldanha Bay benefited from internationally sourced raw material to produce crumbed and coated products for the domestic retail and foodservice markets.
- Traded product that was sourced locally and internationally for sales through the domestic foodservice channel and Sea Harvest branded factory shops increased by 6% year on year.
- Investment cases for expansion of production capacity at Ladismith Cheese and the Kleinzee abalone farm was approved by the investment committee.

### 2 MARGIN ENHANCEMENT

FC MC HC

#### HOW THIS DRIVES OUR VALUE CREATION

**Fleet efficiencies** – Sea Harvest maximises fillet factory vessel production at sea and, with these capabilities, pursues higher margin export products.

**Processing efficiencies** – Continuous improvement within our seafood and dairy production facilities to drive margin enhancement and a focus on improved feed conversion within our aquaculture operations.

**Market opportunities** – Current low penetration in the South African frozen fish and dairy sectors; new export markets; expansion of Sea Harvest's factory fish shops; identification of new markets for abalone; and further development of the wholesale model.

#### OUR KPIs

- Realise the benefits of the Marel project to increase labour and yield efficiencies, coupled with an increase in quality in all areas of production
- Invest in the value-adding facility with new state-of-the-art cutting and forming equipment
- Launch the new and improved Sea Harvest fish finger

#### CHALLENGES AND OPPORTUNITIES

- Getting the fresh fish operations working optimally after the Marel implementation has been challenging and the business spent the first half of 2019 getting the factory into its new steady state
- Increase production efficiencies in Ladismith Cheese
- Market and product format diversification in the abalone business
- Increasing the proportion of Shark Bay prawns being exported

#### HOW WE PERFORMED AGAINST OUR KPIs

- In 2018, our fresh fish processing facility in Saldanha Bay was upgraded and it transformed our fresh fish operations into a world-class facility with a full flowline Marel fish processing solution from Iceland. In the second half of 2019, we realised the benefits of the Marel project when we achieved significant milestones in both labour and yield efficiency improvements in the factory.
- In 2019, we made a further investment in our value-adding facility with state-of-the-art cutting and forming equipment to further improve the production efficiency within the facility. A highlight on the NPD calendar was the successful launch of the new and improved Sea Harvest fish finger in September 2019. After extensive customer and market research the Sea Harvest team developed a new market-leading fish finger that was successfully launched in the second half of the year.
- During 2019, we have further developed the wholesale channel acquired in 2018 through the Viking Fishing acquisition. This channel is focused largely on direct sales to the informal trade.
- Operating margins of our South African Fishing operation improved to 20% from 17% in 2018, benefiting from synergies relating to the Viking Fishing acquisition in 2018.

## 3 SOUTH AFRICAN SEAFOOD

FC MC NC HC IC SC

### HOW THIS DRIVES OUR VALUE CREATION

**Strong B-BBEE credentials**
Enables acquisition opportunities – possible exits of untransformed companies ahead of FRAP 2021

**Species diversification**
Other wild-caught seafood species

**High-value aquaculture**
Previous experience allied with a global marketing network offers opportunities in an attractive growth sector

### OUR KPIs

- Integrate the Viking Fishing and Viking Aquaculture businesses acquired in 2018
- Complete the capital expenditure (capex) projects at Viking Aquaculture to fully realise the growth potential of the business, including expanding the abalone production capacity and exploring opportunities to farm salmon trout in sea cages

### CHALLENGES AND OPPORTUNITIES

- South African consumers remain under significant economic pressure, which has suppressed our sales through local retail channels.
- Abalone sales were severely affected by the red tide in early 2019, followed by the geopolitical issues in Hong Kong and China.
- With the acquisition of Viking Fishing, export revenue from the South African Fishing operation increased 26% to R1.409 billion.

### HOW WE PERFORMED AGAINST OUR KPIs

- The VFD was successfully integrated into the Group in 2019. The Viking transition was seamless, and they are now a proud Sea Harvest brand.
- Various capex projects to expand the Viking Aquaculture operations were successfully commenced during the year.

## 4 INTERNATIONAL (SEA HARVEST AUSTRALIA)

FC MC NC HC IC SC

### HOW THIS DRIVES OUR VALUE CREATION

Leveraging our experience in operating a vertically integrated fishing business will allow us to utilise the relevant skills to acquire and operate high-value fishing businesses in stable jurisdictions where security of tenure is assured.

### OUR KPIs

- Complete the 100% acquisition of Sea Harvest Australia
- Pursue growth opportunities that are ocean resource-based and vertically integrated in Australia

### CHALLENGES AND OPPORTUNITIES

- The prawn catch of 2019 showed a 10% increase over the 2018 catch, which is still below the long-term average.
- Sea Harvest Australia is working closely with the regulators to ensure the continued sustainability of fishing along the West Coast of Australia.
- We expect a recovery in the Shark Bay prawn business that will result in prawn catches trending back to the long-term average catch of 800 tonnes.

### HOW WE PERFORMED AGAINST OUR KPIs

- The balance of Mareterram Limited's shares was acquired and the business was delisted and rightsized during 2019. Now known as Sea Harvest Australia, the business is a 100% subsidiary of Sea Harvest Group Limited. Sea Harvest Australia continues to look for acquisitions in order to leverage its fixed cost base.

## 5 SOUTH AFRICAN FOOD

FC MC NC HC IC SC

### HOW THIS DRIVES OUR VALUE CREATION

Expand into related food sectors in South Africa where we can leverage our manufacturing, processing and operational expertise; our business networks; strong B-BBEE credentials; brand management and markets; and experienced management team.

### OUR KPIs

- Leverage our core competencies to achieve the organic and acquisitive growth potential of Ladismith Cheese

### CHALLENGES AND OPPORTUNITIES

A number of organic growth projects were initiated during 2019 with the aim of increasing capacity in our core cheese, butter and powder business.

### HOW WE PERFORMED AGAINST OUR KPIs

- On 2 January 2019 we successfully acquired 100% of Ladismith Cheese, a value-added dairy business producing cheese, butter and milk powders.
- In 2019, the Group invested in the growth potential of Ladismith through organic expansion.

# OUR STRATEGY CONTINUED

## Our operational performance within the business segments

### SOUTH AFRICAN FISHING

The Group's South African Fishing segment now includes the operations of Sea Harvest and the Viking Fishing Division, which was acquired on 2 July 2018. The combined South African Fishing segment operates 34 vessels. Operating from the Saldanha Bay harbour, we have 12 hake deep-sea vessels, comprising eight fresh fish vessels that feed the land-based fresh fish processing factory, and four factory freezer vessels whose products are mainly targeted at the export markets. Operating from the Cape Town harbour, we have 14 vessels focused on deep sea hake and horse mackerel. Four of our vessels operate out of Mossel Bay catching hake, East Coast sole, pilchards and anchovies. Another four of our vessels operate from the Durban harbour focused on prawn catches.

The Group operates four fish processing factories. Our flagship fresh fish processing factory in Saldanha Bay is predominately focused on processing hake, including skin-on and skinless fillets, loins, steaks and portions for both the international and local markets. The Group's added value factory is also located in Saldanha Bay, producing a wide range of coated, battered, crumbed and sauced hake products for both the local and international markets. Our Selecta Sea Products factory is situated in Cape Town and focuses on grading and processing hake and other bycatch species into a range of products including fillets and individually wrapped portions. The factory in Mossel Bay processes hake, pilchards and anchovies.

### Operating performance

On the back of the hake biomass being assessed as exceeding the MSY, in 2019 the hake TAC increased by 10%. Benefiting from the improved health of the biomass, the hake catch rate and average size mix for the year showed an improvement compared to 2018, driving further efficiencies within the fishing operation.

Overall, the fleet performed well during the year, benefiting from a focused effort on cost containment and good vessel availability, which enabled the Group to catch its full allocation of hake and within its legally mandated fish allocation for the various other species during the year.

Following the installation of the state-of-the-art Marel fish processing facility in Saldanha Bay in the third quarter of 2018, during the first half of 2019 the performance of the Saldanha Bay fresh fish factory was negatively impacted by the slower than expected ramp up of the facility to its design capacity. The performance of the factory during the second half of the year improved, with the teething issues being addressed and the facility reaching its design capacity, delivering efficiency improvements that positively impacted the gross profit margin of the segment for the year.

Further progress was made during 2019 in integrating the Viking Fishing operation into the Group. On 1 September 2019, VFD aligned its ERP and warehousing systems with that of Sea Harvest, improving the quality of reporting and enabling real-time inventory management. In addition, the acquisition of Viking Fishing, with fishing and processing operations in Cape Town, Mossel Bay and Durban, has delivered operational synergies, also contributing to the improved gross profit margin for the year.

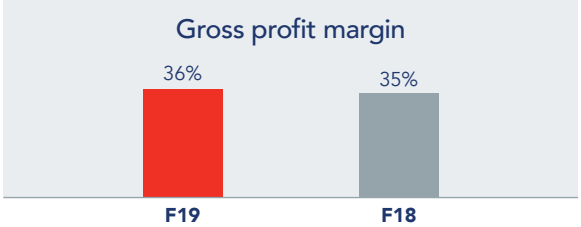
### Financial performance

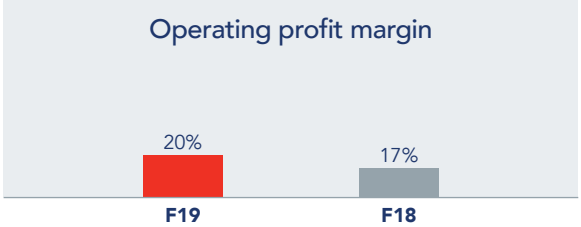
The South African Fishing segment has delivered a strong set of results for the year, benefiting from an improved performance from the Saldanha Bay fresh fish factory and the Viking Fishing performance exceeding expectations.

**REVENUE** ▲ **24%**
**TO R2.644 BILLION**
(2018: R2.136 BILLION)

**OPERATING PROFIT** ▲ **45%**
**TO R527 MILLION**
(2018: R362 MILLION)

**GROSS PROFIT** ▲ **28%**
**TO R953 MILLION**
(2018: R745 MILLION)



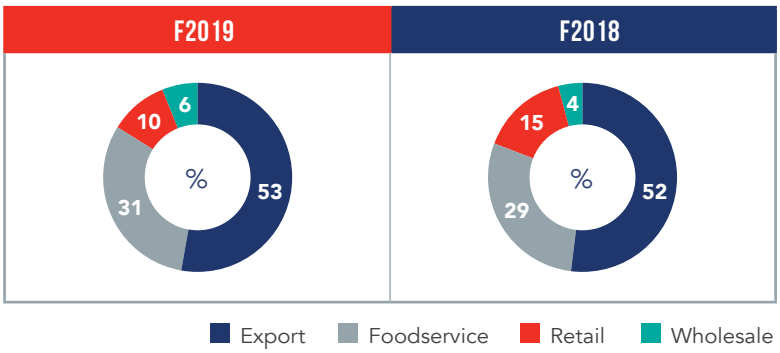
Revenue from the segment increased by 24% to R2.64 billion (2018: R2.14 billion), benefiting from a 10% increase in the hake TAC, and the annualised effect of the Viking Fishing acquisition, which was only included in our results for six months in 2018. Our gross profit increased by 28% to R953 million (2018: R745 million), with the gross profit margin expanding to 36% (2018: 35%), benefiting from synergies relating to the Viking Fishing acquisition and the improved performance of the Saldanha Bay fresh fish factory. Our operating profit increased by 45% to R527 million (2018: R362 million), driven by the additional Viking Fishing revenues, and our operating profit margin expanded to 20% (2018: 17%).

**EXPORT**
**26%**
**TO R1.409 BILLION**
(2018: R1.117 BILLION)

**FOODSERVICE**
**32%**
**TO R810 MILLION**
(2018: R614 MILLION)

**RETAIL**
**14%**
**TO R277 MILLION**
(2018: R322 MILLION)

**WHOLESALE**
**80%**
**TO R148 MILLION**
(2018: R82 MILLION)




Exports remained the bedrock of the South African Fishing operation with export revenues increasing by 26% to R1.41 billion (2018: R1.12 billion), benefiting from the annualised effect of the Viking Fishing acquisition and the export mix increasing to 53% from 52% in 2018. Foodservice revenue increased 32% to R810 million, benefiting from the inclusion of Viking's foodservice business and now contributes 31% of the South African Fishing revenue mix. Retail revenue reduced by 14% to R277 million, negatively impacted by the tough domestic economic environment and the channel now makes up 10% of the segment's revenue mix. Viking Fishing introduced a wholesale channel to the Group that services the informal trade, with revenue from this channel increasing 80% to R148 million and accounting for 6% of fishing revenue.

## Outlook

Prior to the outbreak of the coronavirus pandemic, Sea Harvest's South Africa Fishing operation was posed for a very strong performance in 2020. Global demand for MSC-certified seafood was strong, with demand exceeding supply and firm pricing in all markets and channels that the Group operates in. The weakening Rand and lower fuel prices were very positive tailwinds, and with the biomass exceeding MSY, catch rates and size mix were trending upwards. The investment in the state-of-the-art Marel fish processing facility in Saldanha was expected to drive production efficiencies, with the facility having reached its design capacity.

The recent outbreak of Covid-19 has unfortunately changed this outlook and the virus is expected to negatively affect performance. Supply chain disruptions will mean that catching and processing will be affected as people get sick and test positive. Bottlenecks in ports and other essential services for the fishing operation will continuously cause disruptions. This will reduce product that can be caught and processed and ultimately sold.

There will also be demand-side effects. Although retail is expected to remain firm, and in certain countries like Spain, Italy and South Africa it will increase, "out of home" sales will come to a standstill. While hake is defensive and can predominantly be sold in retail, other products such as monkfish, kingklip, bycatch, prawns and abalone are predominantly sold to foodservice and the HORECA trade. These will be affected until people feel comfortable eating out again.

The Covid-19 pandemic has also had a devastating effect on financial markets with the Rand and Brent Crude weakening to record lows, and with the weakening of the Rand being compounded by the recent Moody's downgrade. As a result, the 2020 foreign exchange and fuel hedges, that were taken out during the course of 2019 when both the Rand and Brent Crude were significantly stronger, have moved into an "out-the-money" position and it is expected that we will record material hedge losses during 2020 as a result.

The Covid-19 spread, and related impacts, will be closely monitored and a mitigation strategy has been developed to minimise the impact on the business.

The upcoming FRAP has officially been extended to 1 January 2022, to allow for sufficient time for an economic impact assessment to be undertaken and for the process to be properly planned and implemented. The newly formed DEFF is in the process of drafting the general and sector-specific policies that will govern the upcoming FRAP and these are expected to be published in the second half of 2020.

# OUR STRATEGY CONTINUED

## CAPE HARVEST FOODS

Cape Harvest Foods is a new reporting segment encompassing Ladismith Cheese and Sea Harvest's factory shops, the latter having been reported previously as part of the South African Fishing segment.

The acquisition of Ladismith Cheese was successfully concluded on 2 January 2019. Ladismith Cheese's primary business is the production, distribution, marketing and sale of cheese, butter and milk powders in both retail and bulk formats serving the South African retail, foodservice and food producer markets.

Ladismith Cheese has a factory based in Ladismith in the Western Cape where its fleet of tankers collect milk from a dedicated group of farmers located in the south of the country. This milk is processed into gouda, cheddar, mozzarella and edam cheese as well as various types of butters and spreads. The company has two powder factories. The company also has depots in Cape Town and Johannesburg.

Cape Harvest Foods Group contributed R990 million of revenue for the year.

The integration of Ladismith Cheese into the Group has been seamless, with the teams working well together and collaborating particularly well on the sales and marketing side. Ladismith Cheese performed well during the period, benefiting from volume growth across all categories.

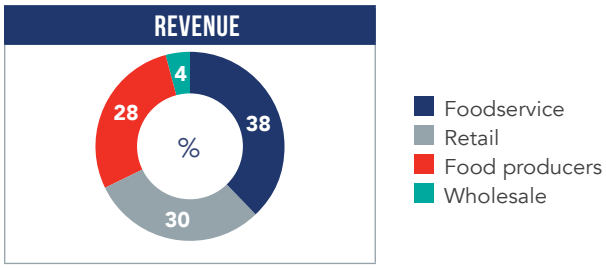
From a factory shop perspective, the Group opened two new factory shops taking the total to 11, now also selling Ladismith Cheese.

### Financial performance

Revenue for the Cape Harvest Foods Group increased by R909 million to R990 million, benefiting from the inclusion of Ladismith Cheese. The business delivered double-digit volume growth across all categories compared to its pre-acquisition performance in 2018, despite the challenging local economic environment. Gross profit increased by R166 million to R193 million at a gross profit margin of 19.5%.

The Cape Harvest Foods segment contributed operating profit of R96 million with an operating profit margin of 10% for the year. Operating expenses were well contained during the year.

Revenue for the year for the segment was well balanced from a sales channel perspective with the retail channel contributing 30% of revenue, the foodservice channel 38% and the food production channel 28% of revenue.




**REVENUE**

**R909 MILLION**

**TO R990 MILLION**
(2018: R81 MILLION)

**GROSS PROFIT**

**R166 MILLION**

**TO R193 MILLION**
(2018: R27 MILLION)

**OPERATING PROFIT**

**R89 MILLION**

**TO R96 MILLION**
(2018: R7.4 MILLION)

### Outlook

After a pleasing first year of operations within the Cape Harvest Foods segment, the business is expected to continue to perform well long term, on the back of a continued global consumer shift towards natural fats. A weaker exchange rate is also expected to support Ladismith Cheese due to reduced imports.

Offsetting this is an exceptionally weak local economic environment, with minimal growth forecast for 2020.

While it is too early to fully comment on the impact the Covid-19 pandemic will have on the Cape Harvest Foods segment, as with the South African Fishing segment, it is expected that the impact on the retail channel will be positive. The food producers channel will be negatively impacted by some non-essential food producers having closed operations during the lockdown and the foodservice channel will be negatively impact with the "out of home" trade having come to a virtual standstill.

# SEA HARVEST AQUACULTURE

The acquisition of 51% of the shares of Viking Aquaculture has further diversified Sea Harvest's revenue base. The Group's aquaculture operations comprise abalone, oysters, mussels and trout, employing 350 people across nine locations. The former Viking Aquaculture operations are at an early stage of development and represent strong growth opportunities for the future as Sea Harvest Aquaculture.

## Abalone

The Group operates two abalone facilities: Buffeljags abalone farm outside Hermanus in the Western Cape and Diamond Coast Aquaculture (DCA) in Kleinzee in the Northern Cape. The ability to farm abalone over multiple, geographically dispersed locations, reduces the bio-security risk exposure to the Group.

The Group's current combined design capacity is 500 tonnes, with farms expecting to reach design capacity by 2021.

Abalone is sold predominantly in the Far East in live, dried and canned formats, with abalone accounting for 55% of Viking Aquaculture's revenue for the year to December 2019.

### Buffeljags abalone

The Buffeljags abalone farm situated outside Hermanus is the Group's flagship aquaculture operation with a design capacity of 350 tonnes. Due to its location, the farm is less susceptible to red tide. It is expected to ramp up to full production of 350 tonnes by the end of 2021. The farm is fully established with all the various areas, from hatchery through to weaning and grow-out, performing to expectation. The necessary capital expenditure has been incurred to achieve the design capacity and the pipeline of the product is in place.

The business has a symbiotic relationship with the local community-based company who harvest and supply the farm's kelp feed requirements. During 2018, a delay in renewing the community's kelp harvesting rights resulted in a lack of kelp feed for the farm, which meant focusing on alternative feed solutions to prevent mortalities and reduction in harvest volumes. Through Sea Harvest Aquaculture 30% investment in Specialised Aquatic Feeds, a synthetic feed was developed, which together with Sea Harvest Aquaculture's grown ulva (an edible green algae) has provided an alternative feed solution.

The Group successfully completed the installation of 5 MW of wind turbine production capacity on site in November 2019 in order to mitigate the effects of the electricity crisis gripping the country. The site is expected to benefit from significant savings in electricity as a result of the installation of the two wind turbines.

### Diamond Coast Aquaculture

Located in Kleinzee in the Northern Cape, DCA has achieved its design capacity of 150 tonnes and production has settled down onto a sustainable growth path. The company has activated its kelp-harvesting right and is producing enough feed for the current farm size and the farm's expected expansion. Additionally, its abalone ranching right has been activated, with select animals being introduced to the wild.

In 2019 the Group approved the expansion of the DCA farm and has included a 5 MW wind farm as part of this project.

As a result of the slower sales of abalone in 2019, the Group has accelerated the expansion of the DCA abalone farm, thereby looking to take tank capacity pressure off the current farms.

## Oysters and mussels

### West Coast Aquaculture, West Coast Oyster Growers and Lüderitz Mariculture

Located in Saldanha Bay, West Coast Aquaculture and West Coast Oyster Growers cultivate oysters and mussels, largely for the South African market. Lüderitz Mariculture holds extensive water leases in the Lüderitz lagoon housing 400 rafts for the cultivation of oysters, destined largely for the South African market.

The Group harvested 266 tonnes of mussels and 1.9 million oysters in the year to December 2019. The farms had a combined 1 000 tonnes of mussels and 13.3 million oysters on hand at 31 December 2019. Strategically, the Group's own oyster hatchery is located at Lüderitz, supplying oyster spat to the various Sea Harvest Aquaculture operations.

## Trout

With hatcheries located in Fisantekraal, Molapong Aquaculture houses the trout operations of Sea Harvest Aquaculture supplying quality trout for grow-out in Saldanha Bay. During the year, the Group secured a 15-year lease allowing it to ramp-up volumes to 1 000 tonnes. However, due to the high levels of mortalities and slower growth rates, the focus during 2019 was on developing saltwater strains of trout for successful grow-out within Saldanha Bay.

In early 2020, and on the back of an operating loss for the trout division, the Group initiated a strategic review of the trout operations in order to establish whether this initiative would be successful over the longer term.

# OUR STRATEGY CONTINUED

## SEA HARVEST AQUACULTURE CONTINUED

### Operating performance

Performance for the year for the Aquaculture segment was negatively impacted by lower abalone sales as a result of:

i. an extended red tide event at the beginning of the year which, although no animals were lost, hampered export sales;
ii. extended market issues in Hong Kong and China, impacted by geopolitical issues within the region; and
iii. increased competition in the smaller size category from other abalone-producing nations.

Positively, both abalone farms are reaching their design capacity in terms of biomass.

Performance from the Greenfields trout operation in Saldanha Bay has been negatively impacted by higher than expected mortalities, while oyster and mussel sales have seen good growth year on year.

As a result, the segment recorded an operating loss for the year of R30 million (2018: operating profit R3 million). Accordingly, the Sea Harvest Aquaculture business did not achieve the earn-out targets for the year, which has resulted in a R44 million fair value gain being recorded relating to the revaluation of the contingent consideration liability.

### Financial performance

Revenue for the year to December 2019 increased 36% to R77 million, compared to R57 million for the six months post-acquisition in 2018, with export revenue, comprising predominantly abalone sales, diluting to 57% of total Aquaculture revenue.

Gross profit for the year was R29 million (H2 2018: R29 million) at a gross profit margin of 37%.

After accounting for R45 million of fair value gains, including the gain on the non-achievement of the earn-out, the segment delivered EBIT of R16 million for the year compared to R55 million in the six months to December 2018. Adjusting for the effects of the fair value gain on the non-achievement of the earn-out, which was also in the 2018 comparative figures, has seen the Aquaculture segment deliver an operating loss of R30 million for the year, against a break-even position in 2018.

**REVENUE** ▲
**36%**
**TO R77.4 MILLION**
(2018: R56.7 MILLION)

**FAIR VALUE GAINS** ▼
**12%**
**TO R45 MILLION**
(2018: R51 MILLION)

**GROSS PROFIT** ▼
**–**
**TO R28.8 MILLION**
(2018: R28.9 MILLION)

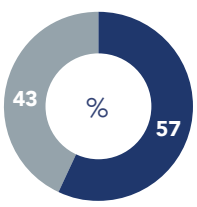
**EBIT** ▼
**70%**
**TO R16 MILLION**
(2018: R55 MILLION)

### Outlook

Within the South African aquaculture operation, market issues within Hong Kong, which negatively impacted sales volumes during 2019, had begun to ease towards the end of 2019, with the sales rate of abalone into the region beginning to improve, although pricing continued to be under pressure.

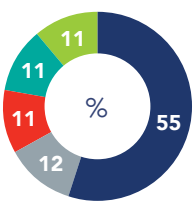
The recent coronavirus outbreak has had a further negative impact on abalone sales into China and the region since its outbreak in January 2020, and it is expected that this will continue to have a negative impact on sales volumes and price through the first half of 2020. In addition, foreign exchange hedges that were taken out during 2019 when the Rand was much stronger, have moved to an "out-the-money" position, and it is expected that the business will record material hedge losses in 2020 as a result.

**F2019 REVENUE**




Export
Local

**REVENUE BY CATEGORY**




Abalone
Mussels
Oysters
Other
Fish

# SEA HARVEST INTERNATIONAL

The Group's international operations comprise its Australian subsidiary, Sea Harvest Australia (previously Mareterram Limited). The acquisition of all of the fully paid ordinary shares of Sea Harvest Australia not already owned by the Group was successfully concluded on 8 May 2019. The acquisition allows the Group to fully integrate Sea Harvest Australia, extract operational synergies and align Sea Harvest Australia's operating structure, growth strategy and funding requirements with that of the Group.

Sea Harvest Australia is a vertically integrated agribusiness headquartered in Fremantle, Western Australia, providing premium quality and sustainable produce to Australian and international consumers. The business comprises two operating divisions: the fisheries division and the trading division. With a long and proud history of operating within the Shark Bay Prawn Managed Fishery for over 50 years, the fisheries division (formerly Nor-West Seafoods) is the single largest owner-operator in the fishery, holding 10 of the 18 prawn licences in Shark Bay. Western king prawns and brown tiger prawns are the major target species, with the division also catching scallops, blue swimmer crabs, squid and cuttlefish.

The fisheries division's fleet of 11 prawn trawlers is set up to process, package and snap freeze all their catch at sea, ensuring a high quality, consistent and sustainable seafood product.

The Group also owns two Western Australia mackerel licences, adding another premium species to its basket.

The trading division is the sales and marketing arm of the business and manages the sales of the fisheries product from Shark Bay together with other premium, sustainably caught seafood that it sources from its worldwide network of key suppliers. The division also acts as an exclusive agent for other premium food brands, including Sea Harvest, whose products complement Sea Harvest Australia's seafood offering. The trading division has a sales presence in Perth, Brisbane, Sydney, Adelaide and Melbourne.

## Operating performance

Following a multi-decade low prawn catch in 2018, prawn catches recovered somewhat in 2019, ending the year on 599 tonnes, 11% higher than the catch for the 2018 season of 540 tonnes, albeit with a smaller average size mix.

Management continued to work with key stakeholders to ensure that the Shark Bay fishery is managed to MEY by starting the season later, allowing the biomass to grow.

Scallop catch volumes were consistent in 2019 to those of 2018, and the average scallop size landed in the 2019 fishing season was bigger with scallop sizes realised across the 2018 season. Scallop is caught in a quota-allocated fishery, hence the catch volume is the same based on the TAC, even though the average meat yield per scallop was greater.

Mackerel catches were higher in 2019 compared to 2018 with approximately 91% of the total quota caught. Sea Harvest Australia has acquired a second vessel suitable for the mackerel fishery, with the vessel expected to join the fleet during the second quarter of 2020, allowing Sea Harvest Australia to catch 100% of its quota on its own fleet.

Following the take-out of minorities and delisting, the Group has continued to focus on reducing overhead costs at Sea Harvest Australia making it fit for purpose, with further savings having been identified.



# OUR STRATEGY CONTINUED

## SEA HARVEST INTERNATIONAL CONTINUED

### Financial performance

Revenue decreased 1% to R438 million (2018: R443 million), with higher revenue from prawn sales being offset by lower revenue from traded product sales, particularly the sale of potato products as a result of the potato shortage due to the drought in Europe in the first half of 2019. Gross profit for the year was R103.1 million with the gross profit margin maintained at 23.5%.

The segment reported an operating profit for the year of R6.6 million (2018: R16.3 million), after absorbing R9.3 million of non-recurring transaction costs relating to the minority buy-out. Normalised operating profit, after adjusting for the take-out transaction costs, was down 2% to R15.9 million.

From a product mix perspective, Sea Harvest's Cape hake contributed 28% of revenue, with double-digit volume growth over the period, with Australia now Sea Harvest's fourth biggest market.

The foodservice channel still contributes 75% of revenue, with the intention to ramp up exports as the Australian Dollar also continues to depreciate against the US Dollar.

The Company's balance sheet remains healthy, showing net assets of R292 million as at 31 December 2019.

**PRAWN CATCH**

**11%**

**TO 599 TONNES**
(2018: 540 TONNES)

**REVENUE**

**1%**

**TO R438 MILLION**
(2018: R443 MILLION)

**GROSS PROFIT**

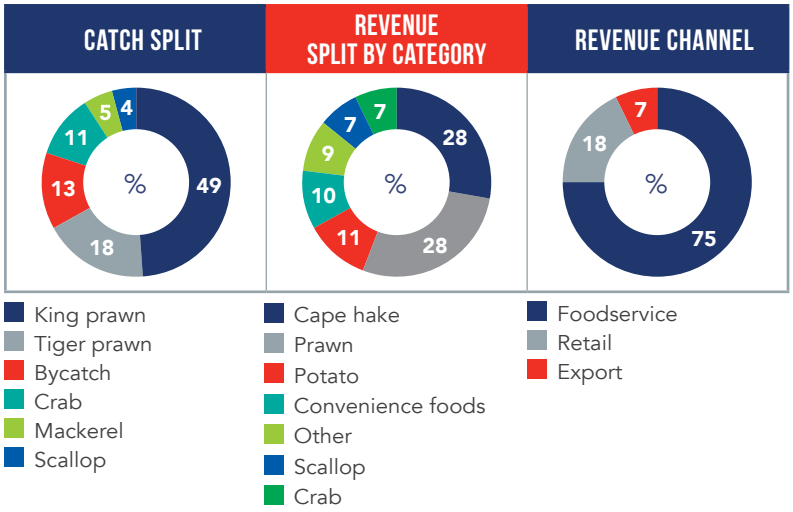
**1%**

**TO R103.1 MILLION**
(2018: R103.7 MILLION)

**NORMALISED OPERATING PROFIT**

**2%**

**TO R15.9 MILLION**
(2018: R16.3 MILLION)




### Outlook

Within the Australian operations, the 2019 prawn volume from the Shark Bay Prawn Fishery experienced some recovery compared to the 2018 season, albeit with a smaller average size mix.

Sea Harvest Australia is working with key stakeholders to ensure the fishery is managed to optimise the MEY, resulting in abundant volumes of prawns in larger sizes and has had some success in this respect, with the 2020 start to the prawn fishing season being pushed back to April 2020.

Sea Harvest Australia will continue to refine and implement its four key strategic pillars in 2020, being:

- to maximise the volume and value of its catch;
- to maximise the utilisation of its assets:
- to grow its trading division; and
- to build further scale and diversification through acquisitions.

Emphasis will be placed on the fourth pillar in particular, with resource security and subsequent supply chain control being the major focus.

The effects of the coronavirus for Australian prawns is not yet clear at the time of writing, but it is expected that the reliance on the foodservice market, although a strength in the past, will in all probability be affected due to the virtual shutdown of "out-of-home" trade.

# OUR CFO'S REPORT

## Overview

Building on the acquisition of Viking Fishing and Viking Aquaculture in 2018, in 2019 Sea Harvest made further progress in delivering its growth strategy. On 2 January 2019, the Group completed the acquisition of 100% of Ladismith Cheese, further diversifying the Group's earnings. On 8 May 2019, the Group concluded the acquisition of the remaining 43.7% of the shares in Sea Harvest Australia not already owned by the Group, strengthening Sea Harvest's presence in Australia and providing a beachhead for growth in the region.

The Group delivered a strong set of financial results for the year, with revenue increasing by 54% to R3.97 billion, operating profit increasing by 54% to R599 million, headline earnings increasing by 48% to R410 million and dividends per share increasing by 25% to 50 cents per share. The improved performance was driven by a strong performance from the South African Fishing operation, as well as a pleasing result from Ladismith Cheese in its first year of operation post acquisition.

## Financial performance

| YEAR TO DATE (R'000) | | 2019 | 2018 |
|---|---|---|---|
| Revenue | 54% | 3 966 452 | 2 583 341 |
| **Gross profit** | **40%** | **1 270 815** | **908 244** |
| *Gross profit margin* | | *32%* | *35%* |
| Net operating expenses | 29% | (671 235) | (519 625) |
| **Operating profit** | **54%** | **599 580** | **388 619** |
| *Operating profit margin* | | *15%* | *15%* |
| Profit before finance costs and tax (EBIT) | 45% | 634 698 | 438 009 |
| Net finance costs | 128% | (100 506) | (44 005) |
| Taxation | 37% | (138 679) | (100 871) |
| **Profit after tax** | **35%** | **395 513** | **293 133** |
| Non-controlling interest | | (16 965) | 11 924 |
| Profit attributable to Sea Harvest shareholders | | 412 478 | 281 209 |
| EBITDA | | 818 182 | 554 759 |
| EBITDA margin | | *21%* | *21%* |

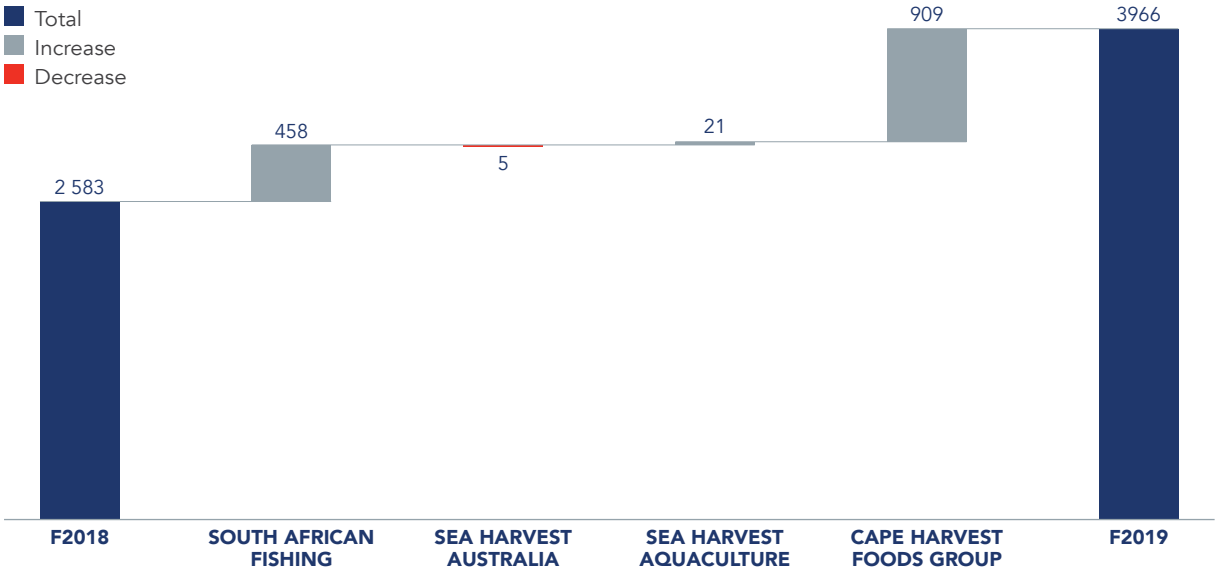
**Group revenue** for the year increased by 54% from R2.58 billion in 2018 to R3.97 billion in 2019.



John Paul de Freitas

# OUR CFO'S REPORT CONTINUED

## Financial performance continued




Revenue from Sea Harvest's South African Fishing operation increased by R458 million, benefiting from a 10% increase in the hake TAC, and the full-year effect of the acquisition of Viking Fishing, which was only included in the 2018 results for six months. Revenue from Sea Harvest Australia was R5 million lower than the prior year due to lower sales of traded product. Sea Harvest Aquaculture revenue increased by R21 million, with the benefit of the full-year effect of only six months' revenue included in 2018, being offset by lower abalone sales. Revenue from Cape Harvest Foods, which now includes Ladismith Cheese and Sea Harvest's factory shops, increased by R909 million, due mainly to the acquisition of Ladismith Cheese, but also the opening of two new factory shops during the year.

**Gross profit** for the period increased by 40% to R1.27 billion (2018: R908 million). The gross profit margin contracted to 32% (2018: 35%), due to the inclusion of Ladismith Cheese that operates at a gross profit margin of 20%. Importantly, the gross profit margin of the core South African Fishing operation expanded to 36% (2018: 35%), benefiting from synergies relating to the Viking Fishing acquisition, and the improved performance of the Saldanha Bay fresh fish factory.

**Net operating expenses** for the period increased by 29% to R671 million (2018: R520 million), mainly due to the inclusion of expenses relating to acquisitions. Excluding acquisitions and non-recurring transaction costs, net operating expenses decreased by 2%, benefiting from cost control measures across the Group. Operating expenses as a percentage of revenue decreased to 18.9% from 22.9% in 2018.

The Group delivered **operating profit** of R600 million for the period, 54% higher than last year (2018: R389 million), and the operating profit margin was held steady at 15% (2018: 15%), despite the lower gross profit margin.

**Fair value gains** of R34 million (2018: R49 million) included a R44 million gain (2018: R43 million) relating to the revaluation of a contingent consideration liability relating to Viking Aquaculture due to the non-achievement of the 2019 earn-out.

**Net finance costs** for the year increased to R101 million (2018: R44 million) due to higher debt levels to fund growth, as well as the impact of the adoption of the IFRS 16: Leases standard.

**Profit after tax** increased by 35% to R396 million (2018: R293 million).

## HEPS and dividends per share (DPS)

| RECONCILIATION OF HEADLINE EARNINGS (R'M) | 2019 | 2018 |
|---|---|---|
| Profit for the period attributable to shareholders of the parent | 412 478 | 281 209 |
| Adjustment for capital items post tax | (2 061) | (3 310) |
| **Headline earnings** | **410 417** | **277 899** |
| **WANOS ('000)** | 276 366 | 249 202 |
| **HEPS (cents)** | 149 | 112 |

Headline earnings for the Group increased by 48% to R410 million (2018: R278 million). The weighted average number of outstanding shares (WANOS) in issue increased by 11% to 277 million shares. The increase in the WANOS was due to 19.2 million shares being issued on 2 July 2018 as part of the Viking purchase consideration and 21.4 million shares being issued on 7 January 2019 in the form of a Vendor Consideration Placement in connection with the Ladismith Cheese acquisition. As a result, HEPS for the year increased by 33% to 149 cents per share, from 112 cents in 2018, with the HEPS growth year on year negatively impacted by the higher WANOS.

| | | |
|---|---|---|
| Non-recurring fair value gains | (44 386) | (43 430) |
| **Normalised headline earnings** | **366 031** | **234 469** |
| **WANOS ('000)** | 276 366 | 249 202 |
| **Normalised HEPS (cents)** | 133 | 94 |

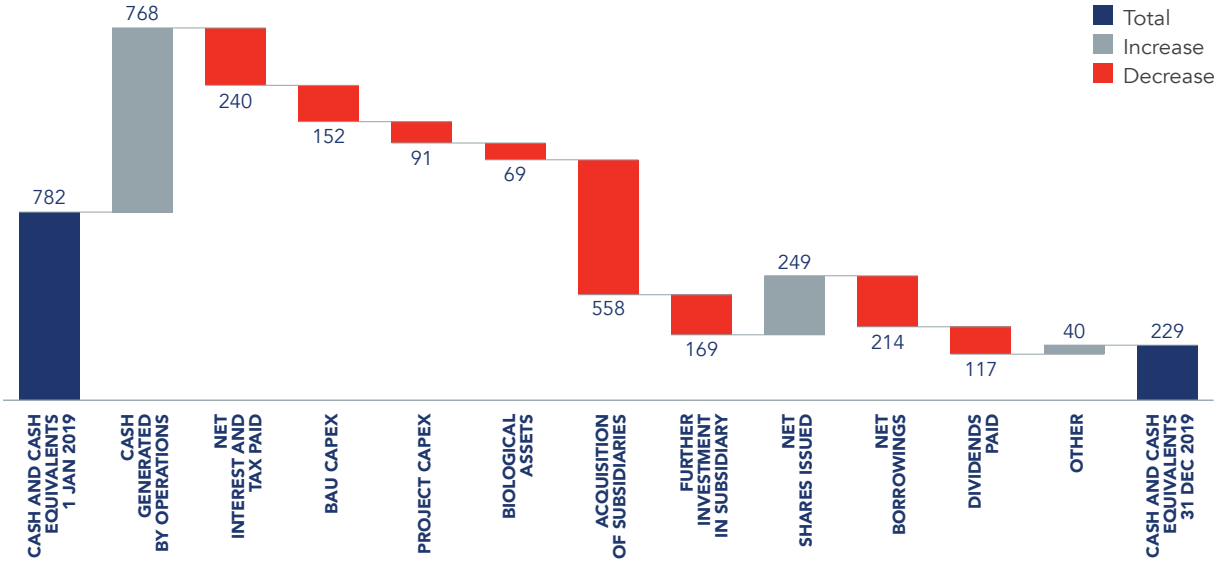
Included in the Group's headline earnings for both 2019 and 2018 are fair value gains relating to the reversal of the deferred consideration liability due to Viking Aquaculture not achieving the earning-out target. Adjusting for this, the Group delivered a normalised headline earning of R366 million, 56% higher than the normalised headline earnings of R234 million in 2018. This translates into a normalised HEPS of 133 cents per share, an increase of 41% compared to the normalised HEPS of 94 cents per share delivered in 2018.

| | | |
|---|---|---|
| Dividends declared | 147 147 | 109 146 |
| Number of ordinary shares in issue | 294 294 | 272 865 |
| Total dividend per share (cents) | 50 | 40 |
| – Ordinary dividend per share (cents) | 45 | 40 |
| – Special dividend per share (cents) | 5 | – |

A full and final dividend of 50 cents per share has been declared with respect to the year ended 31 December 2019, representing a 25% increase on the dividend of 40 cents per share declared with respect to the 2018 financial year. The 50 cents per share dividend comprises an ordinary dividend of 45 cents per share and a special dividend of 5 cents per share.

# OUR CFO'S REPORT CONTINUED

## Cash flow management




The Group generated cash from operations of R768 million (2018: R551 million) from its operations during the year, benefiting from the additional cash generated by the Viking Fishing and Ladismith Cheese operations. Net interest paid increased to R105 million (2018: R38 million) as a result of the higher debt levels to fund growth and the impact of the adoption of IFRS16: Leases standard, and the Group paid R120 million in income tax for the year (2018: R37 million).

The Group utilised R861 million in investing activities during the year (2018: R501 million), including:

- R265 million invested in property, plant and equipment (2018: R319 million), including R152 million of stay-in-business capital expenditure and R91 million of project capital expenditure, offset by R22 million in proceeds received from the disposals;
- R69 million invested in the growth of biological assets in Viking Aquaculture;
- R558 million invested in the acquisition of 100% of Ladismith Cheese; and
- R169 million invested in the acquisition of the remaining 43.7% of the shares in Sea Harvest Australia not already owned by the Group.

During the year under review, the Group utilised R252 million in financing activities, raising R249 million from the net issue of shares, repaying net borrowings of R214 million, and paying dividends of R117 million.

The Group opened the year with cash of R782 million, utilised cash of R553 million during the year, and ended the year with R229 million of cash on hand. With net interest-bearing borrowings of R1.223 billion, the Group's net debt position for the year ended 31 December 2019 was R994 million.

## Financial position

The balance sheet of the Group has changed substantially following the acquisition of Ladismith Cheese on 2 January 2019.

| ASSETS (R'M) | 2019 | 2018 | |
|---|---|---|---|
| Property, plant and equipment | 1 881 734 | 1 604 800 | ● |
| Right-of-use assets | 136 695 | – | ● |
| Biological assets | 61 448 | 107 646 | ● |
| Intangible assets | 639 795 | 616 163 | ● |
| Goodwill | 849 615 | 621 549 | ● |
| Other non-current assets | 218 166 | 201 496 | |
| Current assets | 1 728 800 | 1 696 630 | ● |
| | **5 516 253** | **4 848 284** | |

- Ladismith take-on: +R189m, BAU capex +R152m, project capex +R91m, depreciation -R158m
- IFRS 16: Leases standard adoption
- R78m reclassified to current assets
- Ladismith take-on brand +R46m, amortisation of South African Fishing licences -R8m, translation of Sea Harvest Australia intangible -R14m
- Ladismith take-on: +R231m
- Ladismith take-on inventory +R186m, receivables +R90m, tax assets +R124m, current portion of biological asset +R78m, cash -R544m

**Property, plant and equipment (PPE)** has increased by R277 million to R1.88 billion. R189 million of the increase related to the fair value of the Ladismith Cheese PPE at acquisition. In addition, R152 million was spent on stay-in-business capital expenditure and R91m on project capital expenditure during the year, partly offset by a depreciation charge of R158 million.

**Right-of-use assets** of R137 million was recognised for the first time relating to the adoption of the IFRS 16: Leases standard.

**Biological assets** decreased by R46 million to R61 million, due to a portion of biological assets now being classified as current.

**Intangible assets** increased by R24 million to R640 million, mainly due to the recognition of the R46 million brand asset following the finalisation of the Ladismith Cheese purchase price allocation (PPA), offset by the amortisation of fishing licences and the translation effect relating to Sea Harvest Australia's intangible assets.

**Goodwill** increased by R228 million to R850 million, mainly relating to the Ladismith Cheese acquisition.

**Other non-current assets** increased by R17 million to R218 million.

**Current assets** increased by R32 million to R1.7 billion, due to higher levels of trade receivables and inventory following the Ladismith Cheese acquisition; a portion of biological assets now being classified as current; and foreign exchange hedges moving to an "in the money" position, partly offset by the R544 million reduction in cash.

| EQUITY AND LIABILITIES (R'M) | 2019 | 2018 |
|---|---|---|
| Stated capital | 1 810 506 | 1 538 761 |
| Reserves | 626 768 | 275 904 |
| NCI (including treasury shares) | 76 500 | 254 662 |
| Non-current liabilities | 2 086 705 | 2 128 831 |
| Current liabilities | 915 774 | 650 126 |
| | **5 516 253** | **4 848 284** |




**Stated capital** increased by R272 million to R1.81 billion, following the R300 million vendor consideration placement, offset by R28 million of shares repurchased from the market.

**Reserves** increased by R351 million to R627 million, mainly as a result of the increase in retained earnings.

**Non-controlling interests (NCI)** decreased by R178 million, following the buy-out of the remaining 43.7% of the shares in Sea Harvest Australia not already owned by the Group.

**Non-current liabilities** decreased by R42 million to R2.1 billion, with the R146 million lease liability relating to the adoption of the IFRS 16: Leases standard and the R104 million increase in the deferred tax liability, mainly relating to the Ladismith Cheese acquisition, offset by the R249 million decrease in the long-term portion of borrowings and the R44 million reversal of the contingent consideration liability relating to Viking Aquaculture.

**Current liabilities** increased by R266 million to R916 million, due in part to higher levels of trade payables following the Ladismith Cheese acquisition and an increase in the short-term portion of interest-bearing borrowings.

**Net asset value per share** increased by 25% to 879 cents per share from 706 cents in 2018, driven by the acquisition of Ladismith Cheese.

**Return of capital employed (EBIT/capital employed)** increased from 16.5% in 2018 to 18.1% in 2019, benefiting from the more efficient balance sheet, with lower levels of cash, following the purchase of Ladismith Cheese on 2 January 2019.



**John Paul de Freitas**
*Chief Financial Officer*



# 4° CREATING AND SUSTAINING VALUE THROUGH EFFECTIVE GOVERNANCE



- Our governance review
- Our Audit and Risk Committee
- Our Social, Ethics and Sustainability Committee
- Our Nomination and Remuneration Committees

# OUR GOVERNANCE REVIEW

## Introduction

During the 2019 financial year, the Board evaluated our strategic and operational performance and fulfilled its duties in accordance with the JSE Listings Requirements and the principles set out in the King IV Report™. What follows, in support of our value-creation process, is a detailed account of our governance structures as at 31 December 2019.

## Our corporate governance

We are committed to good corporate governance, ethics and integrity. We value our relationships with all our stakeholders and are determined not to undermine the long-established Sea Harvest reputation in any manner.

For us, corporate governance is not simply about compliance. We leverage governance to improve performance by:

- determining how governance requirements can be implemented to add organisational value;
- enhancing accountability for actions at all levels; and
- guiding decision-making, reinforcing material disclosures and refining risk processes.

## Our governance checks and balances

The Board can confirm that the Group adhered to its Board Charter and complied with the JSE Listings Requirements, the Companies Act and King IV™. In line with King IV™, the Board believes that it has executed its responsibilities in an ethical manner and has reported the outcomes of its direction in accordance with King IV™ and the International <IR> Framework. The Board's application of King IV™ can be viewed on our website: **www.seaharvest.co.za**.

## Our governance philosophy

We believe that good governance extends far beyond compliance with legal prescripts, practices and principles. We believe that maintaining the highest levels of governance contributes to achieving our vision, mission and remaining grounded in our values.

We believe that established governance structures support sound performance and long-term value creation for our stakeholders. Throughout our operations, we are guided by the ethical culture embedded by the Board, while remaining aware of our responsibility to positively transform the communities and environments in which we operate.



## Our improved performance

Corporate governance throughout the Group enables:

- diverse opinions at Board level to improve decision-making;
- comprehensive management reporting to the Board;
- clear management accountability;
- risk controls embedded in day-to-day processes and decision-making;
- improved integrated reporting of all business aspects; and
- appropriately prioritised engagement with various stakeholders.

# Our governance structure

The governance structure in operation within the Group for the 2019 financial year was as follows:

## OUR BOARD OF DIRECTORS

**Non-executive Chairperson:**
FJ Robertson

**Independent non-executive directors:**
BM Rapiya, WA Hanekom, CK Zama, KA Lagler

**Non-executive directors:**
MI Khan, T Moodley

**Executive directors:**
F Ratheb (*CEO*), JP de Freitas (*CFO*), M Brey (*CIO*)

## OUR COMMITTEES

### AUDIT AND RISK

**Chairperson:**
KA Lagler

**Members:**
BM Rapiya,
WA Hanekom,
CK Zama

**Invitees:**
FJ Robertson,
MI Khan,
F Ratheb,
JP de Freitas,
M Brey,
Internal Audit,
External Audit

### NOMINATION

**Chairperson:**
WA Hanekom

**Members:**
BM Rapiya,
MI Khan

**Invitees:**
FJ Robertson,
F Ratheb

### REMUNERATION

**Chairperson:**
WA Hanekom

**Members:**
BM Rapiya,
MI Khan

**Invitees:**
FJ Robertson,
F Ratheb

### SOCIAL, ETHICS AND SUSTAINABILITY

**Chairperson:**
FJ Robertson

**Members:**
BM Rapiya,
CK Zama,
MI Khan,
T Moodley,
M Brey

**Invitees:**
F Ratheb,
T Brown,
M Khumalo,
ML Harry

### INVESTMENT AND HEDGING

**Chairperson:**
WA Hanekom

**Members:**
MI Khan

**Invitees:**
F Ratheb,
JP de Freitas,
M Brey

## FRAUD PREVENTION COMMITTEE

## IT STEERING COMMITTEE

## OUR EXECUTIVE COMMITTEE

**Members:**
F Ratheb, JP de Freitas,
M Brey, K Geldenhuys, T Brown, R Hall,
G Nortje, ML Harry, M Khumalo, R Groenewald

# OUR GOVERNANCE REVIEW CONTINUED

The framework within which the Board operates is underpinned and constantly evaluated in terms of governance recommendations within South Africa. By doing this, the Board encourages outstanding levels of performance from the Group to achieve its vision, mission and strategy. This allows the Board to ensure value creation for all our stakeholders.

The Board believes that the adopted governance disciplines are appropriate, in all material respects, to ensure adherence to the principles embodied in the King IV Report on Corporate Governance™ for South Africa 2016 (King IV™).

The Board, through its oversight responsibilities, remains committed to ensuring the achievement of the Group's vision, mission and strategy. The Board set the tone of the Company's values, including principles of ethical practices. In fulfilling its obligation as embodied in the fourth principle of King IV™ the Board held four (4) Board meetings during the 2019 financial year. The table below records the attendance of directors at Board meetings for the year:

| ATTENDANCE AT BOARD MEETINGS | 5 MARCH 2019 | 22 MAY 2019 | 28 AUGUST 2019 | 14 NOVEMBER 2019 |
|---|---|---|---|---|
| **Mr FJ Robertson** (Chairperson) | ✓ | ✓ | ✓ | ✓ |
| **Mr F Ratheb** | ✓ | ✓ | ✓ | ✓ |
| **Mr JP de Freitas** | ✓ | ✓ | ✓ | ✓ |
| **Mr M Brey** | ✓ | ✓ | ✓ | ✓ |
| **Mr BM Rapiya** | | ✓ | ✓ | ✓ |
| **Mr WM Hanekom** | ✓ | ✓ | ✓ | ✓ |
| **Ms CK Zama** | ✓ | ✓ | ✓ | ✓ |
| **Ms KA Lagler** | ✓ | ✓ | ✓ | ✓ |
| **Mr MI Khan** | ✓ | ✓ | ✓ | ✓ |
| **Ms T Moodley** | ✓ | ✓ | ✓ | ✓ |

In its value-creating activities for the reporting period, the Board performed the following functions and duties, consistent with its mandate:

- Evaluated and deliberated over the Group strategy prior to approval
- At each meeting, evaluated the progress in relation to the timeframes contained in the approved strategy
- Reviewed and considered strategic risks including those relevant to the operating and geographic environments relevant to the Group
- Approved the budget for the reporting period as well as the medium and long term
- Evaluated and approved material acquisitions, disposals, investments, capital expenditure and the hedging policy
- Received and considered feedback of its established subcommittees on matters affecting the Group's strategy
- Reviewed the solvency, liquidity and going concern status in the process of approving dividends
- Evaluated and approved the Integrated Report, Annual Financial Statements and results announcements
- Considered and ensured the implementation of the recommendations of King IV™
- Approved the Remuneration Policy as well as the short-term and long-term incentive schemes
- Evaluated the outcomes of the assessment of its and its subcommittee performance and determined appropriate improvement mechanisms in line with the recommendations of King IV™

# Established Board subcommittees

To enable the Board to properly discharge its responsibilities and duties, certain responsibilities have been delegated to Board committees. All Board committees are chaired by a non-executive or independent non-executive director. All committees' terms of reference are reviewed regularly to ensure that the committees' duties and responsibilities are aligned with the requirements of corporate governance and keep abreast of new requirements which may arise from time to time.

Directors and executives are specifically appointed to committees based on their qualifications, knowledge and experience. This allows for the proper discharge of the Board's responsibilities and for the implementation of the approved strategy for evaluation and discussion. Executives are available to non-executives, where necessary, to provide further insights into the Group's value-creation process.

A summary of the activities undertaken by each Board committee is presented below. Details of their terms of reference can be found on the Group's website: **www.seaharvest.co.za**.

## Audit and Risk Committee

The Audit and Risk Committee performs its Board-assigned duties and responsibilities in line with the approved terms of reference. These terms of reference are aligned to the prescripts of the Companies Act and the JSE Listings Requirements. For this reporting period, the terms of reference of the Audit and Risk Committee remained unchanged.

A detailed work plan sets out the timeframes for the full discharge of its duties including, but not limited to, oversight of the Group's system of internal control and risk management, and the effectiveness of the internal financial controls. This, in turn, assists the Board in monitoring the integrity and fairness of the Group's publicly reported financial results.

**Responsibilities and activities of the Committee**

The Audit and Risk Committee also has oversight responsibility of the Group's external auditors and various assurance functions which affects the Group's control environments. The Audit and Risk Committee received feedback on the various reports from the established governance structures, namely the Fraud Prevention Committee and the IT Steering Committee.

The Audit and Risk Committee also evaluated the financial reports presented to it, and subsequently the Board. These included the AFS, mid-year results and the IR. The detailed report of the Audit and Risk Committee has been included in this report. Refer to **pages 78 to 81**.

**Meetings and attendance of the Audit and Risk Committee**

| | 5 MARCH 2019 | 27 AUGUST 2019 | 13 NOVEMBER 2019 |
|---|---|---|---|
| **Ms KA Lagler** (Chairperson) | ✓ | ✓ | ✓ |
| **Mr BM Rapiya** | | ✓ | ✓ |
| **Mr WM Hanekom** | ✓ | ✓ | ✓ |
| **Ms CK Zama** | ✓ | ✓ | ✓ |

# OUR GOVERNANCE REVIEW CONTINUED

## Social, Ethics and Sustainability Committee

The Social, Ethics and Sustainability Committee assists the Board in all matters relating to organisational ethics, responsible corporate citizenship, health and safety, sustainable development and stakeholder relationships. The Committee operates in accordance with the requirements of the Companies Act and the King IV™. The Committee operated in accordance with its approved terms of reference which remained unchanged for the year under review. A copy of the Committee's terms of reference can be found on the Company's website: **www.seaharvest.co.za**.

**Responsibilities and activities of the Committee**

- Monitored social investment activities for the period under review
- Reviewed and monitor performance with respect to the B-BBEE codes
- Reviewed the Group's labour relations developments including the applicable human resources related policies
- Reviewed employment equity plans of the Group
- Considered the relevant laws and regulations applicable to the Group's operations
- Evaluated the operations of the Group in terms of sustainability and environmental considerations
- Monitored the performance of the Sea Harvest Foundation against its agreed mandate
- Evaluated matters relating to the Group's health and safety initiatives

The detailed report of the Social, Ethics and Sustainability Committee has been included in this report – refer to **pages 82 to 85**.

**Meetings and attendance of the Social, Ethics and Sustainability Committee**

| | 14 FEBRUARY 2019 | 22 MAY 2019 | 27 AUGUST 2019 | 13 NOVEMBER 2019 |
|---|---|---|---|---|
| **Mr FJ Robertson** (Chairperson) | ✓ | ✓ | ✓ | ✓ |
| **Mr BM Rapiya** | | ✓ | | ✓ |
| **Ms CK Zama** | ✓ | ✓ | ✓ | ✓ |
| **Mr MI Khan** | ✓ | ✓ | ✓ | ✓ |
| **Mr M Brey** | ✓ | ✓ | ✓ | ✓ |
| **Ms T Moodley** | ✓ | ✓ | ✓ | ✓ |
| **Mr F Ratheb** (invitee) | ✓ | ✓ | ✓ | ✓ |
| **Mr M Khumalo** (invitee) | ✓ | ✓ | ✓ | ✓ |
| **Mr T Brown** (invitee) | ✓ | ✓ | ✓ | ✓ |
| **Ms ML Harry** (invitee) | ✓ | ✓ | | ✓ |

Mr FJ Robertson has been evaluated by the Board as suitable to chair the Committee given his extensive exposure and involvement in numerous socio-economic initiatives.



## The Nomination and Remuneration Committees

The CEO, executive directors and Group executives' remuneration structures are included in the ambit of the Remuneration Committee's responsibilities. All remuneration share awards and benefits in kind are evaluated and approved by the Committee. The Committee is focused primarily on principle 14 of the King IV™ and thus adhering to the principle of fair remuneration. The Committee operated in accordance with its approved charter which remained unchanged for the period under review. A copy of the Committee's charter can be found on the Company's website: **www.seaharvest.co.za**.

For the reporting period, the Committee's functions included:

- Determining the key performance targets and remuneration structures for the CEO and executives;
- Evaluating the levels of achievement of the forfeitable share plan (FSP), long-term incentive (LTI) and short-term incentive (STI); and
- Evaluating and making recommendations relating to staffing of key functional areas within the business.

The Nomination Committee is responsible for the structure and composition of the Board, considerate of its current position and future requirements.

The detailed report of the Nomination and Remuneration Committees has been included in this report – refer to **pages 86 to 97.**

**Meetings and attendance of the Nomination and Remuneration Committees**

| | 4 FEBRUARY 2019 | 4 OCTOBER 2019 | 14 NOVEMBER 2019 |
|---|---|---|---|
| **Mr WA Hanekom** (Chairperson) | ✓ | ✓ | ✓ |
| **Mr BM Rapiya** | ✓ | ✓ | ✓ |
| **Mr MI Khan** | ✓ | ✓ | ✓ |
| **Mr FJ Robertson** (invitee) | ✓ | ✓ | ✓ |
| **Mr F Ratheb** (invitee) | ✓ | ✓ | ✓ |

## Investment and Hedging Committee

The Investment and Hedging Committee is a Board-appointed Committee established during the 2017 financial year. The Committee operates in terms of an approved charter which is available on our website at **www.seaharvest.co.za**. The Committee is responsible for evaluating the business-enhancing capital expenditure, hedging and investment strategies of the Group.

There were no meetings of this Committee as no activity relevant to its mandate was required.

3 → Refer to section 3 of this report (**pages 78 to 97**) for a detailed overview of our committee reports.

# OUR GOVERNANCE REVIEW CONTINUED

## Governance disciplines

### Share-dealing policy

The Group has an approved share-dealing policy, which restricts directors, prescribed officers, staff and their associates from dealing in Group shares within the periods and conditions prescribed by the JSE Limited, Companies Act, Financial Markets Act and Financial Services Board Act.

The policy stipulates the conditions under which share trading must be obtained for various designations within the Group. The Company Secretary is the custodian of all information pertaining to securities traded by directors, prescribed officers and staff.

All information relating to the securities trading of directors and prescribed officers and their associates is published via the Securities Exchanges News Service of the JSE Limited and can be viewed at **www.seaharvest.co.za**.

### Interest in contracts

All directors act in the best interest of the Group and their fiduciary responsibilities are understood. Strict compliance with the provisions of sections 75 and 76 of the Companies Act is adhered to at all times through the declaration of interests in any contracts, and directorship in any enterprises with which the Group may potentially interact. Such declarations are evaluated on a regular basis by the compliance and assurance providers within the Group.

Approved codes of conduct and ethics applicable to all directors and employees govern behaviour relating to, among others, potential conflicts of interest and the conditions under which gifts may be accepted.

### Stakeholder engagement

Our relationships with key stakeholders including customers, suppliers, government, society and investors are recognised as pivotal to the Group's ability to ensure mutually beneficial sustained value creation. The manner in which key information about the Group's strategies, future activities and progress in relation thereto is communicated is contained in an approved policy.

For more information about our stakeholder engagements throughout the year, refer to **pages 32 to 35** of the integrated report.

### Code of conduct

The approved Code of Conduct and Ethics is the fundamental policy relating to the manner in which employees, directors and business partners interact with each other. The policy stipulates the duty of care principle, which is to be applied consistently while maintaining the highest standards of honesty and integrity.

All directors, employees and suppliers are informed of the Code of Conduct either at induction or during the contract negotiation stage. The relevance of this policy is overseen by the Social, Ethics and Sustainability Committee and any significant instances of non-adherence are monitored by the Audit and Risk Committee.

### Fraud, theft and corruption prevention mechanisms

The Group has a zero tolerance for fraud, theft and corruption. Our approved Fraud Prevention Policy addresses all legislative and operational requirements including, *inter alia*, whistle-blower protection.

Our Fraud Prevention Committee reports to the Audit and Risk Committee on all matters reported on the anonymous tip-off hotline as well as the sanctions applied, and outcomes of investigations conducted by either the internal audit function or appointed investigators, as the case may be.

Fraud, theft and corruption prevention is a crucial aspect of the operations of the Group with various activities in place to prevent such activities from occurring. These mechanisms include an established network of staff trained to assist fellow staff members in matters to be reported, on-site security at all major centres of operations, as well as communication of prevention and reporting processes in induction programmes and communication channels in operation.

During the year no material incidents of fraud, theft or corruption occurred.

### Combined assurance and internal controls

During the year the Group continued its efforts to implement a combined assurance model to maximise the assurance gained from management as well as internal and external assurance providers in relation to the material risks facing the Group.

The Audit and Risk Committee considered the risks identified through the risk management process, and assurance was provided to mitigate these risks as well as to prevent duplication of assurance work by these providers.

The executive directors and directors of key subsidiaries are responsible for ensuring that a robust internal control environment exists in order to ensure that:

- Group assets are adequately safeguarded and used only for the purposes of value creation;
- accurate accounting records are regularly maintained; and
- all financial and operational information used in the business is reliable and accurate.

Further information can be found in the King IV™ Application Register which is available at **www.seaharvest.co.za**.

## Information technology governance

Embracing the principles of King IV™ and being cognisant that IT is crucial to operations, the Group has established an IT Steering Committee, which reports to the Executive Committee and the Audit and Risk Committee. The IT Steering Committee operates in terms of an approved charter and comprises three directors or executives, the Head of Information Technology, the Head of Internal Audit and representation from the outsourced service providers.

The Audit and Risk Committee evaluates the effectiveness of the IT structure of the Group, including network security and threats related to cyber crime. Regular assessments of the appropriateness of the Group's IT structures are performed internally by management and externally by assurance providers.

## Internal audit

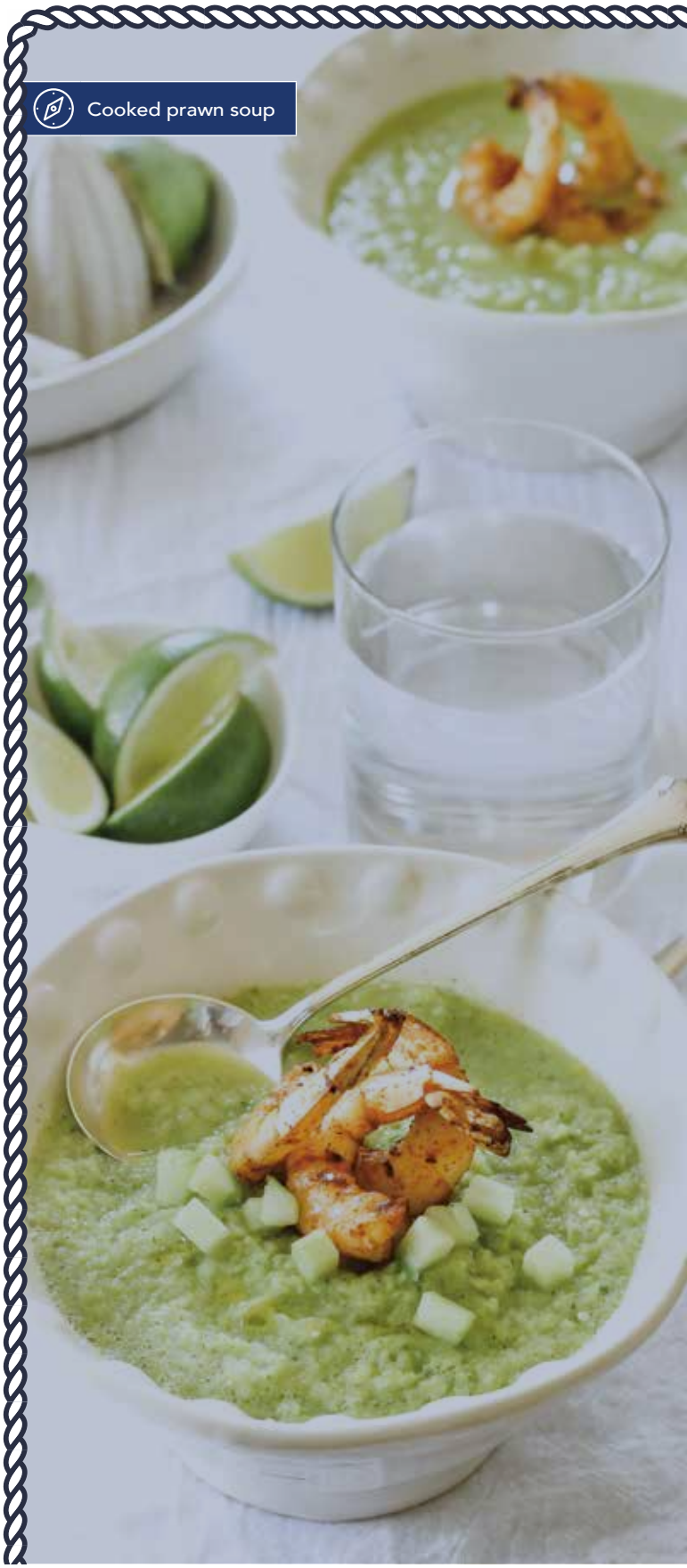
The in-house internal audit function is appointed to provide independent, objective assurance and consulting services to the Group, designed to add value and improve operations. The internal audit function assists the Group to accomplish its objectives by adopting a systematic, disciplined approach in order to evaluate and improve the effectiveness of risk management, internal control, operational, governance and compliance activities.

The internal audit function follows a risk-based approached and reports functionally to the Audit and Risk Committee Chairperson and administratively to the Chief Financial Officer. The internal audit function operates in terms of an approved charter, which is reviewed on an annual basis for relevance to the Group's strategies, operations and legislative environment.

## Company Secretary

Ms N Aston was the appointed Company Secretary until her resignation in September 2019. Until a suitably qualified replacement is appointed, Mr JP de Freitas has assumed the role of Acting Company Secretary. The Board has evaluated the qualifications and experience of the Acting Company Secretary and are satisfied that they are adequate to enable him to properly perform the duties of Company Secretary. He has performed the following functions in this capacity:

- Provided the directors with information and guidance about their responsibilities and how this should be properly discharged in the best interests of the Group
- Provided guidance to the Board on the duties of directors and matters relating to ethics and good corporate governance
- Acted as the primary focal point in relation to the directors' and employees' share trading, JSE requirements and notification of closed periods



# OUR AUDIT AND RISK COMMITTEE

for the year ended 31 December 2019

The Audit and Risk Committee (the Committee) is pleased to present its report to the shareholders of Sea Harvest Group Limited for the year ended 31 December 2019. This report is prepared in line with the Committee's responsibilities as defined in the Companies Act, No 71 of 2008, as amended, the King IV Report on Corporate Governance™ (King IV™) for South Africa and the JSE Listings Requirements.

## Roles and responsibilities

The Committee is governed by formal terms of reference which has been approved by the Board and which is reviewed annually. A copy of the Committee's terms of reference can be found on the Group's website: **www.seaharvest.co.za**.

The terms of reference includes the Committee's statutory duties as described in the Act, King IV™ and the additional responsibilities assigned to it by the Board. In addition to its statutory duties prescribed in the Act, the Committee is required to provide independent oversight of the system of internal controls and risk management, and the effectiveness of the internal financial controls, to assist the Board in monitoring the integrity of the Group's interim and annual financial statements and other performance-related external reports. The Committee further oversees the effectiveness and independence of the Group's external and internal assurance providers and services that contribute to the integrity of the Group's financial and integrated reporting.

The Committee is satisfied that it has discharged all of its responsibilities as mandated by its terms of reference. This report sets out the manner in which the Committee has fulfilled these responsibilities during the year under review.

## Composition of the Committee

The Committee comprises four independent non-executive directors. The members of the Committee have remained unchanged for the 2019 financial year.

The Nomination Committee and the Board are satisfied that the members of the Committee have the requisite knowledge and experience as set out in section 94(5) of the Act and Regulation 42 of the Companies Regulations, 2011.

The Committee Chairperson, Ms KA Lagler, and members Mr BM Rapiya, Mr WA Hanekom and Ms CK Zama will hold office until the upcoming AGM on 26 May 2020, where their re-election to the Committee will be a matter for shareholder consideration.

The Group Chairperson, CEO, CFO, CIO, Mr MI Khan (Non-executive Director), senior executives, internal auditors and external auditors attend the meeting of the Committee by invitation.

## Meetings and work plan

The agenda of the meetings are derived from the adopted work plan of the Committee, which ensures that the Committee discharges its responsibilities in a structured manner.

The external and internal auditors attend Committee meetings and have unrestricted access to the Committee and its Chairperson and have the opportunity to address the Committee and its Chairperson without management being present to ensure their independence. The Committee reviewed detailed reports from the external auditors and internal auditors, the outcomes of which were reported to the Board by the Chairperson of the Committee.

**Three Audit and Risk Committee meetings were held during the year under review and the members attendance records are set out below.**

### INDEPENDENT NON-EXECUTIVES

Committee Chairperson



**KA LAGLER**

CA(SA)

Meetings attended: 3/3



**BM RAPIYA**

BAdmin

Meetings attended: 2/3



**WA HANEKOM**

CA(SA)

Meetings attended: 3/3



**CK ZAMA**

CA(SA)

Meetings attended: 3/3

# Key functions of the Committee

The Committee performed the following duties during the year ended 31 December 2019:

- Reviewed the interim and annual financial statements of Sea Harvest Group Limited and recommended them to the Board for approval
- Satisfied itself with the adequacy of the Group's internal controls, including internal financial controls
- Reviewed the solvency and liquidity, working capital, and going concern position
- Reviewed and recommended the annual dividend proposal to the Board for approval
- Reviewed the expertise and experience of the Group's CFO and finance function
- Considered and nominated for approval at the AGM the external auditors and the designated auditor for the financial year under review
- Considered the independence and effectiveness of the external auditors
- Determined the fees paid to the external auditors and the auditor's terms of engagement
- Determined the nature and extent of non-audit services and the pre-approval of such services as the Committee deemed appropriate in accordance with the approved Non-Audit Services Policy
- Reviewed and approved the internal audit terms of reference and annual audit plan
- Considered the effectiveness and independence of the Head of Internal Audit and the internal audit function
- Received and considered the JSE Proactive Monitoring of Financial Statements reports
- Confirmed that there were no concerns or complaints raised in relation to financial reporting matters and internal controls
- Provided oversight of IT governance and risk management
- Assessed the Group's combined assurance model and risk management framework
- Assessed the Group's application of the King IV™ principles as set out in the King IV™ Application Register

# Finance function

The preparation of financial reports, including the annual financial statements, were completed under the supervision of Mr JP de Freitas (CA) SA, the Group's CFO. As required by paragraph 3.84(g) of the JSE Listings Requirements, as well as the recommended practices of the King IV™, the Committee reviewed and satisfied itself that the expertise and experience of Mr de Freitas is appropriate to meet his responsibilities in that position. The Committee further reviewed and was satisfied that the expertise and resources within the finance function were appropriate.

# Risk management and combined assurance

The Committee reviewed the strategic risks that could materially impact the ability of the Group to deliver its objectives and the related mitigation plans and considers these appropriate.

The Committee continues to have oversight of the Group's approach to combined assurance in response to the risks facing the Group, and which incorporates the "three lines of defence" strategy.

Assurance is obtained from several assurance providers in a co-ordinated manner to avoid duplication of effort. The internal audit plan is compiled in consultation with management, using a risk-based methodology. In addition, internal and external auditors work in a collaborative manner. For the 2019 financial year, the Committee considered the risk assessments and mitigation plans presented by management, evaluated and approved the plans of the internal audit function, and the external auditors, and the outcomes of the audit work performed.

The Committee meets with the internal and external auditors without management's presence and the Chairperson of the Committee has regular meetings with the Head of Internal Audit. The Committee is satisfied that the independent assurance providers' work undertaken, together with the internal controls designed by management, are adequate.

The Committee is satisfied that the combined assurance framework implemented by the Group is appropriate and provides sufficient assurance over the Group's risk universe.

# OUR AUDIT AND RISK COMMITTEE
CONTINUED for the year ended 31 December 2019

## IT governance

The Committee has oversight responsibility for IT governance and IT risk management. IT governance and IT risk management are managed through various charters, plans, policies, procedures and practices. An IT Steering Committee meets quarterly to monitor IT governance and risk-related matters, and the adherence to various policies and procedures and provides written feedback to the Committee at each meeting. The Committee is satisfied that the reports of the IT Steering Committee adequately addresses IT governance and risk management requirements, including the appropriateness of the IT strategy and policies, systems and network architecture, applications, disaster recovery and cyber security management.

## External auditors

The Committee has satisfied itself, through the evaluation of submissions made, that the external auditors of the Group are independent as defined by the Act and therefore are able to express an independent opinion on the Group's annual financial statements. The Committee, in consultation with management, has agreed to the audit fee for the 2019 financial year and has evaluated the extent of non-audit work in accordance with the established policy in this regard. This policy establishes that non-audit work performed by the external auditor beyond an agreed Rand quantum is approved by the Committee Chairperson and communicated to other members of the Committee. In terms of the Group's Non-Audit Services Policy, the Committee has pre-approved certain allowable non-audit services up to predetermined limits. This policy requires that all proposed services are assessed prior to commencement of the work, by the Audit Committee Chairperson (as representative of the Committee) to ensure that the proposed service falls within the definition of the pre-approved non-audit services. The fees paid to the external auditors for non-audit services in 2019 related to taxation work and agreed upon procedures in respect of royalty certificates issued to the Marine Stewardship Council and taxation training for members of the Finance department.

At each meeting of the Committee, the external auditor is provided the opportunity to engage with the Committee without management's presence and no matters of concern were raised.

The Committee has evaluated information relevant to the external auditor in terms of paragraph 22.15(h) of the JSE Listings Requirements. Deloitte & Touche (Deloitte) is the Group's external auditor, was appointed in 2008 and has been the auditor for Sea Harvest Group Limited for 11 years. The Committee will give the matter of audit firm rotation in-depth consideration in due course to comply with the 2023 deadline.

Mr M van Wyk is currently the designated audit partner and was appointed as such in 2018. He has confirmed to the Committee that Deloitte has complied with the independence requirements in terms of the Independent Regulatory Board for Auditors and the South African Institute of Chartered Accountants codes.

The Committee, after appropriate consideration, has nominated for approval at the upcoming AGM on 26 May 2020, Deloitte & Touche as the external auditor, and Mr M van Wyk as the designated partner.

### Key audit matters relating to the 2019 audit

The report of the independent auditors for the year ended 31 December 2019 contained the following key audit matters:

- Compliance with long-term fishing permit conditions in South Africa and Australia
- Viking Aquaculture goodwill impairment assessment

The Committee has addressed the key audit matters as follows:

- The Committee has assessed the processes and controls management have designed and implemented to ensure compliance with long-term fishing permits and is satisfied these controls are working as assessed by management, internal auditors and the external auditors
- The Committee has also considered the level of impairment testing performed by management and agreed with the conclusions reached by both management and the external auditor that no impairment of goodwill is required.

## Internal auditors

The Group's in-house internal audit function operates in terms of a charter, which the Committee reviewed and approved during the reporting period. The Committee has considered the independence and effectiveness of the in-house internal audit function and considered these to be appropriate. The Committee also regularly evaluated the progress made in relation to the internal audit coverage plan for 2019, and is satisfied that significant matters reported to it and management by the internal audit function were appropriately remediated.

The Head of Internal Audit has the opportunity to meet with the Committee at each meeting without management being present. On a regular basis the Chairperson of the Committee also meets with the Head of Internal Audit and provides feedback to the Committee as appropriate. The Committee is satisfied, through the declarations made by the internal auditors, that the assurances provided to the Committee are aligned to the Code of Ethics of the Institute of Internal Auditors.

## Accounting practices and internal financial controls

The Group has designed internal financial controls and systems to provide reasonable assurances as to the integrity and reliability of the interim and annual financial information, and to safeguard and maintain the assets of the Group.

The Committee has reviewed the written assessment performed by internal audit on the design, implementation and effectiveness of the Group's internal financial controls. Based on the results of this review, information provided by management, and in conjunction with the independent assurance providers, the Committee believes the internal financial controls are suitable and effective and provide a sound basis for the preparation of reliable financial information.

## Annual financial statements

The Committee reviewed the annual financial statements for the year ended 31 December 2019 and is satisfied that it complies with IFRS. Accordingly, the Committee recommended the consolidated and separate annual financial statements to the Board for approval, which the Board subsequently approved.

## Going concern, solvency and liquidity

The Committee reviewed the going concern status of the Group and recommended to the Board that the Group will continue to be considered on a going concern basis for the foreseeable future and that the Group is considered solvent and able to distribute its proposed dividend to shareholders.

## JSE reporting requirements

The Committee evaluated the submissions made to it by the Company Secretary and management and is satisfied that the Group has met the JSE Listings Requirements and the requirements of the King IV™. The King IV™ Application Register can be found on the Group's website: **www.seaharvest.co.za**.

### JSE proactive monitoring reports

The Committee has received and considered the findings in the following reports on the JSE's proactive monitoring of financial statements for compliance with IFRS:

- Reporting back on proactive monitoring of financial statements in 2019
- Final findings of thematic review for compliance with IFRS 9 and IFRS 15 in 2019
- Activities of the financial reporting investigations panel in 2019
- The following extracts from the combined findings report (2011 to 2018):
  a. Transparency when reporting errors (pages 20 to 21)
  b. Statement of cash flows (pages 21 to 31)
  c. Income taxes (pages 32 to 34)
  d. Impairments (pages 43 to 45)

The Committee has ensured that where applicable, the contents of these reports have been appropriately actioned in the preparation of the consolidated and separate annual financial statements for the year ended 31 December 2019.

## Conclusion

I wish to extend my thanks to my fellow Committee members for the work undertaken during this reporting period. On behalf of the Committee, I wish also to thank the invitee non-executive and executive directors, management and assurance providers for their contributions to the Committee this year.



**Kari Ann Lagler**
Chairperson of the Audit and Risk Committee
*24 April 2020*

# OUR SOCIAL, ETHICS AND SUSTAINABILITY COMMITTEE

The Sea Harvest Group acknowledges that without our employees, the support of the local communities in which we operate, the relationships we enjoy with our shareholders and other key stakeholders, and the natural environment that provides us with the resources that we need to produce our products, we would have no business. Our employees, other key stakeholders and the natural environment, therefore, form the mainstays of our Group.

The Social, Ethics and Sustainability Committee (the Committee) is tasked to monitor Sea Harvest's performance as a responsible corporate citizen and to perform its statutory functions in terms of the Companies Act, No 71 of 2008, as amended, the King IV Report on Corporate Governance™ (King IV™), and the JSE's Listings Requirements, the Committee's Terms of Reference Charter (the charter), internal policies and any other applicable legislation.

## Our mandate

The Committee is mandated to ensure that the Group maintains its commitment to fair labour practices, social upliftment, employment equity and well-being, transformation and environmentally sustainable and ethical business practices. This is achieved by ensuring that any value created by the business serves to uplift and sustain both our internal and external stakeholders and the environment through bold ethical leadership and sound corporate governance practices. As a Board subcommittee, the Committee fulfils an independent role, while remaining accountable to the Board. In this report, we describe how we discharged our duties from 1 January 2019 until the financial year ended on 31 December 2019.

## Membership and composition of the Committee

Committee Chairperson



FJ ROBERTSON



BM RAPIYA

Committee invitee



F RATHEB

Committee invitee



M KHUMALO



MI KHAN



T MOODLEY

Committee invitee



T BROWN

Committee invitee



ML HARRY



CK ZAMA



M BREY

## The year under review

In 2019, following the acquisitive and diversification direction we pursued as a Group, our primary concern was the assimilation and alignment of our social, ethics and sustainability policies. It was vital to get the leadership to focus on one direction in pursuit of our vision – being a vertically integrated, transnational, majority black-owned and empowered, responsible JSE-listed fishing and food company.

## Our 2019 targets

- Increase our involvement in the communities in which we operate
- Align the different Group subsidiaries in terms of social, ethics and sustainability practices and policies
- Educate our employees and the community about conserving the environment in which we operate and work closely with all stakeholders to achieve this goal

## Our transformation mandate

Sea Harvest's commitment to the economic and social upliftment transformation of South Africa is material to our future endeavours. As one of the largest black-owned companies in the fishing sector, it is imperative that we drive local economic development in the communities in which we operate. As we change direction in pursuit of our true purpose, one of our primary drivers is to continually improve on our transformation principles and, more importantly, to play an active role in empowering marginalised and disadvantaged groups and individuals.

One of the key motivations for the recent acquisitions and incorporations was to diversify, not only in terms of business prospects but also in terms of the transformation of our human capital. The next step is to assess the existing employment equity policies to determine a baseline and to build and expand on the Group's transformation ambitions.

Through our Management Development Programme (MDP), which completed its first iteration in 2019, we identified high-performing, previously marginalised and disadvantaged individuals who would benefit from a development programme aimed at preparing them for management positions within the Group. The further expansion of our MDP will continue in 2020. In addition, we launched a mentorship programme for those employees who completed the MDP to continue building their skill set to ensure sustainable development for the individuals, so they are best equipped to navigate through their future career paths.

For further information about the implementation and results of our transformation policies, refer to the report on our human capital on **page 19** of this report.

## Our corporate social investment

The Group's corporate social investment (CSI) initiatives are guided by the needs of the communities in which we operate. Extensive engagement with communities took place in 2019 to assess and respond to the needs identified through the Sea Harvest Foundation (NPC).

Sea Harvest has always been involved in the Saldanha Bay community, mainly because it has been our first home and our largest site for over 55 years, with 30% of all households directly impacted by the Group. In 2019, we established and increased our foothold in the many other communities in which we now operate, in order to expand the focus of the Foundation to address the needs that exist within those communities.

At our aquaculture farms in Buffeljags and in Kleinzee, there was a strong appeal from the local communities in those areas for Sea Harvest to play a significant role in providing the support previously enjoyed from other corporates no longer able to continue the CSI programmes that were in place. As a result, Sea Harvest's involvement with the Kleinzee Centre for Learning and Development, which provides education, accommodation and care for children of all ages, has becomes one of the Foundation's flagship projects. Funding was allocated to the mainstream school, school for the disabled, the ECD centre, and girls' and boys' hostels. The funding was used to secure, *inter alia*, the services of a Resource teacher and refurbish certain elements of the home, like the ablution and shower facilities and the ECD centre's playground.

The community of Buffeljags is located on our farm's doorstep, however, the closest school is in Gansbaai, which means our employees' children have to commute several kilometres every day, which impacts on our employees' financial wellness. In order to align our support with their needs, we provided a transport solution.

In Cape Town, specifically in Philippi near one of our factory sites, we were able to provide much-needed equipment and cooking utensils for nearby ECD centres, including sleep mats and educational toys.

The CSI programmes in Saldanha included a sponsored holiday club during every school holiday; the provision of tertiary study assistance for our employees' children; support for local schools in the form of sporting and gym equipment; the provision of equipment, educational toys, stationery and infrastructure repairs; upgrades for 17 ECD centres; and organising and hosting the first annual Saldanha Bay Community Fun Day.

## Employee wellness, safety and security

Sea Harvest's Safety Management System, and our existing health and safety procedures and security systems, provide an invaluable platform for the future protection of the Group's employees and assets. However, post acquisitions and incorporations, we now operate on many sites with different safety and security standards. In 2019, our main task was to consolidate the safety and security practices of the Group. We also had to evaluate the different levels of maturity of the standards before a new consolidated strategy could be devised. We established a baseline for safety and security, reporting and employee communication, and going forward, we plan to implement the aligned standards and strategies. In terms of managing our human capital, we focused on aligning all existing HR policies under the Sea Harvest Group's HR policies. Where there were misalignments, for example, regarding retirement age, we were able to work together to find mutually beneficial resolutions.

# OUR SOCIAL, ETHICS AND SUSTAINABILITY COMMITTEE CONTINUED

## Group culture

Following the recent changes to the Group, we performed a high-level assessment of the corporate cultures of the Group's subsidiaries in 2019, but there is still a need to engage in a more extensive exercise to introduce and embed a cohesive Group culture. Developing and improving our Group culture based on Sea Harvest's mission, vision and values remains an exciting prospect and a key priority for the Committee. Cultivating our Group culture is one of our primary goals for 2020.

## Our supplier and enterprise development

As a responsible corporate citizen in a competitive industry that relies on a fragile natural capital, we are committed to adhering to local and international environmental management laws and requirements. Our business is centred on 70% wild-caught seafood, which means adhering to TAC laws, maintaining our MSC certification and ensuring that our natural resources keep growing, while limiting our impact on the environment.

At Sea Harvest we know that our business is only as strong as our employees and the communities in which we operate as well as our stakeholders. As such, we also accept that we have an important educational role to play if our communities and our stakeholders are to develop and prosper alongside the Group.

With our South African Fisheries Development Fund in association with our majority shareholder, Brimstone, we support SMMEs, co-operatives and small-scale fishers by providing marketing assistance, vessels and assets, management expertise, training and mentoring, and processing of fish to promote enterprise development. The primary objective of the Fund is to transform the fishing industry from the ground up by assisting smaller quota holders and small-scale fishers in catching their quotas, processing their catch, and accessing markets. During 2019 we also provided small-scale fishing communities with skills training, such as conflict management, to assist in creating a cohesive community partnership between all individuals involved, and assisted them in securing accidental death and disability cover. As we move forward we are excited by the endless opportunity available to the Fund to make a difference to those who need it most in the fishing sector.

## Sustainability and environmental management

Our primary focus in 2019 was to direct our efforts toward curbing waste pollution. As an organisation, we are actively involved in beach clean-up activities, and in 2019 in particular we worked closely with the EcoBrick Exchange programme (**www.ecobrickexchange.org**). The manufacture of EcoBricks has had a ripple effect on the Cape West Coast, extending to various communities and stakeholders. An EcoBrick is constructed from a 2 litre plastic bottle filled with single-use plastics collected from the beaches and surrounding areas and forms a structural component for furniture, raised garden beds and concrete benches.

The concept and skill sets related to the EcoBrick Exchange project were introduced in educational awareness programmes during local beach clean-ups that we actively promoted and participated in. The awareness programmes involved local schools, communities, NGOs, South African National Parks, local municipalities, and local ecotourism industries. Collectively, from the outreach programmes, more than 40 artisans have been trained in developing skills for the construction of wooden and concrete furniture and structures. Over 750 single-use plastic packets fill a single EcoBrick, which is diverted from landfill.

In 2019, we also focused on curbing the pollution of the waterways and canals leading into the ocean. One such initiative was in partnering with the social entrepreneur and founder of the Khayelitsha Canoe Club, Siyanda Sopangise, who was provided with a new canoe. The club is based at the Khayelitsha wetlands where Siyanda empowers local youth by providing canoe lessons while educating them about the importance of a pollution-free environment. The youngsters regularly clean the wetlands in exchange for canoe lessons.

Sea Harvest staff members, community members and our partners at EcoBrick Exchange conducted a clean-up at the wetlands while promoting an environmental educational programme at the canoe club. With the new sponsorship of a canoe from Sea Harvest, the club can now provide additional youth with canoe lessons. Illegal dumping, sewerage overflows, blockages, grey water and windblown solid waste are some of the factors that impede stormwater management at the canal outlets that lead into the ocean. In collaboration with the local municipality at Saldanha and the non-profit organisation, the Dyer Island Conservation Trust, we installed litter traps to prevent solid waste, like single-use plastics, from entering the ocean and endangering marine life. We adopted the technology from Australia and the first litter trap was installed in Hoedjiesbaai during Marine Conservation Week. It is projected that with the successful implementation of additional litter traps, more than 12 tonnes of plastic can be diverted from entering the ocean over a two-year period. We also supported the Friends of the Liesbeek with one of their clean-up operations.

**For more information about our natural capital and Sea Harvest's commitment to sustainability, refer to page 18 of this report.**

## Our 2019 highlights

In 2019, the Committee's focus was on becoming more involved in the communities where recently acquired businesses are located and this was achieved. We were able to work with community leaders from different backgrounds and NGOs, which gave us the opportunity to foster new relationships.

Another highlight on the Committee's calendar is World Food Day. On this day, in co-operation with the Department of Agriculture, Land Reform and Rural Development, we contributed to the food packages that are delivered to rural and impoverished communities across the country. We value the opportunity to contribute staple food items to these food packages. In the past four years, we've been able to increase the number of non-perishable food items donated, expanding our footprint across South Africa, especially in the communities we are not directly involved in.

The Group's change in direction towards diversification sparked another highlight for the Committee. In the past, our social, ethics and sustainability activities were primarily solo efforts. In 2019, we increased our involvement and changed our focus toward partnerships. Schools and government departments located in the areas in which we operate were directly involved in our ECD initiatives, as well as the support given to the Department of Social Development. On environmental matters we were supported by South African National Parks, local municipalities, and the surrounding communities' environmental management teams. Stakeholder involvement and support increase our impact, and in return we can rely on them indirectly affecting our mandate.

Another more tangible target, which we had set for ourselves and which we achieved, was to change the plastic strips we use to mark quayside bins and fish to food-grade, biodegradable material.

## Our challenges

Although our task to align the social, ethics and sustainability processes and guidelines throughout the Group is essential, we must guard against undermining the good work that has been done in the past and not amend existing policies without just cause. Our partnerships and support of local communities can be difficult due to socio-economic circumstances that sometimes impede our efforts to fulfil our mandate in all of the communities in which we operate.

## Our performance in relation to our targets

We are happy to report that we increased our community involvement and we now have a foothold in every community in which we operate. However, there is always more to be done. Going forward, we plan on cultivating even more long-term relationships with the relevant stakeholders, with particular emphasis on environmental management strategies.

In terms of policy alignment across the Group, we have a lot of work to do and we believe our phased approach will be successful. We are committed to implementing and maintaining strategies and achievable goals which contribute to achieving a better life for all. The Committee acknowledges that ongoing effort is required to educate our staff, and the surrounding communities in which we operate, about our collective environmental management responsibilities. We plan on increasing our internal communication as well as addressing these responsibilities in our communities.

## Our future outlook

In the short term, our main goal is to achieve stability within the Group after the recent acquisitions and incorporations. As the Group charts its way forward into the future seeking growth and fulfilling its ambitions of becoming a leading, transnational, diversified black-owned and managed fishing and food business, the Committee will continue the Group's steadfast commitments to fair labour practices, social upliftment, employment equity and well-being, transformation and environmentally sustainable and ethical business practices.



**Fred Robertson**
Chairperson of the Social, Ethics and Sustainability Committee
*24 April 2020*

# OUR NOMINATION AND REMUNERATION COMMITTEES

## This report comprises three parts:

### 1 THE NOMINATION AND REMUNERATION COMMITTEES' CHAIRPERSON'S REPORT

The Nomination and Remuneration Committees' (the Committee) Chairperson's report, which provides an overview of performance and remuneration in the 2019 financial year along with details of the governance arrangements in place with respect to nomination and remuneration. The Group has a single committee dealing with both nomination and remuneration matters and the Committee therefore prepares a single report combining both.

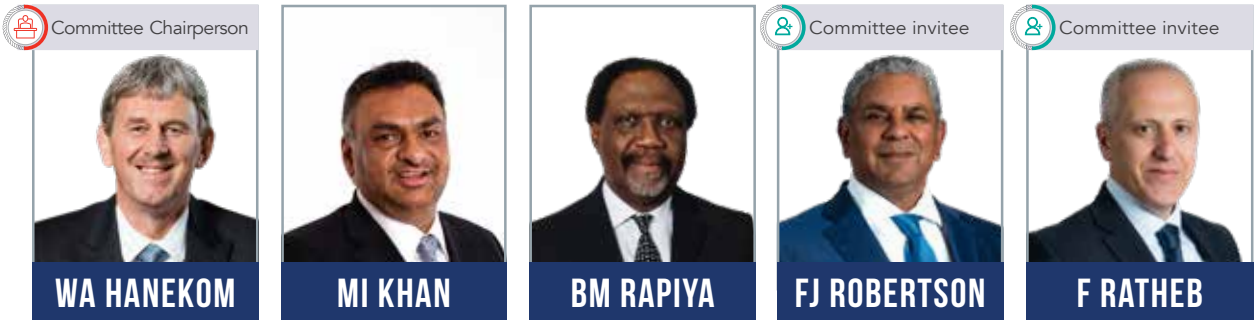
### 2 FORWARD-LOOKING REMUNERATION POLICY

The remuneration philosophy, policy and framework, which is to be tabled at the AGM for a non-binding advisory vote by the Group's shareholders.

### 3 IMPLEMENTATION REPORT

The implementation of the Remuneration Policy in the 2019 financial year, which is to be tabled at the AGM for a separate non-binding advisory vote by the Group's shareholders.

## Membership and composition of the Committee




## 1 THE NOMINATION AND REMUNERATION COMMITTEES' CHAIRPERSON'S REPORT

### Background

Sea Harvest, as a responsible corporate citizen, remains committed to ethical leadership and responsible corporate governance practices, thus creating sustainable growth in shareholder value through consistent improvement in earnings, clear growth and expansion of capital, and engaging with its shareholders and stakeholders.

This report describes the material matters dealt with by the Committee and summarises the Group's approach to fair, responsible and transparent remuneration. The report sets out how the Committee has discharged its duties in terms of statutory requirements, as well as additional duties assigned to it by the Board in respect of the financial year ended 31 December 2019. This report also provides an overview of the Group's approach to nomination matters and the remuneration philosophy, policy and framework, with a particular emphasis on executive directors, non-executive directors and management.

### Overview of performance and remuneration

As detailed in the CEO's report, 2019 was a watershed year for Sea Harvest, being the first full financial year incorporating the Group's:

- 2 July 2018 acquisition of 100% of the assets and liabilities of Viking Fishing and a 51% shareholding in Viking Aquaculture; and
- 2 January 2019 acquisition of 100% of Ladismith Cheese.

The Group also successfully completed the take-out and delisting of Mareterram in May 2019, and renamed the company Sea Harvest Australia.

The Group has delivered a pleasing set of results, with the Viking Fishing and Ladismith Cheese businesses delivering solid performances. However, the Viking Aquaculture business underperformed as a result of the market disruption events in Hong Kong and, while Sea Harvest Australia had some prawn volume recovery, the business is not yet at the required levels of profitability.

Sea Harvest's revenue increased 54% to R3.97 billion (2018: R2.58 billion), benefiting from the full-year effect of the acquisition of Viking Fishing and Viking Aquaculture on 2 July 2018 and the acquisition of Ladismith Cheese on 2 January 2019.

The Group delivered gross profit for the year of R1.27 billion, up 40% from R908 million in 2018, and the gross profit margin diluted from 35% to 32% as a result of the inclusion of the lower margin Ladismith Cheese business. The Sea Harvest Fishing gross profit margin expanded by one percentage point to 36%, benefiting from synergies relating to the Viking Fishing acquisition and improved efficiencies in the Saldanha Bay fresh fish processing factory in the second half of the year.

The Group delivered operating profit of R600 million for the year, 54% higher than last year (2018: R389 million) with the Group's operating profit margin steady at 15%. Sea Harvest Fishing's operating profit margin expanded by three percentage points to 20%.

Profit after tax increased 35% from R293 million to R396 million and HEPS increased 33% from R1.12 to R1.49 per share. The Group declared a total dividend of 50 cents per share payable on 14 April 2020, up 25% over the 2018 dividend of 40 cents per share.

In 2020, as a result of the significant organic and acquisitive growth of the Group, the Committee will continue the work commenced in 2019 in reviewing the Group's remuneration structures to ensure that it is fit for purpose and drives the behaviours required of employees.

Further details on specific activities of the Committee during the year are set out in this report.

There are no planned material changes to the Remuneration Policy for the 2020 financial year. Shareholders should note that the remuneration of certain executive directors and certain members of management was reviewed and adjusted during the second half of the 2019 financial year to take into account their increased responsibilities as a result of the expansion of the Group.

The Committee remains confident that the Group's remuneration philosophy and policy are aligned to its strategy and have contributed to the Group's growth. The Committee is also satisfied that the Remuneration Policy achieved its objectives in the 2019 financial year.

## Governance

The Committee was established to assist in monitoring the Group's nomination and remuneration practices and performance and to perform the statutory functions required of a nomination and remuneration committee in terms of the Companies Act, No 71 of 2008, as amended, the King IV Report on Corporate Governance™ (King IV™), the Listings Requirements of the JSE Limited, the Committee's terms of reference (the Charter), the Group's Remuneration Policy and any other applicable legislation.

The Committee is a subcommittee of the Group's Board of Directors (the Board) and has an independent role with accountability to the Board. The Committee operates in terms of a formally approved Charter that was approved by the Board on 12 January 2017 and is reviewed annually. The Charter is available at **www.seaharvest.co.za**.

## Composition of the Remuneration Committee

In line with best practice, the majority of the Committee members are independent non-executive directors of the Group. For the period under review the Committee consisted of:

- **Mr WA Hanekom** – Chairperson (Independent Non-executive Director)
- **Mr BM Rapiya** (Independent Non-executive Director)
- **Mr MI Khan** (Non-executive Director)

The Chairperson of the Board is an *ex officio* member of the Committee. To assist the Committee with the execution of its mandate, the CEO attended the meetings in the 2019 financial year.

Invitees attend Committee meetings, but are not present when their remuneration is discussed and hold no voting powers. Similarly, Committee members do not decide on their own remuneration.

The Committee holds two meetings a year (in line with its Charter) and draws matters within its mandate to the attention of the Board on a quarterly basis and as occasion requires. The attendance record of the Committee is set out in the corporate governance report on **page 75.**

## Composition of the Nomination Committee

The Nomination Committee deals with dedicated nomination matters and comprises three members as follows:

- **Mr WA Hanekom** – Chairperson (Independent Non-executive Director)
- **Mr BM Rapiya** (Independent Non-executive Director)
- **Mr MI Khan** (Non-executive Director)

## Independent external advice

The Committee actively sought independent external advice from PricewaterhouseCoopers (PwC) on remuneration trends and benchmarks for executive directors and management. Sea Harvest uses PwC's Remchannel survey to benchmark the salaries of employees. The Committee is satisfied that the advisers were independent and objective.

# OUR NOMINATION AND REMUNERATION COMMITTEES
CONTINUED

## Roles and responsibilities of the Committee

**The role of the Committee in respect of nomination matters is to have oversight of:**

- the process for nominating, electing and appointing members of the Board;
- the attributes of the members of the Board;
- the independence of the Board members;
- the succession planning in respect of Board members; and
- the Company's policy on diversity (including gender) for nominations and appointments of directors.

**The role of the Committee in respect of remuneration is to assist the Board to ensure that:**

- the employee value proposition promotes fair, responsible, transparent remuneration and reasonable employment practices;
- the review of executive performance is conducted;
- the Group remunerates executive and non-executive directors fairly and responsibly; and
- the disclosure of directors' remuneration is accurate, complete and transparent.

**The Board delegates the following responsibilities to the Committee:**

- Determine the Group's remuneration philosophy and policy to ensure alignment to the Group's strategy.
- Review and approve the composition of remuneration packages for executive directors and senior executives to ensure that the Group remunerates fairly and responsibly.
- Recommend the remuneration of non-executive directors.
- Determine the performance criteria and targets for both short- and long-term incentives.
- Approve the allocation and award of FSP shares in terms of the Group's long-term incentive plan rules.
- Consider the composition and performance of the Board as well as succession planning.
- Consider the succession planning for executive directors and key senior executives.

**In satisfying its mandate during the year under review, the Committee:**

- considered nomination matters;
- reviewed the composition of the Board and Board committees;
- considered the diversity of the Board;
- reviewed the performance of the Committee;
- considered succession planning for the Board, the CEO and the Executive Committee;
- considered the executive depth in the Group;
- reviewed the independent directors' (including the Chairperson's) outside professional commitments;
- reviewed the independence of directors;
- deliberated on the Board's diversity policy and targets;
- approved the short-term incentive payments for the 2018 and 2019 financial years;
- reviewed and approved the performance metrics and rules of the short-term incentives for the 2019 and 2020 financial years;
- reviewed the performance of the CEO for the 2018 and 2019 financial years;
- set the financial targets and functional targets for the CEO for the 2019 and 2020 financial years;
- considered and approved the allocation and award of shares in terms of the Group's FSP to eligible participants;
- benchmarked packages of executive directors and senior executives for recommendation;
- benchmarked non-executive directors' remuneration;
- considered and approved the increases in guaranteed pay for executives and employees in management positions for the 2019 and 2020 financial years;
- considered and recommended the increases in fees for non-executive directors for the 2019 and 2020 financial years;
- considered for approval by the Board the mandate for 2019 and 2020 plant level and bargaining council wage negotiations;
- considered the Committee's Charter and the Remuneration Policy;
- implemented the Committee's Charter and ensured its alignment to King IV™; and
- set the annual work plan for the Committee.

During the 2020 financial year, the main focus of the Committee is expected to be on ensuring that the Remuneration Policy is effective and driving the required behaviours of management and employees. This will be particularly important as a result of the organic and acquisitive growth experienced by the Group over the last two years and the alignment and integration of these businesses within the Group. For more information on our compliance with the King IV™ in terms of diversification and succession planning, refer to our King IV™ Application Register on our website: **www.seaharvest.co.za/investors/governance/**

The Committee will also provide input when requested with regard to the integration of the Group's acquisition targets.

## Non-binding advisory votes

At the AGM held on 27 May 2019, the 2018 Remuneration Policy and the implementation report both received support of 86% of shareholders voting in favour thereof.

In line with the requirements of King IV™ and the JSE Listings Requirements, the 2019 Remuneration Policy together with the implementation report will be tabled for two separate non-binding advisory votes at the upcoming AGM.

In the event of 25% or more of the shareholders voting against either resolution at the AGM, the Committee will:

- extend an invitation to dissenting shareholders in the Stock Exchange News Service (SENS) announcement with the results of the AGM for them to engage with the Committee regarding their reasons for voting against the relevant resolution; and
- propose in the invitation the manner and timing of engagement, which may include but is not limited to communication via email, telephone calls, meetings and roadshows.

The Committee will ascertain the reasons for dissenting votes, respond and provide constructive feedback to shareholders' questions, queries and legitimate concerns. After consideration of the results of shareholder engagement, the Committee reserves the right to amend elements of the Remuneration Policy to further align it to market practice and shareholder value creation.

The Committee is pleased to present the Remuneration Policy of the Group on **pages 89 to 93** and the implementation report on **pages 94 to 97** for separate non-binding advisory votes

## 2 FORWARD-LOOKING REMUNERATION POLICY

### Background

**This section of the report deals specifically with the remuneration of non-executive directors, executive directors, management and other grades of employees. It sets out the remuneration philosophy and policy and the reward framework in place for the financial year ended 31 December 2019 and the financial year ending 31 December 2020.**

## Policy and philosophy

The Group's remuneration philosophy is that employees are remunerated appropriately for their contribution to the delivery of the Group's strategy. The Remuneration Policy framework is based on the principles of fair and responsible remuneration and is formulated to attract, retain, motivate and reward high-calibre employees. The Group aims to encourage high levels of performance that are sustainable and aligned with the strategic direction and specific value drivers of the business. The way the Group remunerates employees reflects the dynamics of the market, as well as the social, economic and environmental context in which the Group operates.

The Committee aims to reward superior performance and the achievement of the Group's strategy and ensures that there are consequences for underperformance. Managers play a vital role in ensuring that the performance management process provides the right information required to inform remuneration decisions made by the Committee.

Sea Harvest's operations include a number of employees who either form part of a bargaining unit or are independent contractors engaged on fixed-term contracts (within the bounds of South African labour legislation). The employment and remuneration arrangements of these employees are governed by separate agreements and are negotiated on an operational level (subject to oversight by the Committee); therefore, they are not covered by the Remuneration Policy framework.

## Fair and responsible remuneration

The principle of fair and responsible remuneration is at the core of the Group's remuneration philosophy. The Group is dedicated to improving employment conditions for all employees across the Group and may undertake and implement various initiatives, from time to time, to realise progressively the concept of fair and responsible remuneration.

Some of the principles driving this commitment include:

- ensuring compliance with legislative requirements in terms of remuneration and benefits; and
- on an annual basis, external benchmarking may be conducted on remuneration packages across the various grades and job functions, which is a determining factor for setting remuneration across the Group.

# OUR NOMINATION AND REMUNERATION COMMITTEES
CONTINUED

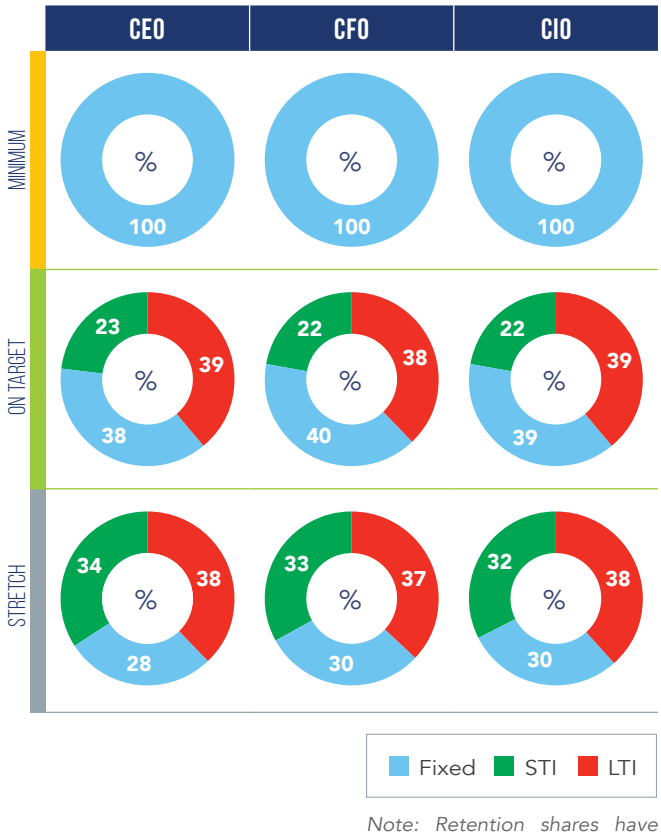
## Remuneration mix

Remuneration comprises guaranteed pay (GP) and variable pay. Variable pay consists of short-term incentives (STI) and long-term incentives (LTI). The remuneration mix reflects the relative proportions of each component in the package, which is linked to a job type and the nature of expected outcomes. The target remuneration mix varies at each grade. As a guideline, more senior employees should have a higher proportion of variable pay in their remuneration mix as they have the ability to influence the financial performance and strategic outcomes of the Group. The Committee has designed the remuneration mix for executive directors in a way that avoids overdependence on the variable pay components, which in turn discourages any excessive risk-taking behaviour. At lower levels, the remuneration mix is weighted in favour of GP.

In order to drive a high-performance culture and an alignment with shareholders through shared value creation, the total reward mix for the CEO and executive directors is geared towards a higher percentage of variable pay at risk for the achievement of stretch targets. Implicit in the Remuneration Policy is that over time executives should build up a combination of restricted and unencumbered shares, ensuring significant alignment between executives and shareholders.

The graphs alongside illustrate the potential remuneration mix for each executive director at minimum, on-target and stretch performance levels. The methodology used is in line with that recommended by King IV™.

## Aggregate executive director pay mix




*Note: Retention shares have not been included in the pay mix graphs as they do not form part of the ongoing packages for executive directors.*

| ELEMENT | MINIMUM | ON-TARGET | STRETCH |
|---|---|---|---|
| **GP** | Salary and benefits in line with those paid in the 2019 financial year | | |
| **STI** | Nil | 50% of stretch | 110% – 120% of GP |
| **LTI** | Nil | The maximum number of performance shares and bonus shares granted in 2019 multiplied by the fair value on grant | The maximum number of performance shares and bonus shares granted in 2019 multiplied by the share price on grant |

# Components of remuneration

| | GUARANTEED PAY | | VARIABLE PAY | |
|---|---|---|---|---|
| | BASIC SALARY | BENEFITS | SHORT-TERM INCENTIVE (STI) | LONG-TERM INCENTIVE (LTI) |
| PURPOSE AND LINK TO STRATEGY | Attract and retain talent | Improve employees' financial planning and security on retirement | Encourages a high-performance culture to promote the achievement of specific objectives. Motivates executive directors and key senior managers to achieve short-term strategic, financial and non-financial objectives in the one-year business plan. | Attracts, retains, incentivises and rewards key management by linking performance to shareholder expectations.<br>This promotes the achievement of long-term objectives with the desired outcome of an appreciating share price and the payment of a regular dividend, thereby providing key employees with the opportunity to share in the success of the Group. |
| ELIGIBILITY | All staff employed by Sea Harvest | All permanent staff; benefit is dependent on grade | Permanent staff from senior management upwards | Executive directors and executives |
| REMUNERATION METHODOLOGY | Reviewed annually against market benchmarks | **Market-related benefits:**<br>➢ Pension/ Provident Fund<br>➢ Motor vehicle allowances<br>➢ Medical aid | Performance bonuses are dependent on financial performance (financial target) and achievement of agreed strategic and individual KPIs (functional target); the functional target cannot be earned if a minimum financial hurdle is not met.<br>Executives have a higher weighting on financial targets (80%) with 20% based on functional targets.<br>Lower-level executives have a greater weighting to strategic and individual performance.<br>The levels of remuneration that can be earned by the CEO, CFO and CIO are as follows:<br>➢ On-target: 55% to 60% of GP<br>➢ Stretch target: 110% to 120% of GP<br>Based on a sliding scale for performance in between.<br>The STI is self-funding in that the threshold for the financial target of EBIT is calculated after taking into account the cost of the STI. | **Retention shares**<br>*Ad hoc* award of retention shares acts as a means to retain certain executives and key senior management.<br>Retention shares vest annually in equal portions over a three-year period (this period is five years for the CEO and CIO), subject only to continued employment.<br>**Performance shares and bonus shares**<br>Allocations are on an annual basis subject to the Committee's discretion:<br>➢ CEO – Performance shares 67% of GP and bonus shares 33% of previous year STI<br>➢ CFO and CIO – Performance shares 61% of GP and bonus shares 33% of previous year STI<br>➢ Senior management – Performance shares 22% to 61% of GP and bonus shares 28% to 83% of previous year STI<br>**Employee Share Trust**<br>Broad-based equity scheme for the benefit of all employees who are permanently employed for an unbroken period of 24 months and do not participate in any other equity incentive scheme. |
| PERFORMANCE CONDITIONS | Performance, i.e. meeting requirements of the job | n/a | A single financial target (i.e. EBIT) is used for lower-level executives, while dual financial targets (i.e. EBIT and HEPS) are used for executive directors.<br>Functional targets for the executive directors include:<br>➢ delivery of organic growth projects and improving operational efficiencies;<br>➢ delivery of strategic acquisitions;<br>➢ integration of new acquisitions;<br>➢ B-BBEE credentials and transformation;<br>➢ retention of fishing rights; and<br>➢ building organisational capability. | Refer to the following table for performance conditions and characteristics of each share element. |

# OUR NOMINATION AND REMUNERATION COMMITTEES
CONTINUED

## LTI allocation methodology

Long-term Incentive Eligibility Plan elements and performance conditions

### 1. RETENTION SHARES

**EXECUTIVE DIRECTORS AND KEY SENIOR MANAGEMENT**

- Awarded at listing and on an *ad hoc* basis, the retention share element of the FSP acts as a means to retain certain executive directors and key senior management.
- Retention shares vest equally over a three-year period (this period is five years for the CEO and CIO), subject only to continued employment.

### 2. PERFORMANCE SHARES (CONDITIONAL)

**EXECUTIVE DIRECTORS AND KEY SENIOR MANAGEMENT**

- The performance share element of the FSP rewards future Company and share performance.
- Performance shares are conditionally awarded to those individuals who can influence long-term strategic performance.
- Performance shares vest on the third anniversary of their award, the number vesting being tied to continued employment and the extent to which the Company has met preset performance criteria over the three-year period.

**Currently, vesting (for the 2017 and 2018 allocation of performance shares) is:**

- Governed by continued employment.

- Weighted 33% – the first performance criterion is the Group's comparative TSR performance in relation to a comparator group.
  - If the TSR over the three-year period places at the median of the comparator group or better, then the targeted number (30% of the maximum number) of performance shares awarded will vest.
  - If the TSR over the three-year period places at the upper quartile of the comparator group or better, then the maximum number (100% of the maximum number) of performance shares awarded will vest.
  - If the TSR over the three-year period places below the median group or worse, then all performance shares awarded relating to that TSR tranche will be forfeited.
  - TSR performance between any of the above points results in pro-rated vesting. No retesting will be allowed, and any shares not vesting will lapse.

- Weighted 33% – the second performance criterion is the Group's average HEPS growth weighted for the main territories in which the Group operates:
  - If the average HEPS compound annual growth rate (CAGR) over the three-year period places it at the average CAGR in CPI plus GDP, or better, then the targeted number (30% of the maximum number) of performance shares awarded will vest.
  - If the average HEPS CAGR over the three-year period places it at the average CAGR in CPI plus GDP plus 3%, or better, then the maximum number (100% of the maximum number) of performance shares awarded will vest.
  - If the average HEPS CAGR over the three-year period places it at the average CAGR in CPI plus GDP, or below, then all performance shares awarded relating to that HEPS tranche will be forfeited.
  - HEPS performance between any of the above points results in pro-rated vesting. No retesting will be allowed, and any shares not vesting will lapse.

- Weighted 33% – the third performance criterion is the Group's transformation credentials:
  - If the Group achieves a Level 3 B-BBEE rating on the current scorecard, then the targeted number (50% of the maximum number) of performance shares awarded will vest.
  - If the Group achieves a Level 2 B-BBEE rating on the current scorecard, or better, then the targeted number (100% of the maximum number) of performance shares awarded will vest.
  - The transformation condition will have a binary profile.
  - No retesting will be allowed, and any shares not vesting will lapse.

**Changes relating to the 2019 and 2020 allocation of performance shares are:**

- Based on the feedback from select shareholders who indicated the preference for a balance sheet performance criterion, the Remuneration Committee has amended the performance criteria relating to the 2019 and 2020 allocations (and subsequent years) of performance shares by replacing the TSR criterion with a return on capital employed (ROCE) criterion. Weighted 33%, the ROCE performance criterion measures the Group's average ROCE in relation to its WACC.
  - If the average ROCE over the three-year period places it at the average WACC over the three-year period, or better, then the targeted number (30% of the maximum number) of performance shares awarded will vest.
  - If the average ROCE over the three-year period places it at the average WACC over the three-year period plus 3%, or better, then the maximum number (100% of the maximum number) of performance shares awarded will vest.
  - If the average ROCE over the three-year period places it at the average WACC over the three-year period, or below, then all performance shares awarded relating to that HEPS tranche will be forfeited.
  - Average ROCE performance between any of the above points results in pro-rated vesting. No retesting will be allowed, and any shares not vesting will lapse.

**2.1 BONUS SHARES**

**EXECUTIVE DIRECTORS AND KEY SENIOR MANAGEMENT**

- The bonus share element of the FSP provides share-based rewards for individual performance.
- Bonus shares are granted on an annual basis, the number of which is calculated with reference to the prior year's STI, thus ensuring a strong link to individual performance on an annual basis.
- Bonus shares vest at the end of the three-year period, subject to continued employment.

**3. STAFF TRUST**

**ALL EMPLOYEES OF THE GROUP WHO DO NOT QUALIFY FOR THE LTI SCHEME AND ARE PERMANENTLY EMPLOYED FOR AN UNINTERRUPTED PERIOD OF 24 MONTHS**

- Qualifying employees must be in "good standing" at all times.
- Employees who leave the employ of the Group due to retirement, death, permanent physical impairment or mental incapacity will receive 100% of the distribution when the Trust terminates.
- Employees who resign will lose all entitlements in the Trust.
- The Trust terminates in March 2022.

## Share dilution limits

In terms of the FSP, the maximum number of shares to be issued under the FSP may not exceed 12 959 048 shares (4.40% of total shares in issue) and the maximum number of shares to be issued under the FSP to any one individual may not exceed 3 887 714 shares (1.32% of total shares in issue).

## Executive director service contracts

Sea Harvest concludes permanent employment contracts with its executive directors (including the CEO), which can be terminated with notice periods of between one and three months. In the event of termination of employment, the Committee may elect to pay a departing executive director a cash lump sum *in lieu* of the notice period. The executive directors are not subject to any restraint of trade agreements. The retirement age for an executive director is 63 years.

In the event that an executive director's service contract is terminated due to operational reasons, the Group's obligation to make a severance payment will be governed by the provisions of the Labour Relations Act.

In the event of an executive director ceasing employment as a "bad leaver", all STI and unvested LTI awards will be forfeited. In other circumstances, STI and LTI awards will be treated in accordance with the relevant plan rules.

Executive directors may not serve as non-executive directors in other companies without the express approval of the Board.

## Non-executive directors' fees

Non-executive directors' fees are paid on an annual retainer basis to account for the responsibilities borne by them throughout the year. They are not paid an attendance fee per meeting. The fee structure is evaluated on a regular basis based on non-executive director fee surveys and the results of benchmarking exercises conducted by PwC.

Fees are reviewed annually, and proposed adjustments are tabled by the CEO for review by the Committee, which will consider the proposed adjustments, taking into account remuneration increases across the Group. Non-executive directors do not qualify for share options nor do they participate in any variable pay incentive schemes, in order to preserve their independence. Where a non-executive director is appointed by a shareholder, the fee may be paid to the shareholder and not directly to the non-executive director.

**The table below sets out the present and proposed non-executive director fees. The proposed fees will be tabled before shareholders for approval by special resolution at the AGM on Tuesday, 26 May 2020:**

| ROLE | 1 JULY 2020 TO 30 JUNE 2021 (EXCLUDING VAT) R | 1 JULY 2019 TO 30 JUNE 2020 (EXCLUDING VAT) R | CHANGE % |
|---|---|---|---|
| Board Chairperson | 636 045 | 636 045 | 0% |
| Board Lead Independent Director | 300 557 | 284 888 | 5.5% |
| Board member | 240 445 | 227 910 | 5.5% |
| Audit and Risk Committee Chairperson | 156 290 | 148 142 | 5.5% |
| Audit and Risk Committee member | 83 145 | 78 810 | 5.5% |
| Nomination and Remuneration Committees' Chairperson | 120 223 | 113 955 | 5.5% |
| Nomination and Remuneration Committees' member | 60 112 | 56 978 | 5.5% |
| Social, Ethics and Sustainability Committee Chairperson | 120 223 | 113 955 | 5.5% |
| Social, Ethics and Sustainability Committee member | 60 112 | 56 978 | 5.5% |
| Investment and Hedging Committee Chairperson | 120 223 | 113 955 | 5.5% |

# OUR NOMINATION AND REMUNERATION COMMITTEES
CONTINUED

## 3 IMPLEMENTATION REPORT

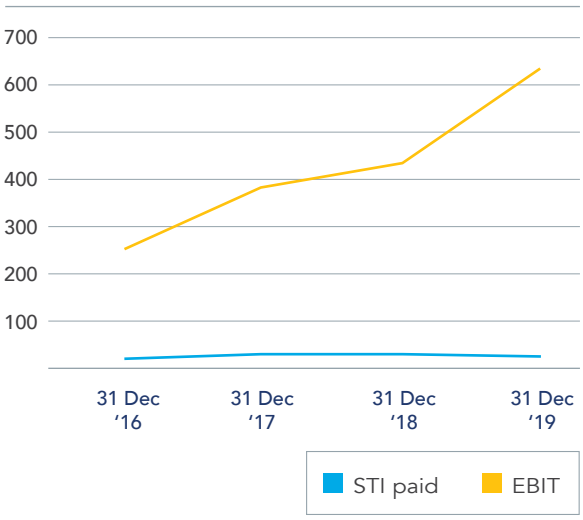
The Committee has monitored the implementation of the Remuneration Policy during the financial year and is of the view that the Group's compliance with the policy has been satisfactory. This implementation report discloses the detailed information and figures pertaining to the application of the Remuneration Policy in relation to the relevant executive and non-executive directors. The Committee is satisfied that variable pay outcomes for the 2019 financial year are aligned with the Group's financial performance for the 2019 financial year (as contextualised in the CEO's report).

The graph alongside compares the Group's STI paid to its EBIT, with EBIT growth well ahead of growth in STI. The Committee is satisfied that remuneration is linked to long-term performance and value creation.

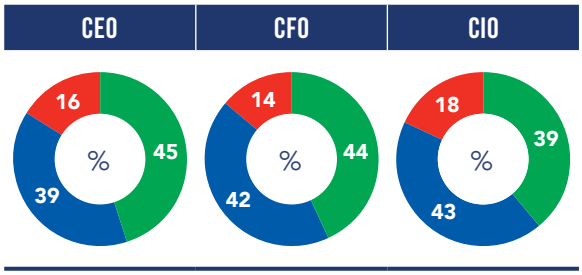
From an LTI perspective, the second tranche of retention shares vested in March 2019 (retention shares vest equally over a three/five-year period), whereas none of the performance shares or bonus shares qualified for vesting during 2019. The first tranche of performance shares and bonus shares are scheduled to vest in March 2020.

The following graph has been prepared on the same basis as the chart in part 2 that refers to pay mix which represents GP, STI and LTI, and shows the actual mix achieved for the year ended 31 December 2019.

STI paid vs EBIT




## Actual pay mix




*Note: Actual pay mix comprises a much higher level of GP and STI, as the first tranche of performance shares and bonus shares are only scheduled to vest in March 2020. The LTI graph reflects the vesting of the second tranche of retention shares in March 2019.*

GP STI LTI



# Guaranteed pay

In line with the principle of fair and responsible remuneration, the Group monitors the internal wage gap and disparities in remuneration in the Group. The average increase in executive director remuneration is determined after consideration of the average increase in remuneration for management and general staff.

| SEA HARVEST CORPORATION | 2019 NUMBER OF EMPLOYEES | 2019 ANNUAL INCREASE IN GUARANTEED PAY % |
|---|---|---|
| Group CEO, executive team and senior management | 53 | 5.9 |
| Junior management | 96 | 5.2 |
| Salaried staff | 125 | 5.3 |
| Factory waged staff | 1 061 | 8.0 |
| Fleet waged staff | 591 | 7.5 |

During the fourth quarter of the year, the Group undertook benchmarking studies for the compensation of executive directors and management and implemented the recommendations therefrom.

# Short-term incentive

As set out in the Remuneration Policy, the STI for executive directors and senior management is based on a combination of financial targets and functional targets.

For the 2019 financial year dual financial targets, being EBIT and HEPS, were used for executive directors, while for senior management EBIT was used.

The functional targets for the executive directors for 2019 encompassed transformation, retention of fishing rights, efficiency initiatives, organic and acquisitive growth and building organisational capacity.

In line with the Group's performance in the 2019 financial year, only 36% of the total possible 2019 STI was achieved.

# Long-term incentive

The FSP was put in place when the Group listed on 23 March 2017.

At listing, the Group issued retention shares and, on an annual basis, the Group issues performance and bonus shares to executive directors, executives and key senior management. The number of FSPs issued to the executive directors is set out in the table below. The first two tranches of retention shares vested in March 2018 and March 2019 respectively (retention shares vest equally over a three/five-year period), whereas none of the performance shares or bonus shares qualified for vesting during 2019. The first tranche of performance shares and bonus shares are scheduled to vest in March 2020.

In addition, in line with the recommendation of King IV™ included is an indicative value of the unvested instruments as at 31 December 2019. For the bonus shares and retention shares, the indicative value is calculated as the number of instruments multiplied by the share price of R14.55 at year end. For the performance shares a valuation was performed, based on assumptions as at 31 December 2019.

# OUR NOMINATION AND REMUNERATION COMMITTEES
CONTINUED

| DATE OF AWARD | TYPE OF INSTRUMENT | NUMBER OF INSTRUMENTS AWARDED | SHARE PRICE ON DATE OF GRANT R | VESTING DATE | NUMBER OF INSTRUMENTS VESTED | NUMBER OF INSTRUMENTS LAPSED | CLOSING NUMBER OF UNVESTED INSTRUMENTS | INDICATIVE VALUE OF UNVESTED INSTRUMENTS R |
|---|---|---|---|---|---|---|---|---|
| | | A | B | | C | D | E=A-C-D | F |
| **Felix Ratheb** | | | | | | | | |
| Thursday, 23 March 2017 | Performance shares | 219 385 | 12.50 | Sunday, 22 March 2020 | – | – | 219 385 | 2 081 964 |
| Friday, 7 September 2018 | Performance shares | 333 274 | 13.00 | Monday, 22 March 2021 | – | – | 333 274 | 3 316 076 |
| Saturday, 23 March 2019 | Performance shares | 325 575 | 14.00 | Tuesday, 22 March 2022 | – | – | 325 575 | 2 891 106 |
| Thursday, 23 March 2017 | Bonus shares | 119 998 | 12.50 | Sunday, 22 March 2020 | – | – | 119 998 | 1 745 971 |
| Friday, 7 September 2018 | Bonus shares | 199 964 | 13.00 | Monday, 22 March 2021 | – | – | 199 964 | 2 909 476 |
| Saturday, 23 March 2019 | Bonus shares | 172 881 | 14.00 | Tuesday, 22 March 2022 | – | – | 172 881 | 2 515 419 |
| Thursday, 23 March 2017 | Retention shares* | 789 786 | 12.50 | Tuesday, 22 March 2022 | 315 914 | – | 473 872 | 6 894 838 |
| **John Paul de Freitas** | | | | | | | | |
| Thursday, 23 March 2017 | Performance shares | 113 120 | 12.50 | Sunday, 22 March 2020 | – | – | 113 120 | 1 073 509 |
| Friday, 7 September 2018 | Performance shares | 157 342 | 13.00 | Monday, 22 March 2021 | – | – | 157 342 | 1 565 553 |
| Saturday, 23 March 2019 | Performance shares | 155 361 | 14.00 | Tuesday, 22 March 2022 | – | – | 155 361 | 1 379 606 |
| Thursday, 23 March 2017 | Bonus shares | 61 874 | 12.50 | Sunday, 22 March 2020 | – | – | 61 874 | 900 267 |
| Friday, 7 September 2018 | Bonus shares | 91 573 | 13.00 | Monday, 22 March 2021 | – | – | 91 573 | 1 332 387 |
| Saturday, 23 March 2019 | Bonus shares | 82 031 | 14.00 | Tuesday, 22 March 2022 | – | – | 82 031 | 1 193 551 |
| Thursday, 23 March 2017 | Retention shares | 203 616 | 12.50 | Sunday, 22 March 2020 | 135 744 | – | 67 872 | 987 538 |
| **Muhammed Brey** | | | | | | | | |
| Thursday, 23 March 2017 | Performance shares | 124 178 | 12.50 | Sunday, 22 March 2020 | – | – | 124 178 | 1 178 449 |
| Friday, 7 September 2018 | Performance shares | 179 688 | 13.00 | Monday, 22 March 2021 | – | – | 179 688 | 1 787 896 |
| Saturday, 23 March 2019 | Performance shares | 172 747 | 14.00 | Tuesday, 22 March 2022 | – | – | 172 747 | 1 533 993 |
| Thursday, 23 March 2017 | Bonus shares | 66 097 | 12.50 | Sunday, 22 March 2020 | – | – | 66 097 | 961 711 |
| Friday, 7 September 2018 | Bonus shares | 105 656 | 13.00 | Monday, 22 March 2021 | – | – | 105 656 | 1 537 295 |
| Saturday, 23 March 2019 | Bonus shares | 90 692 | 14.00 | Tuesday, 22 March 2022 | – | – | 90 692 | 1 319 569 |
| Thursday, 23 March 2017 | Retention shares* | 447 040 | 12.50 | Tuesday, 22 March 2022 | 178 816 | – | 268 224 | 3 902 659 |

** Five-year vesting from 22 March 2018 to 2022*

# Executive remuneration

**for year ended 31 December 2019**

Remuneration of executive directors and prescribed officers is set out in full in **note 34** of the AFS.

# Diversity targets

The Committee set the following diversity targets during the 2017 financial year and reviewed these targets during the 2019 financial year.

## Transformation – ACI targets

The Committee agreed that 70% of the Board composition should be made up of ACI designated groups within a period of three years. With the appointment of CK Zama and T Moodley to the Board during 2018, the Board made good progress and achieved a score of 60% at the end of the 2019 financial year.

## Gender – female targets

The Committee agreed that 30% of the Board composition should be female within a period of three years. With the appointment of CK Zama, KA Lagler and T Moodley to the Board, the Board achieved its target of 30%.

# Approval

This report was approved by the Nomination and Remuneration Committees of Sea Harvest Group Limited.

**André Hanekom**
Chairperson of the Nomination and Remuneration Committees
*24 April 2020*





# 5° OUR AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS



- Audited summarised consolidated statement of profit or loss
- Audited summarised consolidated statement of comprehensive income
- Audited summarised consolidated statement of financial position
- Audited summarised consolidated statement of changes in equity
- Audited summarised consolidated statement of cash flows
- Notes to the summarised consolidated financial statements
- Independent auditor's report on summarised financial statements

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- Analysis of ordinary shareholders
- Glossary
- Corporate information

# AUDITED SUMMARISED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2019

| | NOTES | AUDITED YEAR ENDED 31 DECEMBER 2019 R'000 | AUDITED YEAR ENDED 31 DECEMBER 2018 R'000 |
|---|---|---|---|
| Revenue | 4 | **3 966 452** | 2 583 341 |
| Cost of sales | | **(2 695 637)** | (1 675 097) |
| **Gross profit** | | **1 270 815** | 908 244 |
| Other operating income | | **73 544** | 72 240 |
| Selling and distribution expenses | | **(158 484)** | (123 897) |
| Marketing expenses | | **(13 214)** | (13 248) |
| Other operating expenses | | **(573 081)** | (454 720) |
| **Operating profit before fair value gains and associate income** | | **599 580** | 388 619 |
| Share of (loss)/profit in associate | | **(112)** | 647 |
| Gain on bargain purchase | 3 | **891** | – |
| Fair value gains | | **34 339** | 48 743 |
| **Operating profit before net finance cost and taxation** | | **634 698** | 438 009 |
| Investment income | | **21 413** | 46 125 |
| Interest expense | | **(121 919)** | (90 130) |
| **Profit before taxation** | | **534 192** | 394 004 |
| Taxation | | **(138 679)** | (100 871) |
| **Profit after taxation** | | **395 513** | 293 133 |
| *Profit after taxation attributable to:* | | | |
| Shareholders of Sea Harvest Group Limited | | **412 478** | 281 209 |
| Non-controlling interests | | **(16 965)** | 11 924 |
| | | **395 513** | 293 133 |
| **Earnings per share (cents)** | | | |
| - Basic | | **149.3** | 112.8 |
| - Diluted | | **143.3** | 108.6 |

# AUDITED SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

| | AUDITED YEAR ENDED 31 DECEMBER 2019 R'000 | AUDITED YEAR ENDED 31 DECEMBER 2018 R'000 |
|---|---|---|
| **Profit after taxation** | **395 513** | 293 133 |
| **Other comprehensive income** | | |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| Movement on cash flow hedging reserve | **137 641** | (23 956) |
| Cost of hedging reserve | **(59 199)** | (27 194) |
| Reserves recycled to other operating income | **19 608** | 20 614 |
| Exchange differences on foreign operations | **(14 045)** | 22 275 |
| *Items that may not be reclassified subsequently to profit or loss:* | | |
| Net measurement gain on defined benefit plan | **3 645** | 2 149 |
| **Other comprehensive income/(loss), net of tax** | **87 650** | (6 112) |
| **Total comprehensive income for the year** | **483 163** | 287 021 |
| *Total comprehensive income attributable to:* | | |
| Shareholders of Sea Harvest Group Limited | **498 319** | 271 525 |
| Non-controlling interests | **(15 156)** | 15 496 |
| | **483 163** | 287 021 |

# AUDITED SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

| | NOTES | AUDITED YEAR ENDED 31 DECEMBER 2019 R'000 | AUDITED YEAR ENDED 31 DECEMBER 2018 R'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Property, plant, equipment and vehicles[1] | | **1 881 734** | 1 604 800 |
| Right-of-use assets | 2 | **136 695** | – |
| Biological assets | | **61 448** | 107 646 |
| Intangible assets[2] | | **639 795** | 616 163 |
| Goodwill[3] | | **849 615** | 621 549 |
| Investment in associate | | **5 204** | 5 316 |
| Investment at fair value through other comprehensive income | 7 | **25 264** | 25 264 |
| Financial assets | 7 | **23 218** | 25 912 |
| Loans to related parties | 9 | **81 799** | 72 489 |
| Loans to supplier partners | | **78 464** | 72 182 |
| Long-term loan receivable | | **3 606** | – |
| Deferred tax assets | | **611** | 333 |
| **Non-current assets** | | **3 787 453** | 3 151 654 |
| Inventories[4] | | **582 162** | 396 471 |
| Biological assets | | **77 891** | – |
| Trade and other receivables[4] | | **696 020** | 507 500 |
| Short-term loan receivable | | **1 609** | – |
| Financial assets | 7 | **124 947** | 994 |
| Tax assets | | **8 289** | 9 986 |
| Cash and bank balances | | **237 882** | 781 679 |
| **Current assets** | | **1 728 800** | 1 696 630 |
| **Total assets** | | **5 516 253** | 4 848 284 |

*[1] Movement in property, plant, equipment and vehicles during the year includes:*
*– acquisition through business combination of R189 million. Refer to **note 3.1**;*
*– vessel refits of R89 million; and*
*– capital work in progress relating to the powder plant in Ladismith Cheese of R29 million.*
*[2] Intangible assets includes R46 million relating to a current year business combination. Refer to **note 3.1.***
*[3] Goodwill includes R231 million relating to a current year business combination, reduced by R3 million as a result of translation of the foreign operation. Refer to **note 3.1.***
*[4] Inventories and trade and other receivables increased as a result of a current year business combination. Refer to **note 3.1.***

| | NOTES | AUDITED YEAR ENDED 31 DECEMBER 2019 R'000 | AUDITED YEAR ENDED 31 DECEMBER 2018 R'000 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| Stated capital[5] | | **1 810 506** | 1 538 762 |
| Other reserves | | **(36 953)** | (102 008) |
| Retained earnings | | **663 721** | 377 911 |
| Attributable to shareholders of Sea Harvest Group Limited | | **2 437 274** | 1 814 665 |
| Non-controlling interests[6] | | **76 500** | 254 662 |
| **Capital and reserves** | | **2 513 774** | 2 069 327 |
| Long-term borrowings | | **1 268 291** | 1 517 683 |
| Employee-related liabilities | | **22 510** | 25 229 |
| Share-based payment liability | | **27 509** | 27 626 |
| Deferred grant income | | **32 236** | 20 026 |
| Contingent consideration | 8 | **90 862** | 121 910 |
| Financial liabilities | 7 | **20 522** | 41 806 |
| Lease liabilities | | **146 230** | – |
| Deferred taxation | | **478 545** | 374 551 |
| **Non-current liabilities** | | **2 086 705** | 2 128 831 |
| Short-term borrowings | | **285 685** | 174 955 |
| Trade and other payables[7] | | **546 052** | 410 211 |
| Lease liabilities | | **13 670** | – |
| Share-based payment liability | | **15 909** | – |
| Deferred grant income | | **3 317** | 2 317 |
| Financial liabilities | 7 | **21 248** | 36 726 |
| Short-term provisions | | **21 088** | 25 121 |
| Taxation | | **216** | 796 |
| Bank overdrafts | | **8 589** | – |
| **Current liabilities** | | **915 774** | 650 126 |
| **Total equity and liabilities** | | **5 516 253** | 4 848 284 |

[5] *Movement in stated capital includes the issue of 21 428 571 shares to Brimstone Investment Corporation Limited as part of the vendor consideration placement for the Ladismith Cheese acquisition. The total value of the subscription was R300 million.*

[6] *The reduction in non-controlling interests relates to the acquisition of a further 43.7% in Sea Harvest Australia for a cash consideration of R169 million.*

[7] *Trade and other payables increased as a result of a current year business combination. Refer to* ***note 3.1.***

# AUDITED SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

| | AUDITED YEAR ENDED 31 DECEMBER 2019 R'000 | AUDITED YEAR ENDED 31 DECEMBER 2018 R'000 |
|---|---|---|
| **Balance at the beginning of the year** | **2 069 327** | 1 565 979 |
| Attributable to: | | |
| Shareholders of Sea Harvest Group Limited | **1 814 665** | 1 397 666 |
| Non-controlling interests | **254 662** | 168 313 |
| **IFRS 16 adjustment** | **(11 997)** | – |
| Attributable to: | | |
| Shareholders of Sea Harvest Group Limited | **(10 417)** | – |
| Non-controlling interests | **(1 580)** | – |
| **Restated balance at the beginning of the year** | **2 057 330** | 1 565 979 |
| Attributable to: | | |
| Shareholders of Sea Harvest Group Limited[1] | **1 804 248** | 1 397 666 |
| Non-controlling interests[1] | **253 082** | 168 313 |
| **Total comprehensive income for the year attributable to shareholders of Sea Harvest Group Limited** | **498 319** | 271 525 |
| Profit after taxation | **412 478** | 281 209 |
| Movements in other items of comprehensive income, net of tax | **85 841** | (9 684) |
| **Movements attributable to shareholders of Sea Harvest Group Limited** | | |
| Shares issued | **300 000** | 279 531 |
| Shares repurchased[2] | **(28 255)** | (38 526) |
| Shares awarded in terms of the forfeitable share plan | **–** | 2 882 |
| Recognition of forfeitable share plan reserve | **–** | (32 413) |
| Dividends paid | **(116 251)** | (77 565) |
| Share-based payments | **(17 810)** | 11 565 |
| Further acquisition of investment in subsidiary | **(2 978)** | – |
| Movement attributable to non-controlling interests | **(176 581)** | 86 349 |
| **Balance at the end of the year** | **2 513 774** | 2 069 327 |

*[1] Opening retained earnings and non-controlling interests were adjusted for the impact of the adoption of IFRS 16: Leases by R10.4 million and R1.6 million respectively. Refer to* ***note 2.***

*[2] 2 030 414 shares were repurchased for the purposes of forfeitable share plan allocation in 2020.*

# AUDITED SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

| | AUDITED YEAR ENDED 31 DECEMBER 2019 R'000 | AUDITED YEAR ENDED 31 DECEMBER 2018 R'000 |
|---|---|---|
| **Operating activities** | | |
| Profit after taxation | **395 513** | 293 133 |
| Adjustments for non-cash and other items | **443 706** | 246 026 |
| Operating cash flows before changes in working capital | **839 219** | 539 159 |
| Increase in inventories | **(6 544)** | (14 555) |
| Increase in trade and other receivables | **(112 049)** | (60 201) |
| Increase in trade and other payables | **47 555** | 86 502 |
| Cash generated from operations | **768 181** | 550 905 |
| Investment income received | **14 617** | 46 125 |
| Proceeds from government grant | **17 181** | – |
| Income taxes paid | **(119 509)** | (36 569) |
| Interest paid | **(120 055)** | (83 963) |
| Net cash generated from operating activities | **560 415** | 476 498 |
| **Investing activities** | | |
| Acquisition of investment in subsidiary/business | **(558 139)** | (181 339) |
| Proceeds on disposal of property, plant, equipment and vehicles | **22 098** | 75 543 |
| Acquisition of property, plant, equipment and vehicles | **(264 629)** | (319 275) |
| Acquisition of intangible assets | **(30)** | (38 925) |
| Additions to biological assets | **(69 007)** | (37 149) |
| Cash movement in other long-term and short loans | **8 299** | – |
| Net cash utilised in investing activities | **(861 408)** | (501 145) |
| **Financing activities** | | |
| Shares issued | **300 000** | – |
| Shares repurchased | **(50 962)** | (38 526) |
| Proceeds from borrowings | **347 497** | 1 271 051 |
| Repayment of borrowings | **(540 294)** | (641 514) |
| Repayment of financial liabilities | **(21 401)** | (21 266) |
| Dividends paid | **(117 154)** | (78 506) |
| Amounts advanced to supplier partners | **(6 032)** | (68 000) |
| Proceeds on loans advanced to supplier partners | **5 686** | – |
| Further investment in subsidiary | **(168 890)** | – |
| Net cash (utilised in)/generated from financing activities | **(251 550)** | 423 239 |
| Net (decrease)/increase in cash and cash equivalents | **(552 543)** | 398 592 |
| Cash and cash equivalents at the beginning of the year | **781 679** | 383 047 |
| Effects of exchange rates on the balance of cash held in foreign operation | **157** | 40 |
| **Cash and cash equivalents at the end of the year** | **229 293** | 781 679 |

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

## 1. BASIS OF PREPARATION

The summarised consolidated financial statements for the year ended 31 December 2019 are prepared in accordance with the requirements of the Companies Act of South Africa. The summarised consolidated financial statements are prepared in accordance with the framework concepts and the measurement and recognition requirements of IFRS and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34: Interim Financial Reporting.

The summarised consolidated financial statements for the year ended 31 December 2019 has been audited by Deloitte & Touche, who expressed an unmodified audit opinion thereon.

The directors take full responsibility for the preparation of this report. The summarised consolidated annual financial statements were prepared under the supervision of the Chief Financial Officer, JP de Freitas CA(SA).

A copy of the full consolidated financial statements and the audit report thereon are available for inspection at the Company's registered office and the Company's website. The audit report does not cover all the information contained in this integrated report. Shareholders are, therefore, advised that in order to obtain a full understanding of the nature of the auditor's work, they should obtain a copy of that report together with the accompanying financial information from the Company's website or from the registered office of the Company.

## 2. ACCOUNTING POLICIES AND CHANGES TO ACCOUNTING POLICIES

The accounting policies and methods of computation applied in the preparation of these consolidated financial statements are in terms of IFRS and are consistent with those applied in the financial statements for the year ended 31 December 2018, except for the adoption of IFRS 16: Leases on 1 January 2019.

IFRS 16 supersedes IAS 17: Leases, IFRIC 4: Determining whether an Arrangement contains a Lease, SIC-15: Operating Leases – Incentives and SIC-27: Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application being 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application as an adjustment to the opening balance of retained earnings, with no restatement of comparatives. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases, which had previously been classified as "operating leases" under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The Group's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 9.13%.

| | R'000 |
|---|---|
| 2.1 ADJUSTMENTS RECOGNISED ON ADOPTION OF IFRS 16 | |
| Operating lease commitments as at 31 December 2018 | 227 712 |
| Operating lease commitments disclosed as at 31 December 2018 discounted using the Group's incremental borrowing rate at the date of initial application | 137 059 |
| Added through business combination | 1 607 |
| *Less:* Short-term leases recognised on a straight-line basis as expenses and leases of low-value assets | (1 583) |
| **Lease liability recognised as at 1 January 2019** | 137 083 |
| Of which are: | |
| Non-current liabilities | 124 079 |
| Current lease liabilities | 13 004 |

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

| | 31 DECEMBER 2019 R'000 | 1 JANUARY 2019 R'000 |
|---|---|---|

## 2. ACCOUNTING POLICIES AND CHANGES TO ACCOUNTING POLICIES (continued)

### 2.1 ADJUSTMENTS RECOGNISED ON ADOPTION OF IFRS 16 (continued)

The recognised right-of-use assets relate to the following types of assets:

| | | |
|---|---|---|
| Buildings | **136 695** | **118 375** |
| **Total right-of-use assets** | **136 695** | **118 375** |

*The movement for 1 January 2019 to 31 December 2019 is due to new leases entered into during the period.*

The effect of the adoption of IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

| | |
|---|---|
| **Assets** | |
| Right-of-use assets – Buildings | 118 375 |
| **Total assets** | 118 375 |
| **Liabilities** | |
| Lease liabilities | 137 083 |
| Deferred tax liabilities | 2 575 |
| Other payables | (9 286) |
| **Total liabilities** | 130 372 |
| **Total adjustment on equity:** | |
| Retained earnings | (10 417) |
| Non-controlling interests | (1 580) |
| **Total equity** | (11 997) |

– Right-of-use assets of R118.3 million were recognised and presented separately in the statement of financial position.
– Lease liabilities of R137 million were recognised.
– Other payables (lease accrual) of R9.3 million related to previous operating leases were derecognised.
– Deferred tax liabilities increased by R2.6 million because of the deferred tax impact of the derecognition of the lease accrual.
– The net effect of these adjustments had been adjusted to retained earnings (R10.4 million) and non-controlling interests (R1.6 million).

### 2.2 IMPACT ON SEGMENT DISCLOSURES AND EARNINGS PER SHARE

EBITDA for the year ended 31 December 2019, segment assets and segment liabilities as at 31 December 2019 increased as a result of the change in the accounting policy. The following segments were affected by the change in policy:

| | EBITDA R'000 | SEGMENT ASSETS R'000 | SEGMENT LIABILITIES R'000 |
|---|---|---|---|
| South African Fishing | **17 146** | **106 584** | **125 405** |
| Australian operations | **2 671** | **4 682** | **5 219** |
| Aquaculture | **2 297** | **15 308** | **18 343** |
| Cape Harvest Foods | **3 616** | **10 121** | **10 933** |
| | **25 730** | **136 695** | **159 900** |

Earnings per share decreased by 1.7 cents per share for the year ended 31 December 2019 as a result of the adoption of IFRS 16.

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

## 2. ACCOUNTING POLICIES AND CHANGES TO ACCOUNTING POLICIES (continued)

### 2.3 PRACTICAL EXPEDIENTS AND EXEMPTIONS APPLIED

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Used a single discount rate to discount a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Applied the short-term leases exemptions to leases with a lease term that ends within 12 months at the date of initial application.
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

### 2.4 SUMMARY OF NEW ACCOUNTING POLICIES

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

**Right-of-use assets**

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

**Lease liabilities**

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

**Short-term leases and leases of low-value assets**

The Group applies the short-term lease recognition exemption to its short-term leases of some buildings and vehicles (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies to the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e. below R100 000). Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

**Significant judgement in determining the lease term of contracts with renewal options**

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

## 3. BUSINESS COMBINATION AND OTHER ACQUISITION

### 3.1 LADISMITH CHEESE

With effect from 2 January 2019, Sea Harvest has, through its wholly owned subsidiary Cape Harvest Foods Group Proprietary Limited, acquired 100% of the issued share capital of Ladismith Cheese.

Ladismith Cheese was established in 1999 and is a value-adding dairy processing company based in Ladismith in the Western Cape. Ladismith Cheese's primary business is the production, distribution, marketing and sale of cheese, butter and milk powders to the South African retail, wholesale, foodservice and food ingredients markets.

The acquisition is a further step in the execution of the Group's stated investment strategy of growing through acquisitions in complementary sectors of the South African food and agricultural industry, which exhibits strong fundamentals and growth, and where the Group is able to leverage its core competencies and strengths.

The Group has a 100% interest in Ladismith Cheese through this acquisition, with its results from 2 January 2019 being fully consolidated by the Group.

The accounting for the acquisition of Ladismith Cheese has been finalised.

| | PROVISIONAL FAIR VALUE AT ACQUISITION DATE PREVIOUSLY REPORTED R'000 | MEASURE PERIOD ADJUSTMENTS R'000 | RESTATED CLOSING BALANCE R'000 |
|---|---|---|---|
| **Assets acquired and liabilities assumed** | | | |
| Property, plant and equipment | **188 794** | **–** | **188 794** |
| Intangible assets | **–** | **45 813** | **45 813** |
| Loan receivable | **13 514** | **–** | **13 514** |
| Inventory | **185 965** | **–** | **185 965** |
| Trade and other receivables | **89 502** | **–** | **89 502** |
| Tax receivable | **2 396** | **–** | **2 396** |
| Cash and bank balances | **14 407** | **–** | **14 407** |
| Long-term interest-bearing borrowings | **(15 218)** | **–** | **(15 218)** |
| Short-term interest-bearing borrowings | **(32 451)** | **–** | **(32 451)** |
| Trade and other payables | **(101 071)** | **–** | **(101 071)** |
| Deferred tax liabilities | **(35 983)** | **(13 695)** | **(49 678)** |
| **Total identifiable assets and liabilities** | **309 855** | **32 118** | **341 973** |
| **Total consideration transferred** | | | |
| Cash | **572 554** | **–** | **572 554** |
| **Net cash flow on acquisition of subsidiary** | | | |
| Consideration paid in cash | **572 554** | **–** | **572 554** |
| *Less:* Cash and cash equivalent balances acquired | **(14 407)** | **–** | **(14 407)** |
| | **558 147** | **–** | **558 147** |
| **Goodwill on acquisition** | | | |
| Consideration | **572 554** | **–** | **572 554** |
| *Less:* Fair value of identifiable assets acquired and liabilities assumed | **(309 855)** | **(32 118)** | **(341 973)** |
| | **262 699** | **(32 118)** | **230 581** |

Property, plant and equipment with a carrying amount of R151 million was revalued to its fair value of R189 million at acquisition date. The fair value adjustment of R38 million relates to land and buildings. The valuations for land and buildings were performed by an independent valuation expert.

The intangible asset identified was the Ladismith Cheese brand. The fair value was determined by an external independent valuer with reference to the best estimate of market participant's ability to generate economic benefits by using the asset in its highest and best use.

The fair value of trade and other receivables is R89 million and includes trade receivables with a fair value of R88 million, which approximates the gross contractual amount.

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

## 3. BUSINESS COMBINATION AND OTHER ACQUISITION (continued)

### 3.1 LADISMITH CHEESE (continued)

Goodwill is attributable to a control premium as well as the benefit of expected synergies and revenue growth. In addition, subsumed into goodwill are the assembled workforce with specialised knowledge and non-contractual customer relationships which do not qualify for separate recognition.

Goodwill is not expected to be deductible for tax purposes.

**IMPACT OF THE ACQUISITION ON THE RESULTS OF THE GROUP**

| | R'000 |
|---|---|
| **Amounts included in the Group's results relating to Ladismith Cheese since the date of acquisition:** | |
| Revenue | 904 677 |
| Profit for the year | 66 524 |

**Acquisition-related costs**

Acquisition costs of R0.3 million were recognised in profit or loss for the year.

### 3.2 CHANGE IN OWNERSHIP INTEREST IN SEA HARVEST AUSTRALIA

In May 2019, the Group acquired the share capital held by non-controlling shareholders of its subsidiary Sea Harvest Australia Limited for a cash consideration of R169 million. Following the acquisition, the Group holds a 100% effective interest in Sea Harvest Australia.

### 3.3 BLUECAP GENERAL TRADING

In July 2019, the Group acquired 100% of the shares in Bluecap General Trading Proprietary Limited (Bluecap), a company operating in marine aquaculture in South Africa and holds water leases which benefit Viking Aquaculture. The transaction was accounted for as a business combination with an effective date of July 2019. The exiting owners wanted to dispose of a non-core asset to an industry player. Viking Aquaculture needed to secure a non-transferrable lease and therefore purchased the company for R1. At the time of the purchase, the fair value of assets and liabilities exceeded the purchase price. The accounting for Bluecap acquisition has been finalised and the PPA is as follows:

| | FAIR VALUE AT ACQUISITION DATE R'000 |
|---|---|
| **Assets acquired and liabilities assumed** | |
| Property, plant and equipment | 891 |
| Right-of-use asset | 445 |
| Cash and bank balances | 8 |
| Trade and other payables | (8) |
| Lease liability | (445) |
| **Total identifiable assets and liabilities** | 891 |
| Total consideration transferred | |
| Cash | – |
| **Net cash flow on acquisition of subsidiary** | |
| Consideration paid in cash | – |
| *Less:* Cash and cash equivalent balances acquired | (8) |
| | (8) |
| **Gain on bargain purchase** | |
| Consideration | – |
| *Less:* Fair value of identifiable assets acquired and liabilities assumed | (891) |
| | (891) |

| | AUDITED YEAR ENDED 31 DECEMBER 2019 R'000 | RESTATED* YEAR ENDED 31 DECEMBER 2018 R'000 |
|---|---|---|
| **4. REVENUE** | | |
| Group revenue for the year can be analysed as follows: | | |
| Revenue recognised at a point in time | **3 938 116** | 2 583 341 |
| Revenue recognised over time[1] | **28 336** | – |
| | **3 966 452** | 2 583 341 |
| Revenue from sale of goods comprise: | | |
| Wild-caught fish[2] | **2 510 694** | 2 032 170 |
| Shellfish[3] | **267 297** | 268 162 |
| Vegetables and meals | **94 499** | 108 343 |
| Traded | **190 171** | 174 666 |
| Dairy | **903 791** | – |
| | **3 966 452** | 2 583 341 |
| Revenue is further split by geographic location as follows: | | |
| South Africa | **2 209 799** | 1 079 820 |
| Australia | **447 178** | 471 997 |
| Europe | **1 113 675** | 909 331 |
| Other markets | **195 800** | 122 193 |
| | **3 966 452** | 2 583 341 |

** Revenue by product and geographic location split has been changed from how it was reported previously in conformity with the basis that is reported to the CEO, who is the chief operating decision-maker.*

*[1] As a result of the Ladismith Cheese acquisition, the Group now has a new revenue stream arising from the performance of services which relates to co-manufacturing and packaging contracts.*
*[2] Cape hake, horse mackerel and related bycatch.*
*[3] Prawn, scallop, crab and abalone.*

Revenue from wild-caught fish is disclosed in the South African Fishing and Australian segments. Shellfish revenue is disclosed in the South African Fishing, Australian and Aquaculture segments. Vegetables and meals is disclosed in the Cape Harvest Foods and Australian segments, with dairy revenue disclosed in the Cape Harvest Foods segment.

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

| | | AUDITED YEAR ENDED 31 DECEMBER 2019 R'000 | AUDITED YEAR ENDED 31 DECEMBER 2018 R'000 |
|---|---|---|---|
| **5.** | **HEADLINE EARNINGS PER SHARE** | | |
| 5.1 | DETERMINATION OF HEADLINE EARNINGS | | |
| | Profit after taxation attributable to shareholders of Sea Harvest Group Limited | **412 478** | 281 209 |
| | Profit on disposal of property, plant, equipment and vehicles | **(4 675)** | (4 596) |
| | Gain on bargain purchase | **(891)** | – |
| | Total tax effects of adjustments | **3 505** | 1 286 |
| | **Headline earnings for the year** | **410 417** | 277 899 |
| 5.2 | CALCULATION OF WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES | | |
| | Weighted average number of shares on which earnings and headline earnings per share is based | **276 365 749** | 249 202 106 |
| | Weighted average number of shares on which diluted earnings and diluted headline earnings per share is based | **287 774 594** | 258 988 718 |
| | Reconciliation of weighted average number of shares between basic and diluted earnings per share and headline earnings and dilute headline earnings per share: | | |
| | Basic | **276 365 749** | 249 202 106 |
| | Dilutive instruments | **11 408 845** | 9 786 612 |
| | **Diluted** | **287 774 594** | 258 988 718 |
| | **Headline earnings per share (cents)** | | |
| | **– Basic** | **148.5** | 111.5 |
| | **– Diluted** | **142.6** | 107.3 |

## 6. SEGMENTAL RESULTS

As a result of the business combination, a new reportable segment, Cape Harvest Foods, was formed. The Group's reportable segments under IFRS 8: Operating Segments are the South African Fishing, Australian operations, Aquaculture and Cape Harvest Foods segments.

| | AUDITED YEAR ENDED 31 DECEMBER 2019 R'000 | RESTATED* YEAR ENDED 31 DECEMBER 2018 R'000 |
|---|---|---|
| **Segment revenue** | | |
| South African Fishing[1] | **2 470 044** | 2 005 357 |
| Australian operations | **437 752** | 442 837 |
| Aquaculture[2] | **68 920** | 54 532 |
| Cape Harvest Foods | **989 736** | 80 615 |
| **Total revenue** | **3 966 452** | 2 583 341 |
| **Segment profit/(loss) from operations** | | |
| South African Fishing | **526 589** | 362 240 |
| Australian operations | **6 652** | 16 318 |
| Aquaculture | **(29 818)** | 2 893 |
| Cape Harvest Foods | **96 157** | 7 168 |
| **Operating profit before associate and joint venture income** | **599 580** | 388 619 |
| Fair value (losses)/gains | **34 339** | 48 743 |
| Gain on bargain purchase | **891** | – |
| Share of (loss)/profit in associate | **(112)** | 647 |
| Investment income | **21 413** | 46 125 |
| Interest expense | **(121 919)** | (90 130) |
| **Profit before taxation** | **534 192** | 394 004 |
| **Total assets** | | |
| South African Fishing | **3 093 199** | 3 313 093 |
| Australian operations | **886 253** | 873 809 |
| Aquaculture | **696 867** | 636 422 |
| Cape Harvest Foods | **839 934** | 24 960 |
| | **5 516 253** | 4 848 284 |
| **Total liabilities** | | |
| South African Fishing | **1 961 289** | 1 944 894 |
| Australian operations | **389 157** | 376 482 |
| Aquaculture | **450 260** | 443 625 |
| Cape Harvest Foods | **201 773** | 13 956 |
| | **3 002 479** | 2 778 957 |

**As a result of the business combination, Cape Harvest Foods Group Proprietary Limited which was previously reported under the South African Fishing segment is now being reported in a newly formed segment called Cape Harvest Foods.*

*[1] Revenue excludes inter-segmental revenue of R176 million (2018: R98 million) which is eliminated on consolidation.*

*[2] Revenue excludes inter-segmental revenue of R8 million (2018: R2 million) which is eliminated on consolidation.*

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

| | AUDITED YEAR ENDED 31 DECEMBER 2019 R'000 | AUDITED YEAR ENDED 31 DECEMBER 2018 R'000 |
|---|---|---|
| **7. OTHER FINANCIAL ASSETS AND LIABILITIES** | | |
| **Financial derivative assets** | **148 165** | 26 906 |
| Non-current portion of financial assets[1] | **23 218** | 25 912 |
| Current portion of financial assets[2] | **124 947** | 994 |
| **Other financial asset** | | |
| Investment at fair value through other comprehensive income[3] | **25 264** | 25 264 |
| **Financial derivative liabilities** | **160** | 14 460 |
| Current portion of financial liabilities[2] | **160** | 14 460 |
| **Other financial liability** | | |
| Fishing licence liability[4] | **41 610** | 64 072 |
| Non-current portion of financial liability | **20 522** | 41 806 |
| Current portion of financial liability | **21 088** | 22 266 |

### [1] CALL OPTION DERIVATIVE

Included in non-current financial assets is a call option to acquire 100% of the shareholding in Vuna Fishing Company Proprietary Limited from Vuna Fishing Group Proprietary Limited. The fair value was independently determined by an expert using the Black-Scholes option pricing model. The call option financial asset has been classified as a non-current asset at 31 December 2019 due to the expected exercising date thereof exceeding 12 months from the reporting date. The call option disclosed in financial assets is regarded as a level 3 financial instrument for fair value measurement purposes. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The movement in the call option derivative is as follows:

| | | |
|---|---|---|
| Opening balance | **25 912** | 24 825 |
| Fair value movement | **(2 694)** | 1 087 |
| **Closing balance** | **23 218** | 25 912 |

**Assumption sensitivity analysis**

The Group has performed a sensitivity analysis relating to its exposure to a change in the assumptions used in the valuation. The sensitivity analysis demonstrates the increase/(decrease) on the asset held at fair value through profit or loss which could result from a change in these assumptions.

| | AUDITED YEAR ENDED 31 DECEMBER 2019 R'000 | AUDITED YEAR ENDED 31 DECEMBER 2018 R'000 |
|---|---|---|
| **7. OTHER FINANCIAL ASSETS AND LIABILITIES (continued)** | | |
| Vuna Fishing Company valuation | | |
| + 5% | **2 063** | 1 980 |
| - 5% | **(2 029)** | (1 956) |
| Yield Curve 7.325% (2018: 8.059%) | | |
| + 5% | **1 351** | 1 324 |
| - 5% | **(1 240)** | (1 285) |
| Volatility 27.363% (2018: 34.378%) | | |
| + 1% | **1 227** | 1 060 |
| - 1% | **(1 249)** | (1 087) |

As Vuna Fishing Company Proprietary Limited is unlisted, the volatility was determined using the quadratic mean volatility of peer group companies.

### [2] FINANCIAL DERIVATIVE ASSETS AND LIABILITIES

Financial assets and liabilities arise from hedging contracts entered into by the Group for the purpose of minimising the Group's exposure to foreign currency volatility. Hedging contracts are regarded as level 2 financial instruments for fair value measurement purposes. Level 2 fair value measurements are those derived from inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

### [3] INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group holds 10% of the ordinary share capital of Desert Diamond Fishing Proprietary Limited, a company involved in the fishing and fishing processing industries.

The Group reassesses the valuation of the fair value through other comprehensive income investment annually, by using an asset valuation method performed by an independent valuator.

The investment is regarded as a level 3 financial instrument. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### Assumption sensitivity analysis

The Group has performed a sensitivity analysis relating to its exposure to a change in the assumptions used in the valuation. The sensitivity analysis demonstrates the increase/(decrease) on the investment which could result from a change in this assumption.

| | | |
|---|---|---|
| Desert Diamond vessel valuation | | |
| +5% | **1 263** | 1 263 |
| -5% | **(1 263)** | (1 263) |

### [4] FISHING LICENCE LIABILITY

The fishing licence liabilities relate to the Shark Bay Prawn Managed Fishery Voluntary Fisheries Adjustment Scheme (VFAS). The VFAS operates from 12 November 2010 until 1 July 2021. Mareterram owns 10 fishing licences in the Shark Bay region. The liabilities shown represent present values discounted at the five-year Australian Corporate Bond rate. Fishing licence liabilities are carried at amortised cost.

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

## 8. CONTINGENT CONSIDERATION

The contingent consideration relates to the acquisition of Viking Fishing and Viking Aquaculture in the 2018 financial year, and was estimated by an independent valuer based on Viking Aquaculture and Viking Fishing achieving the earn-out targets for the 2018 and 2019 financial years, discounted at the prime lending rate. It is regarded as a level 3 financial instrument for fair value measurement purposes. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The movement in the contingent consideration is as follows:

| | AUDITED YEAR ENDED 31 DECEMBER 2019 R'000 | AUDITED YEAR ENDED 31 DECEMBER 2018 R'000 |
|---|---|---|
| Opening balance | **121 910** | – |
| Acquisition of subsidiary/business | **–** | 157 510 |
| Fair value movement[1] | **(31 048)** | (35 600) |
| **Closing balance[2]** | **90 862** | 121 910 |

*[1] The fair value adjustment includes a gain of R44 million as a result of Viking Aquaculture not achieving the 2019 minimum target.*
*[2] The balance relates to Viking Fishing meeting the 2018 and 2019 earn-out targets.*

## 9. RELATED PARTY TRANSACTIONS

This disclosure relates to material related party balances and transactions.

### 9.1 RELATED PARTY LOANS

| | | |
|---|---|---|
| **Loans to related parties – non-current** | | |
| Vuna Fishing Company Proprietary Limited (joint venture of Brimstone Investment Corporation Limited) | **27 420** | 27 420 |
| Vuna Fishing Group Proprietary Limited (subsidiary of Brimstone Investment Corporation Limited) | **45 068** | 45 069 |
| SeaVuna Fishing Company Proprietary Limited[1] | **9 311** | – |
| **Total** | **81 799** | 72 489 |
| **Loans to related parties – current** | | |
| Specialised Aquatic Feeds Proprietary Limited (associate of Viking Aquaculture Proprietary Limited) | **4 000** | 4 000 |
| **Total** | **4 000** | 4 000 |

| | AUDITED YEAR ENDED 31 DECEMBER 2019 R'000 | AUDITED YEAR ENDED 31 DECEMBER 2018 R'000 |
|---|---|---|
| **9. RELATED PARTY TRANSACTIONS (continued)** | | |
| 9.2 RELATED PARTY TRANSACTIONS | | |
| **Sales to related parties** | | |
| SeaVuna Fishing Company Proprietary Limited[1] | **43 933** | 43 421 |
| **Recoveries and other income from related parties** | | |
| SeaVuna Fishing Company Proprietary Limited[1] | **17 878** | 46 561 |
| **Purchases from related parties** | | |
| SeaVuna Fishing Company Proprietary Limited[1] | **214 182** | 193 157 |

[1] *SeaVuna Fishing Company Proprietary Limited is a wholly owned subsidiary of Vuna Fishing Company Proprietary Limited which is a joint venture of Brimstone Investment Corporation Limited.*

In terms of the supply agreement with Vuna Fishing Company Proprietary Limited (Vuna) and SeaVuna Fishing Company Proprietary Limited (SeaVuna), fish caught by Vuna and SeaVuna are marketed by Sea Harvest Corporation Proprietary Limited.

## 10. STATED CAPITAL (NUMBER)

| | AUDITED YEAR ENDED 31 DECEMBER 2019 | AUDITED YEAR ENDED 31 DECEMBER 2018 |
|---|---|---|
| In issue (number) | | |
| Ordinary shares | **294 293 814** | 272 865 243 |
| Held as treasury shares | **(17 069 159)** | (15 685 629) |
| | **277 224 655** | 257 179 614 |

The movement in the number of shares during the period was as follows:

| | TOTAL SHARES IN ISSUE | LESS TREASURY SHARES | TOTAL NET SHARES IN ISSUE |
|---|---|---|---|
| Opening balance | **272 865 243** | **15 685 629** | **257 179 614** |
| Shares issued | **21 428 571** | **–** | **21 428 571** |
| Shares repurchased | **–** | **2 030 414** | **(2 030 414)** |
| Shares vested | **–** | **(646 884)** | **646 884** |
| Closing balance | **294 293 814** | **17 069 159** | **277 224 655** |

## 11. CONTINGENT LIABILITIES AND COMMITMENTS

The Group has no contingent liabilities at the end of the year (2018: nil).

| | AUDITED YEAR ENDED 31 DECEMBER 2019 R'000 | AUDITED YEAR ENDED 31 DECEMBER 2018 R'000 |
|---|---|---|
| Capital commitments | | |
| Budgeted capital expenditure is as follows: | | |
| – contracted | **13 580** | 19 632 |
| – not contracted | **275 035** | 115 142 |

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

## 12. EVENTS SUBSEQUENT TO REPORTING DATE AND GOING CONCERN

### EVENTS SUBSEQUENT TO REPORTING DATE

- On 2 January 2020, the Group has, through its wholly owned subsidiary Sea Harvest Corporation Proprietary Limited (Sea Harvest), entered into an agreement to purchase a consideration claim of R56 million payable by SeaVuna Fishing Company Proprietary Limited, a wholly owned subsidiary of Vuna Fishing Company Proprietary Limited, which is a joint venture of Brimstone Investment Corporation Limited, to Viking Fishing Holding Proprietary Limited.
- The Board of Directors recommended a gross and final cash dividend on 2 March 2020 amounting to 50 cents per share (2018: 40 cents), comprising an ordinary dividend of 45 cents and a special dividend of 5 cents per share, in respect of the year ended 31 December 2019.
- Subsequent to 31 December 2019, the Group has assessed the impact of Covid-19 on the annual financial statements and considered the potential impairment indicators for its various businesses as well as the assumptions used in testing goodwill for impairment. As at the date of approving these annual financial statements, management have assessed that there is no material impact on the annual financial statements for the year ended 31 December 2019.

  As an essential food manufacturer, the Group is exempt from lockdown and is allowed to continue to operate, provided that there are no supply chain disruptions (such as shortages of fuel, packaging and other key supplies) and no disruption to labour.

  Management will continue to assess the financial impact of Covid-19 while placing the health and safety of our employees first.
- After the balance sheet date, there has been a significant fluctuation in the foreign currencies that the Group trades in. Under IFRS these are non-adjusting events in respect of the year ended 31 December 2019. The impact of the devaluation of the SA Rand against the US Dollar and Euro is continuously being evaluated. At this point in time there are insufficient data points to understand the long-term impacts of Covid-19 on future profitability and the consequent carrying value of assets. For foreign sales the Group continues to apply it hedging strategy where fair value movements on the hedging instruments are deferred in equity until such time as the hedged transaction is recognised. The full extent and timing of the impact of these events is not yet known and will only be determined at the point at which the hedged transaction is recognised. We are not able to estimate the expected financial effect of the exchange rate devaluation at this point in time.

Other than as outlined above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect substantially the operations of the Group, the results of its operations or the state of affairs of the Group.

### GOING CONCERN

The directors believe that the Group and Company have adequate financial resources to continue in operation for the foreseeable future, including special consideration of the potential risks associated with Covid-19. Accordingly the annual financial statements have been prepared on a going concern basis.

# INDEPENDENT AUDITOR'S REPORT ON SUMMARISED FINANCIAL STATEMENTS

## To the shareholders of Sea Harvest Group Limited

### OPINION

The summarised consolidated financial statements of Sea Harvest Group Limited, which comprise the summarised consolidated statement of financial position as at 31 December 2019, the summarised consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Sea Harvest Group Limited for the year ended 31 December 2019.

In our opinion, the accompanying summarised consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements of Sea Harvest Group Limited, in accordance with the basis of preparation set out in **note 1** to the summarised consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summarised financial statements.

### SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

The summarised consolidated financial statements do not contain all the disclosures required by the International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summarised consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements of Sea Harvest Group Limited and the auditor's report thereon. The summarised financial statements and the audited consolidated financial statements do not reflect the effect of events that occurred subsequent to the date of our report on the audited consolidated financial statements.

### THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 31 March 2019. That report also includes:

- The communication of other key audit matters as reported in the auditor's report of the audited financial statements.

### DIRECTORS' RESPONSIBILITY FOR THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the summarised consolidated financial statements in accordance with the requirements of the basis of preparation set out in **note 1** to the summarised consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summarised financial statements, and for such internal control as the directors determine is necessary to enable the preparation of the summarised consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summarised consolidated financial statements are consistent, in all material respects, with the consolidated audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

Deloitte & Touche

Deloitte & Touche
Registered Auditor

Per: Michael van Wyk
Partner
*24 April 2020*

Unit 11, Ground Floor, 97 Dorp Street, Stellenbosch, 7600

# ANALYSIS OF ORDINARY SHAREHOLDERS

at 31 December 2019

| SHAREHOLDER SPREAD | NUMBER OF SHAREHOLDINGS | % OF TOTAL SHAREHOLDINGS | NUMBER OF SHARES | % OF ISSUED CAPITAL |
|---|---|---|---|---|
| 1 – 1 000 shares | 618 | 57.70 | 140 709 | 0.05 |
| 1 001 – 10 000 shares | 205 | 19.14 | 869 196 | 0.30 |
| 10 001 – 100 000 shares | 126 | 11.77 | 5 086 967 | 1.73 |
| 100 001 – 1 000 000 shares | 92 | 8.59 | 33 092 655 | 11.24 |
| Over 1 000 000 shares | 30 | 2.80 | 255 104 287 | 86.68 |
| **Total** | **1 071** | **100.00** | **294 293 814** | **100.00** |
| **Distribution of shareholders** | | | | |
| Assurance Companies | 2 | 0.19 | 152 600 | 0.05 |
| Close Corporations | 9 | 0.84 | 75 424 | 0.03 |
| Collective Investment Schemes | 53 | 4.95 | 27 521 152 | 9.35 |
| Custodians | 3 | 0.28 | 496 120 | 0.17 |
| Foundations and Charitable Funds | 3 | 0.28 | 1 902 862 | 0.65 |
| Hedge Funds | 14 | 1.31 | 9 442 046 | 3.21 |
| Insurance Companies | 2 | 0.19 | 5 640 | 0.00 |
| Investment Partnerships | 6 | 0.56 | 205 200 | 0.07 |
| Managed Funds | 2 | 0.19 | 1 501 316 | 0.50 |
| Medical Aid Funds | 1 | 0.09 | 769 | 0.00 |
| Organs of State | 1 | 0.09 | 26 325 000 | 8.95 |
| Private Companies | 46 | 4.30 | 178 812 185 | 60.75 |
| Public Companies | 1 | 0.09 | 63 255 | 0.02 |
| Retail Shareholders | 836 | 78.06 | 13 707 478 | 4.66 |
| Retirement Benefit Funds | 36 | 3.36 | 13 357 679 | 4.54 |
| Scrip Lending | 1 | 0.09 | 266 961 | 0.09 |
| Share Schemes | 1 | 0.09 | 3 548 449 | 1.21 |
| Sovereign Funds | 2 | 0.19 | 8 789 761 | 2.99 |
| Stockbrokers and Nominees | 4 | 0.37 | 257 956 | 0.09 |
| Treasury | 1 | 0.09 | 4 063 860 | 1.38 |
| Trusts | 47 | 4.39 | 3 798 101 | 1.29 |
| **Total** | **1 071** | **100.00** | **294 293 814** | **100.00** |

| SHAREHOLDER TYPE | | | | |
|---|---|---|---|---|
| **Non-public shareholders** | 12 | 1.12 | 151 439 452 | 51.46 |
| Directors and associates | 9 | 0.85 | 5 786 810 | 1.96 |
| Beneficial holders >10% | 1 | 0.09 | 138 040 333 | 46.91 |
| Share schemes | 1 | 0.09 | 3 548 449 | 1.21 |
| Treasury | 1 | 0.09 | 4 063 860 | 1.38 |
| **Public shareholders** | 1 059 | 98.88 | 142 854 362 | 48.54 |
| **Total** | **1 071** | **100.00** | **294 293 814** | **100.00** |

| | NUMBER OF SHARES | % OF ISSUED CAPITAL |
|---|---|---|
| **Fund managers with a holding greater than 3% of the issued shares** | | |
| Public Investment Corporation | 26 325 000 | 8.95 |
| 36One Asset Management | 18 450 164 | 6.27 |
| Visio Capital Management | 13 530 997 | 4.60 |
| Kagiso Asset Management | 12 377 960 | 4.20 |
| **Total** | **70 684 121** | **24.02** |

| | | |
|---|---|---|
| **Beneficial shareholders with a holding greater than 3% of the issued shares** | | |
| Newshelf 1411 Proprietary Limited[1] | 138 040 333 | 46.91 |
| Government Employees Pension Fund | 26 325 000 | 8.95 |
| Newshelf 1169 Proprietary Limited[1] | 21 428 571 | 7.28 |
| Odin Investments Proprietary Limited | 12 307 692 | 4.18 |
| 36One | 11 940 797 | 4.05 |
| **Total** | **210 042 393** | **71.37** |

| | |
|---|---|
| **Total number of shareholdings** | 1 071 |
| **Total number of shares in issue** | **294 293 814** |

| | |
|---|---|
| **Share price performance** | |
| Opening price 2 January 2019 (Rand) | 13.75 |
| Closing price 30 December 2019 (Rand) | 14.55 |
| Closing high for period (Rand) | 14.98 |
| Closing low for period (Rand) | 12.50 |
| Number of shares in issue | 294 293 814 |
| Volume traded during period | 22 344 122 |
| Ratio of volume traded to shares issued (%) | 7.59 |
| Rand value traded during the period (Rand) | 307 144 526 |
| Price/earnings ratio as at 31 December 2019 | 11.53 |
| Earnings yield as at 31 December 2019 | 8.67 |
| Dividend yield as at 31 December 2019 | 2.20 |
| Market capitalisation at 31 December 2019 (Rand) | 4 281 974 994 |

*[1] Both companies are subsidiaries of Brimstone Investment Corporation Limited with a combined shareholding of 54.19%.*



# GLOSSARY

| | | | |
|---|---|---|---|
| ACI | African, Coloured and Indian | IT | Information technology |
| AFS | Annual Financial Statements | JSE | Johannesburg Stock Exchange |
| ASX | Australian Securities Exchange | King IV™ | King IV Report on Corporate Governance™ |
| B-BBEE | Broad-Based Black Economic Empowerment | Ladismith Cheese | Ladismith Cheese Company Proprietary Limited |
| Board | Sea Harvest Group's Board of Directors | LTI | Long-term incentive |
| Brimstone | Brimstone Investment Corporation Limited | Mareterram | Mareterram Limited |
| CAGR | Compound annual growth rate | MDP | Management Development Programme |
| Cape Harvest Foods Group | Cape Harvest Foods Group Proprietary Limited | MEY | Maximum economic yield |
| CEO | Chief Executive Officer | MSC | Marine Stewardship Council |
| CFO | Chief Financial Officer | MSY | Maximum sustainable yield |
| CIO | Chief Investment Officer | NCI | Non-controlling interests |
| Companies Act | Companies Act, No 71 of 2008 | NGOs | Non-governmental organisations |
| CSI | Corporate social investment | NPD | New product development |
| DAFF | Department of Agriculture, Forestry and Fisheries | NRCS | National Regulator for Compulsory Specifications |
| DCA | Diamond Coast Aquaculture | PPA | Purchase price allocation |
| DEFF | Department of Environment, Forestry and Fisheries | RFA | Responsible Fisheries Alliance |
| DPIRD | Department of Primary Industries and Regional Development | ROCE | Return on capital employed |
| EBIT | Earnings before interest and taxes | SADSTIA | South African Deep-Sea Trawling Industry Association |
| ECD | Early childhood development | SAICA | South African Institute of Chartered Accountants |
| EBITDA | Earnings before interest, taxes, depreciation and amortisation | SAMSA | South African Maritime Safety Authority |
| ERP | Enterprise resource planning | Sea Harvest Corporation | Sea Harvest Corporation Proprietary Limited |
| FMCG | Fast-moving consumer goods | SMMEs | Small, medium and micro enterprises |
| Foundation | Sea Harvest Foundation Not-for-Profit Company | STI | Short-term incentive |
| FRAP | Fishing rights allocation process | TAC | Total allowable catch |
| FSP | Forfeitable share plan | TETA | Transport, Education and Training Authority |
| Fund | South African Fisheries Development Fund | TSR | Total shareholder return |
| GDP | Gross Domestic Product | US | United States of America |
| Group | Sea Harvest Group Limited | VAT | Value added tax |
| HEPS | Headline earnings per share | VFD | Viking Fishing Division |
| HORECA | Hotels, restaurants and catering | WACC | Weighted average cost of capital |
| IFRS | International Financial Reporting Standards | WANOS | Weighted average number of outstanding shares |
| IR | Integrated Report | WWF-SA | World Wildlife Fund South Africa |

# CORPORATE INFORMATION

**Sea Harvest Group Limited**
(Incorporated in the Republic of South Africa)
**Registration number:** 2008/001066/06
**JSE Code:** SHG
**ISIN:** ZAE000240198

"Sea Harvest" or "the Company" or "the Group"

**Registered address:**
The Boulevard Office Park
1st Floor, Block C
Searle Street
Woodstock
Cape Town
7925
South Africa

**Directors:**
F Robertson* (Chairperson)
BM Rapiya**
WA Hanekom*
MI Khan*
T Moodley*
KA Lagler*
CK Zama*
F Ratheb (Chief Executive Officer)
JP de Freitas (Chief Financial Officer)
M Brey (Chief Investment Officer)

**Non-executive Director*
*** Lead Independent Non-executive Director*

**Company Secretary:**
N Aston (Resigned 31 October 2019)
JP de Freitas (Acting 1 November 2019)

**Transfer Secretary:**
Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196

**Sponsor:**
The Standard Bank of South Africa Limited

**Auditors:**
Deloitte & Touche



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