LIBSTAR

From Our Home to Yours

2019

Integrated Annual Report

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Libstar is a producer and marketer of quality products for the Consumer Packaged Goods market in South Africa and the rest of the world.

Everything we create is enjoyed in homes. Our product portfolio consists of more than 9 000 products, and **92% of group revenue is generated from food.**

These products include dairy and meat products, fresh produce, convenience food, groceries, baking and baking aids, and snacks and confectionery.

This integrated annual report covers the activities of Libstar for the year ended 31 December 2019.

The board of directors approved this report on 2 April 2020.

About **this report**

SCOPE AND BOUNDARY

The group's manufacturing facilities are situated in South Africa, and produce a wide variety of products consumed locally and in a number of foreign countries.

Refer to pages 6 to 7

This integrated annual report was compiled with due consideration of the recommendations contained in the King Report on Corporate Governance for South Africa (King IV) and the standards set by the International Integrated Reporting Council.

We have documented our assessment of the King IV principles in a register. Refer to the detailed governance review on our website.

www.libstar.co.za

The audited consolidated annual financial statements comply with International Financial Reporting Standards (IFRS), the JSE Listings Requirements and the South African Companies Act.

An unqualified audit opinion was issued by the external auditors supporting the fair presentation of the financial results.

Refer to page 65

FOCUS AREAS

We identified key strategic focus areas, risks and challenges that represent the most material issues faced by our business. These were identified by the executive management team through a process of evaluation, as well as through engagements with external stakeholders.

We outline these on pages 30 to 31, and discuss them and other relevant matters throughout this report.

STAKEHOLDER ENGAGEMENT

While it has been a challenging year, our strategy of supplying innovative, value-add products to customers and consumers allowed us to again deliver a pleasing performance.

We focus on the low-cost manufacture of products for discerning consumers across the retail, wholesale, industrial and export channels. These segments have shown resilience despite the economic climate within which we operate.

We conduct ongoing market research to identify and optimise category trends and address customer and shopper concerns and requirements.

We also conduct employee surveys to ensure that we understand the requirements of our people. During the year, we conducted a detailed survey as part of our group brand repositioning. The feedback was positive, with valuable guidelines provided on areas employees would like more information on. This mainly included company performance and strategy, benefits and industry trends.

APPROVALS

The audit and risk committee is responsible for overseeing the content of the integrated annual report. This report was approved on 2 April 2020.

Our independent auditors, Moore Cape Town Inc, issued an unqualified audit opinion, supporting the fair presentation of the financial results.

AFR Refer to page 65

References to future financial performance in the integrated annual report have not been reviewed or reported on by our auditors.

HOW WE REPORT TO OUR STAKEHOLDERS

In addition to our integrated annual report, we provide additional information on our website.

www.libstar.co.za

ANNUAL FINANCIAL RESULTS

AFR https://www.libstar.co.za/wp-content/uploads/2020/03/Libstar-SENS-Booklet-F19.pdf

ANNUAL FINANCIAL STATEMENTS

AFS https://www.libstar.co.za/wp-content/uploads/2020/03/Libstar-AFS-F19.pdf

GOVERNANCE AND COMPLIANCE

We include a summarised governance section in this report, with a more detailed report on our website. This report also includes our compliance with King IV.

https://www.libstar.co.za/investors/governance/

Our **performance**

FINANCIAL

Revenue increased
↑ 2.4%

Gross profit margin improved by 1.6 percentage points to
↑ 24.0%

Normalised EBIT increased
↑ 3.8%

Normalised EBITDA increased
↑ 5.1%

Normalised EPS increased
↑ 14.3%

Normalised HEPS increased
↑ 14.1%

CASH FLOWS AND NET DEBT

R401 million
Invested in capacity or capability-enhancing projects

Net working capital within target band of
13% to 15%
of revenue

Net debt of
R1.3 billion
and 1.3x normalised EBITDA gearing is within optimal range of 1x to 2x normalised EBITDA

R976 million cash generated
from operations before working capital movements (like-for-like)

RETURN TO SHAREHOLDERS

Return on tangible invested capital (ROIC) of
20%

STRATEGIC ACHIEVEMENTS

Grow our categories

FOCUSED CATEGORY APPROACH

Successful exit of Elvin

Category consolidation in Household and Personal Care

COMMERCIAL EXCELLENCE

Ongoing innovation, new product development, optimising key market trends and increased market share

OPERATIONAL EXCELLENCE

Invested in new technology, efficiency improvement and capacity expansion

Expand our capabilities

R401 million invested in capability and capacity-enhancing projects

Strategic acquisitions

Acquired Healthwise, a niche tea packer with a significant footprint in Asia

PEOPLE AND CULTURE

Successfully launched leadership development programme

Reinvigorated Libstar's purpose and value statements

Improved B-BBEE rating to compliant

91% of employees are black

53% of employees are female

68% of employees trained

FACILITIES AND PRODUCTS

41 manufacturing facilities

10 warehouses, storage, packing and distribution facilities

More than 200 production and packing lines

More than 75 unique manufacturing technologies across the business units

32 new large projects commenced, including upgrades and expansions

309 new products launched

186 products revamped

Who **we are**

Libstar was founded in 2005 to acquire and grow operations in the Consumer Packaged Goods industry.

Since its establishment, Libstar has acquired and grown a range of family-owned or managed businesses that have consistently produced trusted and loved products for customers across the globe. These diverse businesses have demonstrated sound entrepreneurial management and high-growth potential.

Where **we operate**

We are based in South Africa, with our registered office in Johannesburg. We operate nationally through divisions situated in the provinces of Western Cape, Gauteng, KwaZulu-Natal, Eastern Cape and Mpumalanga.

We also export to more than 50 countries globally.

CONTRIBUTION TO GROUP EXPORT REVENUE (R'000)

NORTH AMERICA	AFRICA	EUROPE	ASIA	MIDDLE EAST	OCEANIA
R377 804	R320 036	R229 476	R142 843	R93 413	R56 520
31%	26%	19%	12%	7%	5%

7 592
EMPLOYEES*

MORE THAN
9 000
PRODUCTS, WITH
309 NEW PRODUCTS
LAUNCHED IN 2019

88%
OF REVENUE
FROM
SOUTH AFRICA

12%
OF REVENUE
FROM
EXPORTS

* Permanent and contract employees.

Our facilities in **South Africa**

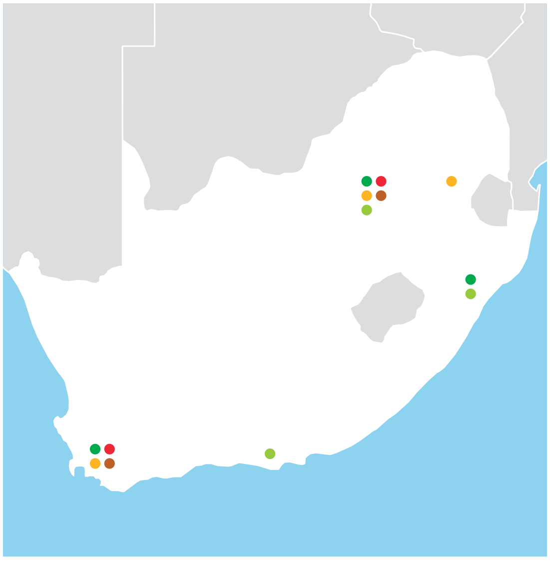
PERISHABLES

Lancewood has two production facilities: one in George, which is in the pasture-fed region for dairy farming and in close proximity to our milk suppliers; and a dairy facility in Athlone Industria in the Western Cape.

Finlar Fine Foods' operations are located in Bellville (Western Cape) and City Deep (Gauteng).

Denny Mushrooms are grown at three production facilities in Gauteng, KwaZulu-Natal and the Western Cape.

Millennium Foods' operation is in Killarney Gardens, Western Cape.



SNACKS AND CONFECTIONERY

Ambassador Foods' production facility is based in White River in Mpumalanga.

The operation of **Ambassador Confectionery** is located in Paarl in the Western Cape.

K Snacks is located in Germiston in Gauteng.

BAKING AND BAKING AIDS

Amaro Foods' four production facilities are situated in the Western Cape.

Amaro Gluten-Free Bakery's production facility is based in Epping in the Western Cape.

Retailer Brands' production facility is based in West Turffontein in Gauteng.

Cani Artisan Bakers is located in Blackheath in the Western Cape.

HOUSEHOLD AND PERSONAL CARE

Chet Chemicals' production facility is based in Kempton Park in Gauteng.

Contactim's facility is located in Pietermaritzburg in KwaZulu-Natal.

Glenmor Soap is situated in East London in the Eastern Cape.

GROCERIES

Cape Herb & Spice operates from Westlake Business Park in the Western Cape.

Rialto Foods operates from facilities in Montague Gardens (Western Cape) and Linbro Park (Gauteng).

Dickon Hall Foods operates its facilities from Southdale and Turffontein in Gauteng.

Cecil Vinegar operates from its facilities in the Strand (Western Cape) and Alrode (Gauteng).

Montagu Foods operates from a facility in Montagu in the Western Cape.

Hurters Honey operates from its facility in Langebaan in the Western Cape.

Chamonix Spring Water operates from a farm on the outskirts of Franschhoek in the Western Cape.

Khoisan Gourmet operates from premises in Ysterplaat and Clanwilliam in the Western Cape.

Multi-cup operates from a warehousing and packing facility in Kempton Park in Gauteng.

How **we operate**

From Our Home to Yours

Everything we do is underpinned by our core purpose of enriching people's daily lives. In keeping with this family ethos, many of the original management team and leaders in the businesses we acquired over the years are still with the group.

Most of our businesses have also been manufacturing and importing and exporting their brands and goods for generations.

Purpose
Enriching people's daily lives.

Brand promise
From Our Home to Yours.

Values
- Entrepreneurial spirit
- Passion
- Integrity
- Customer centricity
- Partnerships
- Accountability

Value proposition
Libstar – the catalyst where world-class Consumer Packaged Goods manufacturing and market insights come together, igniting lasting partnerships through innovative value creation.

OUR VALUES

ENTREPRENEURIAL SPIRIT

Innovate boldly. Work tirelessly.

We harness this spirit to always seek new ways and see risk as a worthy – but beatable – opponent. We labour with the fearless heart of an entrepreneur and the mind of a conscientious corporate.

INTEGRITY

Proper business is honest business.

We are committed to doing business properly, with solid values. Telling the truth and being aboveboard in all our day-to-day transactions is paramount.

PARTNERSHIPS

Partnerships aren't just made, they are kept.

Whether we're dealing with colleagues, customers, suppliers or the community, we make a conscious effort to develop and maintain robust and wholesome partnerships.

PASSION

The spark of perfection.

It's something that comes from inside us. It courses through our veins. It might not be something that's easy to explain, but it drives us to put our heart and soul into every second of what we do. That makes all the difference.

CUSTOMER CENTRICITY

The customer is always alright. We make sure of that.

When you ensure consistent service and uncompromising quality, there's no need to question customer satisfaction.

ACCOUNTABILITY

Do your bit and be responsible for it.

Taking ownership of what you do and authority over your actions means everyone is accountable for their own role within the greater whole.

The **Libstar family**

Our Libstar family is structured around five distinct product categories.

We specialise in the world-class manufacturing and production of leading branded and private label products that deliver the highest standards for consumers.

LIBSTAR

GROUP REVENUE

Food 92%

Other 8%

FOOD

PERISHABLES

DAIRY

MEAT

FRESH PRODUCE

CONVENIENCE FOODS

GROCERIES

DRY CONDIMENTS

MEAL INGREDIENTS

TEA

WET CONDIMENTS

HONEY

BEVERAGES

PACKAGING

SNACKS AND CONFECTIONERY

BAKING AND BAKING AIDS

BAKING

BAKING AIDS

OTHER

HOUSEHOLD AND PERSONAL CARE

HOUSEHOLD AND PERSONAL CARE BRANDS

Our **solutions**

Our manufacturing capabilities allow us to deliver a range of Libstar branded products, dealer-own brands and private label solutions to our partners in our retail, wholesale, industrial and food service channels. Our wide range of products and solutions positions us uniquely in the market.

Private label and dealer-own brands

43%
OF GROUP REVENUE*

We partner with other famous brands to create a range of products in key categories we operate in. These products range from low-cost and strategic private label to niche and innovative best-in-class dealer-own brands.

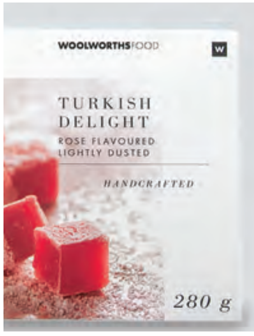
WOOLWORTHS
SHOPRITE Checkers
Pick n Pay
SPAR
makro
CLICKS
MASSMART
TRADER JOE'S
Loblaws

Libstar brands

32%
OF GROUP REVENUE*

We offer well-established brands and products that are owned by or licensed to Libstar.

LANCEWOOD
CapeHerb&Spice
DENNY
CANI
GOLDCREST
Cecil Vinegar Works
cook'n bake
NCP YEAST
ROBERTSONS
natural
SAFARI
Licensed under Robertsons#, Safari# and NCP#
CARTWRIGHTS



* Gross revenue.

Licensed.

Outsourced manufacturing and food service solutions

17%
OF GROUP REVENUE*

We manufacture a range of products on behalf of other businesses.

Principal brands

8%
OF GROUP REVENUE*

We represent several well-known international brands in the South African consumer market. The endorsement from world-famous labels demonstrates the trust in our marketing and distribution capabilities.

* Gross revenue.

Our **sales channels**

Our innovation strategy and category insights result in our products being presented where the shopper wants to buy them to ensure they form part of the final purchase or consumption decision.

RETAIL AND WHOLESALE CHANNEL

This is the largest contributor to our revenue on an annual basis. We supply products across our five product categories into the retail and wholesale sales channel.

We have a multi-brand strategy, combined with long-standing and successful relationships with South Africa's large food retailers. These factors allow us to strategically position our Libstar brands alongside dealer-own brands, private label products and principal brands on retail shelves. Not only does this balance profitability across product categories, it also ensures that there is a competitive range of products under our offering in each of the product categories.

Expanding the categories we offer increases our share of the shopper's wallet by providing a variety of products across critical price points.

FOOD SERVICE CHANNEL

This channel proves the quality of our manufacturing operations, as leading companies choose us as their long-term partner to manufacture and supply perishables.

Products include beef, chicken and related meat products, as well as soft and hard cheeses. This channel also includes food packaging, table sauces, and other wet condiments from the Groceries category. We also supply value-add beef and chicken products and tortilla wraps to the quick-service restaurant sector.

OUTSOURCED MANUFACTURING SOLUTIONS

The products that are manufactured and sold through this channel are supplied to trusted brand owners in South Africa. These products span four of the five product categories, namely Perishables (value-add chicken, meat and vegetable products and cheeses), Groceries (table sauces and food packaging), Snacks and Confectionery (cereal and snack bars) and Household and Personal Care (cleaning products).

EXPORT CHANNEL

We exported to more than 50 countries in 2019. Our main export countries are the United States, Germany, China, the United Arab Emirates, the United Kingdom, Australia, Japan and several countries in the rest of Africa.

Exports currently contribute 12% of group revenue. The business unit responsible for the majority of the group's export revenue in 2019, contributing 51%, was Cape Herb & Spice.

Some of our large customers in the retail sales channel also export our products into neighbouring African countries and beyond.

60% OF GROUP GROSS REVENUE

18% OF GROUP GROSS REVENUE

10% OF GROUP GROSS REVENUE

12% OF GROUP GROSS REVENUE

Our **strategy**

Libstar's value proposition is to be the catalyst for world-class Consumer Packaged Goods manufacturing and market insights to come together, igniting lasting partnerships through innovative value creation.

Our strategy has three key focus areas:

1 GROW OUR CATEGORIES

Operational excellence

A key pillar of our strategy is operational excellence. This involves implementing operational efficiencies, standardising systems and ensuring effective cost management to ensure higher returns to shareholders.

How we deliver on this:

- Implement cost-reduction plans, equipment upgrades, lowest-cost facilities
- Create resource-sharing opportunities
- Support underperforming divisions and streamline supply chains

Commercial excellence

Libstar's category approach and diverse production capability allow us to exploit key market growth trends. Our in-depth market understanding enables product accessibility and visibility.

How we deliver on this:

- Accelerate product development, innovation and speed-to-market
- Focus on health, wellness and convenience trends
- Enter and innovate in fast-growing categories through private label and branded solutions
- Leverage growth of dealer-own brands and private label, and be proactive with new product development
- Unlock value through category consolidation

2 EXPAND OUR CAPABILITIES

We invest in capability and capacity-enhancing projects to introduce new technologies, efficiency improvements and capacity expansion in key growth categories.

How we deliver on this:

- Focus on processes, from sales management to customer relationships
- Create new channels and total brand availability
- Expand our export-led growth strategy through strategic partners
- Identify quick-return capital projects

3 ACQUIRE

Libstar's bolt-on acquisition strategy largely centres around capacity or capability-enhancing businesses or as an entry into new or high-growth product categories.

How we deliver on this:

- Continue to proactively identify strategic bolt-on acquisitions
- Identify and fill gaps in our existing food category offering
- Build strategic alliances with international customers or suppliers

Our **strategy in action**

Grow our categories through commercial excellence

Our category approach and diverse production capability allowed us to continue leveraging key growth trends in the market during 2019.

On-the-go eating and convenience

- Amaro Foods continued to serve the retail and quick-service restaurant market with quality tortilla wraps, a category that experienced exceptional growth during the year under review.
- Millennium Foods' new frozen meals capability has created opportunities and expanded its product range.

Healthier eating and wellness

- Ambassador Foods relaunched its range of health bars within the retail channel, and expanded its market footprint in assorted nuts and mixes.
- Hurters Honey performed strongly as a producer of quality honey products within a growing health-conscious market segment.
- Cape Herb & Spice introduced a vegan spice range.

Dealer-own brand (DOB), private label products (PLP) and Libstar brands

- Libstar has several established brands, including Lancewood, Denny, Goldcrest and Cook 'n Bake. These continued to play a key role in our performance and constituted 32% of group revenue. Lancewood delivered a particularly strong performance.
- DOB and PLP constituted 43% of the group's revenue during 2019 and remain core growth opportunities. Price-sensitive consumers continue to view these products as value-for-money, quality alternatives to branded products. Market data indicates that growth in DOB and PLP outstrips that of named brands within Libstar's categories. We continued to capitalise on this trend during the year by increasing our market share in PLP within Libstar's defined market.
- Cape Herb & Spice further grew its PLP dry condiment offering within the export channel by leveraging its long-standing customer relationships.

Environmentally friendly alternatives

- Multi-cup successfully launched a locally produced range of paper straws and compostable packaging.
- Multi-cup also launched its own brand of environmentally friendly products called Precious Planet.
- Our Household and Personal Care category successfully launched a range of eco-friendly household cleaning products.

Focused category approach

We further extracted value this year by restructuring our categories from seven to five to optimise our food-related offering.

Multi-cup and Chamonix are now reported in the Groceries category. We completed the disposal of our dairy blend and fruit concentrate business, Elvin, which was held for sale during the first half of 2019.

The operational amalgamation of the divisions within the Household and Personal Care cluster commenced in the second half of 2019. While some cost-rationalisation benefits were extracted during the year under review, the physical integration of Chet Chemicals' four manufacturing and warehousing facilities is expected to yield significant cost-rationalisation benefits from 2020.

We also continue to conduct ongoing market research to identify and optimise trends for improved category strategies.

Grow our categories through operational excellence

We continued to invest in the standardisation of systems and the development of costing systems to track our performance against best-practice standards. We achieved our target of standardising 90% of our revenue onto a single software solution in 2019. This assisted in improving gross profit margins across all categories and an EBITDA margin expansion across four of the group's five categories during the year under review. We implemented a regional merchandising model to be nimbler and improve delivery on customer requirements.

Expand our capabilities through strategic initiatives

We invested R401 million (of which R110 million related to work-in-progress projects at year-end) in capability and capacity-enhancing projects during the year. The projects started or completed during the year are listed below. The majority comprised expansionary capital:

New technologies

- R23 million in our Amaro Foods manufacturing facility to deliver a par-baked frozen bread solution to a key retail customer.

Efficiency improvements

- R13 million to upgrade the Cape Herb & Spice tea plant, R22 million to upgrade Ambassador Foods' bar lines and R122 million at Lancewood. R73 million of this was earmarked to upgrade the milk-receiving area, distribution centre and certain hard cheese packing lines.

Capacity expansion

- R24 million this year (R38 million in total) to triple the convenience-food production capacity of Millennium Foods and add the capability to produce frozen meals to retail and food service customers.
- R4 million to facilitate the local production of Kiri and Laughing Cow cheeses on behalf of Bel (France) in strategic partnership.

Maintenance and other capital expenditure

- We spent R193 million on maintenance and other capital expenditure.

Executing strategic acquisitions

During 2018, our focus was on the integration of three acquired businesses: Sonnendal Dairies, Millennium Foods and Khoisan Gourmet. Our bolt-on acquisition strategy has been largely centred on capacity or capability-enhancing businesses and the entry to new or high-growth product categories.

Capacity or capability-enhancing acquisitions

With the Sonnendal Dairies acquisition fully bedded down during 2019, we successfully launched our range of eating yoghurts, which improved our dairy sales mix and margin. This range has exceeded our market share forecasts for the introductory stage of the product's life cycle.

Most of the year was dedicated to further capacity expansion and the establishment of a frozen meals capability at Millennium Foods. We believe this will position us strongly in a growing market segment during 2020.

Enter new or high-growth product categories

The valued-add tea export market poses a significant opportunity due to its higher-margin attributes. In this regard, we invested R50 million to acquire Healthwise, a niche branded tea packer with a significant footprint in the Asian market, with effect from 1 October 2019. The expansion of Healthwise's branded, value-add export-driven product offering, in combination with Khoisan Gourmet's additional volumes, will be a key focus in 2020.

How we **measure our strategy**

Libstar monitors a range of financial and non-financial ratios to ensure it tracks its progress.

The table outlines the key measures.

FINANCIAL MEASURES

Continuing operations (like-for-like) (R'000)	2019	Change	2018
Total revenue	**9 892 545**	+2.4%	9 659 597
Organic revenue growth		+1.8%	
Revenue growth from our food-related categories, which constitute 92% of our revenue, was 3.3%. Revenue from the only remaining non-food-related category, the Household and Personal Care cluster, which represents 8% of the group's revenue, declined by 6.8%.			
Normalised EBIT	**854 799**	+3.8%	823 525
(margin)	**8.6%**	+0.1pp	8.5%
Normalised EBITDA	**1 034 749**	+5.1%	984 456
(margin)	**10.5%**	+0.3pp	10.2%
Normalised EPS (cents)	**84.7**	+14.3%	74.1
Normalised HEPS (cents)	**85.1**	+14.1%	74.6
Normalised earnings increased by 20.5% to R506 million (84.7 cents per share), mainly as a result of the significant reduction in the group's net interest expense.			
Return on tangible invested capital (ROIC)	**20%**		22%
The group's ROIC was lower than the prior year, mainly as a result of the increased investment in capital projects during this year. However, it remains within the group's target range.			
Net gearing	**1.3x normalised EBITDA**		1.2x normalised EBITDA

The group's net gearing ratio remains within the optimal target range of 1.0x to 2.0x net debt to EBITDA.

STRATEGY MEASURES

Awards

11 of Lancewood's products won first prize at the 2019 SA Dairy Championship Awards, with three achieving the prestigious Qualité Award. Lancewood's Mascarpone also received "the best cheese in the world" award at the 2018 World Cheese Awards in Norway. Cape Herb & Spice was awarded the Wasel Grocery Summit Award for best product in the category of "hot beverages".

Core brands, private label and principal brands

Libstar's private label, core brands and principal brands increased its defined market penetration to 12.8% (2018: 12.4%) and grew ahead of the market. Our products grew by 4.7% compared to the defined market growth of 1.8%. The defined market value is R25.4 billion.

EMPLOYEE MEASURES

	2019	Change	2018
Number of employees*	**6 089**	4.8%	5 808
Revenue per employee (R'000)	**1 625**	-2.3%	1 663
Organic revenue per employee (R'000)	**1 616**	-2.9%	1 663
Normalised EBITDA per employee (R'000)	**170**	0.3%	169

* Permanent.

Our **strategy going forward**

1 GROW OUR CATEGORIES

OPERATIONAL EXCELLENCE

Short-term

Strategic focus areas

Standardisation of enterprise resource planning systems, improvement of product costing capabilities, sales and operational planning programmes, overall equipment effectiveness measuring and reporting, and logistics planning.

ACTIONS TAKEN

- 90% of revenue now on the standard enterprise resource planning system.
- Successful pilot of logistics tracking software at Rialto Foods.
- Sales and operational planning programmes underway.
- Scoping of overall equipment effectiveness project underway.

Medium- to long-term

Strategic focus areas	ACTIONS TO BE TAKEN
Ensure lowest-cost production.	Continuously implement cost reductions plans.
Ongoing improvement of manufacturing efficiencies.	Ensure lowest-cost production facilities and invest in technology and equipment.
Drive best-in-class front- and back-end delivery.	Implement supply chain efficiencies, group procurement opportunities, and enhanced marketing and sales processes.
Standardise enterprise resource planning systems.	Systems will be standardised through metrics and reporting, enhancing our product costing capabilities, streamlining sales and operational planning programmes and improving manufacturing effectiveness.

COMMERCIAL EXCELLENCE

Short-term

Strategic focus areas

Operational consolidation of Chet Chemicals, Contactim and Glenmor divisions into a single Household and Personal Care (HPC) cluster.

ACTIONS TAKEN

During the second half of 2019, the back-office accounting and administration functions and front-end sales and marketing functions of three HPC divisions were operationally consolidated.

During 2020, four premises of Chet Chemicals will be combined into a single manufacturing and warehouse facility to extract cost efficiencies.

Medium- to long-term

Strategic focus areas	ACTIONS TO BE TAKEN
Rigorous demand creation planning.	The development of innovative and efficient category, growth, channel and customer plans.
Improve market insight competency.	Relevant market data and consumer research will improve our understanding of consumers, markets and categories.
Strategically consolidate divisions.	Consolidate divisions that share merchandising, logistics, new product development, marketing and/or end-consumers and unlocking efficiencies and opportunities.
Accelerate our go-to-market time.	Increase our go-to-market time through agile and collaborative innovation processes, which will be enhanced through the creation of an Innovation Incubator. The incubator will facilitate collaboration between our central resources and our business units.
Manage and grow our share of market.	Continue to grow our market share through our brand solutions and by spearheading our customer-centric approach to grow private label, dealer-own, principal and Libstar-owned brands.

2 EXPAND OUR CAPABILITIES

Short-term

Strategic focus areas

Strategic focus areas	ACTIONS TAKEN
Customer-led growth strategies with key performance metrics.	Customer category growth plans implemented.

Medium- to long-term

Strategic focus areas	ACTIONS TO BE TAKEN
Expand the channels we operate in.	Utilise Cape Herb & Spice's export competency as a platform to showcase Libstar's category offering to key markets. We will also implement a focused growth plan to expand Libstar's complete category offering into food service.
Increase collaboration between Libstar business units.	Ensure lowest-cost production facilities and invest in technology and equipment.
Invest in our manufacturing capabilities.	Ongoing investment to expand the scope of our business units and enhance efficiencies, build capacity and drive innovation.
Build the Libstar-owned brand portfolio.	Expand the portfolio through a focused growth strategy to renovate and invest in existing brands, and enter new categories and markets.
Talent management.	Continue to roll out programmes to retain and grow our biggest asset, our people. This will be done in line with our values and purpose of enriching people's daily lives.
Unlock value through market insight-driven innovation.	Increase our speed-to-market through agile innovation processes grounded in consumer-, category- and customer-centric insights in private label, dealer-own and branded products.

3 ACQUIRE

Short-term

Strategic focus areas	ACTIONS TAKEN
Value-adding acquisitions.	The acquisition of Healthwise into our tea business, Khoisan Gourmet, has positioned us well in the Asian export market with a well-known brand.

Medium- to long-term

Strategic focus areas	ACTIONS TO BE TAKEN
Invest in bolt-on acquisitions.	Acquisitions will be evaluated to add to existing business units and allow Libstar to widen its scope, grow its existing categories, enhance efficiencies, build capacity and open new growth markets.

Our **value-creating business model**

What we use

FINANCIAL CAPITAL
We rely on the financial resources given to us by our shareholders, financiers and retained profits.

MANUFACTURED CAPITAL
We rely on our assets to deliver our operations in an efficient manner.

INTELLECTUAL CAPITAL
We rely on our vast knowledge, experience and industry insight to continuously find ways to innovate and provide solutions to our customers.

HUMAN CAPITAL
We rely on a high calibre of talent that is key to differentiating us with customers.

SOCIAL AND RELATIONSHIP CAPITAL
We rely on our relationships with stakeholders and broader communities to create a reciprocal value-creation dynamic.

NATURAL CAPITAL
We rely on energy resources that are critical to our operations, particularly in the manufacturing facilities and fleet we use to deliver our operations.

Our value-chain activities

- Customer service
- Manufacturing excellence
- Efficient distribution channels
- Product innovation
- Talented people

How we create value

We create value by developing unique products that provide value to our customers and consumers.

We generate profit through the sale of these products, combined with efficient manufacturing processes.

Markets we deliver value to

- Retail and wholesale markets
- Food service markets
- Export markets

Key risks we have to manage

- Operating in a weak macro-economic environment
- Impact of COVID-19
- Loss of key customers
- Loss of skilled labour
- Food safety
- Business interruption due to supply chain, infrastructure, IT or labour-related factors

Our outcomes

Our outcomes are the services and products we deliver to stakeholders.

We have a business model with flexibility and resilience, which allows us to supply innovative and value-add products. We focus on the low-cost manufacture of these products for discerning consumer markets.

We also have long-standing relationships with our customers in the retail, wholesale, industrial and export channels to produce innovative products in partnership with them.

Our **business model and the capitals**

FINANCIAL CAPITAL

Inputs

- Revenue of R9 893 million.
- Normalised operating profit of R855 million.
- Normalised earnings before interest, tax, depreciation and amortisation (EBITDA) of R1 035 million.
- Cash flow generated from operations of R976 million, excluding working capital changes (like-for-like).

Material issues and risks

- Revenue and profitability growth in challenging market conditions.

Activities to address risks

- Focus on resilient target markets and growing private label, core brand and principal brand market share.
- Cost-containment initiatives and business integrations.
- Supply-chain optimisation, system standardisation and procurement practices to maintain and improve margins.

Outcomes

- Revenue increased by 2.4%.
- Normalised operating profit increased by 3.8%.
- Normalised EBITDA increased by 5.1%.
- 20% return on tangible invested capital (ROIC).
- Group cash conversion ratio remains above 60%.
- Net working capital days 50, which is within the target band of 13% to 15% of revenue.
- Net gearing of 1.3x normalised EBITDA (2018: 1.2x normalised EBITDA).

MANUFACTURED CAPITAL

Inputs

- 41 manufacturing facilities.
- Ten warehouses and storage, packing and distribution facilities.
- More than 200 production and packing lines.
- More than 75 unique manufacturing technologies across the business units.

Material issues and risks

- Increased sector focus on health and safety.
- Higher input costs across the board (raw materials and labour).
- Production inefficiencies (overall equipment effectiveness and waste).
- The design and construction of consumer goods facilities is complex, particularly the requirements relating to food safety against a requirement for low-cost production.

Activities to address risks

- Governance system implementation and assessments.
- Mandatory FSSC 22000 certification for food manufacturing sites.
- Increased internal and external health and safety audits.
- Ongoing expansion of internal capacity and capability, with nine significant capital projects (including five complete factory rebuilds) undertaken by Libstar's in-house plant engineering and construction management team.
- 32 large improvement or expansion projects initiated in 2019.
- Ongoing review of production processes, manufacturing facility design and automation techniques.
- Flexible procurement practices, which involve the substitution of imports for locally produced inputs.
- Significant facilities upgrades in the last five years.
- Implementation of fully-absorbed costing methodologies across the group.
- Building of a procurement database to evaluate input costs, and IT/logistics systems that will assist with product costing.

Outcomes

- All manufacturing facilities are ISO-compliant.
- No major health and safety events.
- During 2019, we invested R401 million in capital expenditure.
- New technologies
  - Invested R23 million in our Amaro Foods' manufacturing facility to deliver a par-baked frozen bread solution to a key retail customer.
- Efficiency improvements
  - Invested R13 million to upgrade the Cape Herb & Spice tea plant, R22 million to upgrade Ambassador Foods' bar lines and R122 million at Lancewood, of which R73 million was earmarked to upgrade the milk-receiving area, distribution centre and certain hard cheese packing lines.
- Capacity expansion
  - Invested R24 million this year (R38 million in total) to triple the convenience-food production capacity of Millennium Foods and add the capability to produce frozen meals for retail and food service customers.
  - Invested R4 million to facilitate the local production of Kiri and Laughing Cow cheeses on behalf of Bel (France) in strategic partnership.
- Maintenance and other capital expenditure of R193 million.

INTELLECTUAL CAPITAL

Inputs

- Proven track record of identifying industry trends and accessing innovative product categories.
- Deep customer relationships, with certain relationships spanning more than 20 years.
- Executive management team has significant experience in the industry.

Material issues and risks

- Loss of key customer relationships.
- Inability to innovate and respond to customer needs.
- Non-participation in key growth categories due to a lack of relevant products.

Activities to address risks

- Ongoing customer engagement and joint strategic planning in collaboration with key customers.
- Continuous innovation and new product development.
- Implementation of a central category management team.
- Ongoing investment in our teams and the group culture of entrepreneurship and innovation.
- Investment in market and shopper research and building a knowledge base of market share and key growth categories.

Outcomes

- The group has more than 9 000 products.
- 309 new products launched in 2019 and 186 products revamped, focusing on key growth market categories.
- Ongoing training to improve our team's skills, as outlined in human capital.

HUMAN CAPITAL

Inputs

- 6 089 permanent employees and 7 592 total employees.
  - 53% female employees.
  - 91% black* employees.
- Salaries and wages of R1 308 million in 2019.
- Transformation and diversity programmes.

Material issues and risks

- Lack of skills of the required racial demographics with experience and qualifications in certain business units.
- Losing skilled employees.

Activities to address risks

- Increased training and development.
- Improved focus on culture development and transformation.
- Restructuring of the long-term incentive programme for qualifying and key employees.
- Ongoing communication with the employee base to improve relationships.
- Implementation of a talent management programme.

Outcomes

- Almost R7.6 million spent on training in 2019.
- 68% of employees trained.
- 424 bursaries, learnerships, apprenticeships and internships.
- 65 disabled employees.
- Active socio-economic development and enterprise development programmes.
- No labour unrest.

SOCIAL AND RELATIONSHIP CAPITAL

Inputs

- People employed from communities surrounding our operations.
- Implementation of a youth development programme.
- Engagement of millions of shoppers with our more than 9 000 products.
- Social programmes.

Material issues and risks

- Community unrest impacting our operations.
- Not launching relevant products.
- Poor engagement with our communities.

Activities to address risks

- Continuous product innovation and evaluation of trends.
- Ongoing engagement with customers to create value-adding products.
- Social programme grants and contributions.
- Education programmes and training.
- Discounts for our employees (in addition to normal business practices).
- Support of healthcare/HIV/Aids programmes.

Outcomes

- R16.8 million spent on social programmes, such as food/product donations, provision of transport, and development programmes and grants.

NATURAL CAPITAL

Inputs

- 41 manufacturing facilities.
- R131 million electricity cost.
- R66 million gas cost.
- R21 million water cost.

Material issues and risks

- Power interruptions at manufacturing facilities.
- High input costs.
- Ageing municipal water and power networks.

Activities to address risks

- Electricity- and gas-saving initiatives in place.
- Borehole installation in a number of areas.
- Most of the manufacturing facilities have generator power.
- We evaluate and negotiate price increases with customers periodically to pass through increases in the prices of raw materials and other input costs.

Outcomes

- Electricity cost increased by 20.9%, gas cost increased by 10.7% and water cost decreased by 3.4%.
- Invested in boreholes and grey-water systems.
- Electricity and fuel cost initiatives evaluated.

* Black, Indian and Coloured.

Year under review

Page

Key strategic **focus areas, risks** and **challenges**

This section outlines the group's key strategic focus areas, risks and challenges.

Key focus areas

1 Optimisation of the portfolio through a focused category approach

Various activities were undertaken during the year to optimise the group's food-related business portfolio. These included:

- The disposal of the group's dairy blend and fruit concentrate business, Elvin.
- The commencement of an operational amalgamation of the divisions within the Household and Personal Care cluster.

2 Operating in a tough retail and consumer environment, and growing our categories

An improved sales mix contributed to higher gross profit margins in all of our categories, and an improved normalised EBIT and normalised EBITDA margin. We achieved this through our ability to capitalise on key growth trends, continued investment in the standardisation of systems, and a focus on procurement practices, production efficiencies and overall equipment effectiveness.

3 Expanding our capabilities through strategic initiatives

This year, we invested R401 million in new technologies, efficiency improvement and capacity expansion projects.

4 Allocation of capital to strategic acquisitions

During the year, our Lancewood business leveraged the manufacturing capabilities of Sonnendal Dairies following its acquisition in 2017 to launch 34 new products in the dairy category. The launch proved very successful and exceeded our initial market share targets.

Material issues and risks

Key risks:

Operating in a weak macro-economic environment	The outbreak of COVID-19 post year-end	Loss of key customers	Loss of skilled labour	Ensuring food safety	Business interruption due to supply chain, infrastructure, IT or labour-related factors

Material issues:

ISSUES	MITIGATING ACTIONS
The underperformance of the Household and Personal Care (HPC) cluster, despite cost rationalisation. HPC is highly working capital intensive and faces ongoing market pressure.	A cluster consolidation and restructuring were implemented during the year.
Volume pressure from our outsourced manufacturing channel in Groceries (wet condiments) product lines.	We are targeting new food service customers and rolling out new products in 2020.
Montagu Foods faced operational and logistics effectiveness challenges.	We have optimised this business' supply chain.
Risk of COVID-19.	We have implemented group and divisional steering committees to continuously monitor the unfolding situation. Hygiene practices have been intensified across all sites and remote working practices have been implemented where possible. The safety, health and wellbeing of Libstar's workforce remains the single most important priority during this time.

Our **board**

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1 WENDY LUHABE (62)

CHAIRMAN – INDEPENDENT NON-EXECUTIVE DIRECTOR

BCom University of Lesotho

Management Advancement Programme Wits Business School

Date of board appointment: 2018

Committees: Social and ethics, remuneration, nomination (chairman)

Wendy has been a serial social entrepreneur for more than 25 years, with a focus on the economic empowerment of women. This has provided invaluable insight to Libstar as a group built on entrepreneurial foundations, with particular involvement this year during the group's corporate repositioning.

Wendy has pioneered broad-based economic empowerment (B-BBEE) of women in 1993 through the creation of WIPHOLD, one of the first women empowerment groups. This was before B-BBEE became legislation. She also established the Women Private Equity Fund and the Women in Infrastructure Development and Energy (WINDE). Wendy's strategic experience and in-depth understanding of transformation has been crucial in Libstar's initiatives to improve its B-BBEE status and evaluating optimal ownership structures.

2 JP LANDMAN (64)

LEAD INDEPENDENT NON-EXECUTIVE DIRECTOR

BA LLB University of Stellenbosch

MPhil in Future Studies (Cum Laude) University of Stellenbosch

Programme on Macroeconomic Policy Management Harvard

Continuing Education on the Economies of the BRICS countries (Oxford University, Continuing Education)

Date of board appointment: 2018

Committees: Audit and risk, investment and strategy (chairman), remuneration

JP is an independent analyst on political-economic trends, focusing on trends in politics, economics, demographics and social capital. As a previously top-rated analyst in the listed environment, he has a good understanding of listed entities and relevant market forces.

JP has also previously served on President Mbeki's economic advisory panel and was a member of the National Planning Commission. This in-depth knowledge of the economic and market environment has provided key input to the board and management, especially as Libstar's strategy is built on identifying market trends and implementing a strategy that withstands economic cycles.

3 SIBONGILE MASINGA (53)

INDEPENDENT NON-EXECUTIVE DIRECTOR

BCom UNISA

US-SA Leadership & Entrepreneurship Programme Wharton School of Business

Date of board appointment: 2018

Committees: Audit and risk (chairman), social and ethics (chairman)

Sibongile is a co-founder and shareholder of Afropulse Group, a women-led investment, corporate advisory and investor relations group. She has served as a non-executive director of a number of JSE-listed companies which enables her to offer a valuable perspective to the board of Libstar. As a board member of Bidvest Holdings, she also provides industry-related and corporate experience to Libstar.

Her directorship on the finance and grant committee of the manufacturing, engineering and related services sector (merSETA) has empowered her with relevant knowledge to the group as a manufacturer.

As the chairman of the audit and risk committee, Bongi has also provided valuable input to the formulation of Libstar's risk management frameworks.

4 SANDEEP KHANNA (46)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Chartered Global Management Accountant

Associate Member of the Chartered Institute of Management Accountants (UK)

Date of board appointment: 2014

Committees: Audit and risk, investment and strategy, remuneration (chairman), nomination

Sandeep is a seasoned investor with more than 20 years of experience in Africa. His track record of investing in Africa through direct investing, investment committee membership and senior key leadership positions held at two leading emerging markets fund management firms provide relevant experience to Libstar as an African group that continues to evaluate potential acquisitions to ensure growth. As a chartered management accountant in the United Kingdom, Sandeep also understands global markets where Libstar exports to. This has allowed him to provide critical input on the investment and strategy committee.

5 ANDRIES VAN RENSBURG (65)

CHIEF EXECUTIVE OFFICER

BEng, MEng University of Stellenbosch

MBL (Cum Laude) UNISA

Date of board appointment: 2014

Andries has an accomplished track record of almost 40 years, with a range of senior positions at groups such as Sasol and Tiger Brands where he successfully grew market shares and established key brands.

Andries co-founded Libstar in 2005 with a vision to create a leading Consumer Packaged Goods (CPG) group. His CPG industry knowledge has been instrumental to the growth of Libstar's own brand, dealer-own brand and private label strategies. His entrepreneurial flair has enabled the identification of leading businesses to include in the stable and his management style of creating an ownership culture at Libstar has ensured the retention of the founders of the acquired businesses within the group. His established track record in the food sector has played a critical role in Libstar being a group that identifies future trends and creates differentiated product offerings.

6 ROBIN SMITH (61)

CHIEF FINANCIAL OFFICER

(Until 31 December 2019)

GROUP COMMERCIAL DIRECTOR

(From 1 January 2020)

BCompt and BCompt Honours UNISA
CA(SA)

Date of board appointment: 2014

Robin has more than 25 years' experience in the auditing and financial markets. He left the accounting profession for a financial management position in commerce and industry and has served in senior financial roles for more than 20 years. As a previous director of private equity, investment and listed companies, he has a solid understanding of corporate finance, acquisitions and the extraction of value. Robin co-founded Libstar in 2005 and has played a crucial role in its development with his combination of financial and commercial acumen.

Robin has a particular understanding of what financial markets require from listed entities due to his previous roles. His experience in the markets within which Libstar operates has also been invaluable to the identification and integration of value-adding acquisitions since the establishment of Libstar.

7 CHARL DE VILLIERS (35)

CHIEF FINANCIAL OFFICER

(From 1 January 2020)

BAcc LLB (Cum Laude)

BAcc (Hons)

CA(SA)

Date of board appointment: 2020

Charl has more than ten years' finance experience, which includes an extensive track record in corporate finance and as a senior financial executive of companies operating in the South African-listed environment. He has a unique combination of legal and financial qualifications, which provides a breadth of technical competence, creative and strategic problem solving and attention to detail. In 2016, he was recognised by the South African Institute of Chartered Accountants as a finalist in its annual Top 35 CA(SA)'s under the age of 35. Charl's experience has been particularly valuable during Libstar's transition from a private company to a JSE-listed company, with his achievements including the pre-listing restructuring of multiple legal entities into a single entity and the post-listing establishment of group visibility of foreign exchange contracts. As the group's new CFO, Charl brings strategic insight and strong conceptual abilities to design strategies and is able to prioritise efficiently.

Chairman's **review**

As I consider the various challenges we face as a country and global community, I believe that the foundational solution to addressing these matters and building a stronger future is to cultivate better leadership. Effective leadership requires more than skills and competency; it includes mindfulness, self-awareness and self-examination about how we contribute towards the state of the world.

Introduction

The recent corporate scandals that have made headlines in South Africa are a local reflection of the global scarcity of ethical leadership in the economic and political spheres. Social scientist Willis Harman (1918 to 1997) suggested that when the wellbeing of everyone becomes more important than self-interest and the ambitions of a few, the values by which society measures itself will transform humanity. The leadership required in today's world demands that those in positions of influence consciously steward their areas of responsibility with the intention of effecting progress for all people.

Cultivating good leadership in challenging circumstances requires us to focus on the influence we can exert on the elements within our control. By applying ourselves with dedication to the aspects of our business and environment where we can bring about change, we can make a genuine difference.

As a chairman in South Africa, I believe that leaders in the private sector have to identify ways to work with government to find solutions for the country's future. We should take responsibility for the influence we have on others, our organisations and our country. We should use this new decade to contribute towards a world that works for everyone, not just the few.

The post year-end outbreak of COVID-19 has intensified this requirement. As outlined in the Bain & Company report *Defending Consumer Products Companies against COVID-19*, this pandemic has created a defining leadership moment. As leaders of businesses, we need to embrace the challenge, take decisive actions that put people first, communicate effectively and empower our teams and communities.

Consumer products companies play a particularly vital role in supporting society through crises such as the COVID-19 outbreak. As a board and management team, we are committed to rising to this challenge with a focused and coordinated response. We do not have all the answers, but we do know that the global and local Consumer Packaged Goods industry will be managing the consequences of this pandemic for an extended time. As Libstar's chairman, I acknowledge the strong leadership shown at the group at this time. I am confident that we will address the challenges head-on.

As a nation, we have become accustomed to the narrative that we are unable to effect the necessary changes within our environment. We need to especially guard against this in the context of lockdowns and rising COVID-19 infections in South Africa. Libstar's mantra has always been to focus on perfecting the areas over which we exercise control and influence. We try to differentiate ourselves by remaining steadfast in our efforts to enrich people's daily lives through our products. In the current conditions, we will take this responsibility very seriously. As outlined in the CEO's review, the safety and health of Libstar's people is paramount and we have taken swift and decisive action to protect our stakeholders and our business.

SUSTAINABILITY APPROACH

Environmental, social and governance factors are key areas where we can have a direct impact in our spheres of influence. At Libstar, we aim to cultivate a sustainable way of doing business across these three elements.

ENVIRONMENTAL

We aim to build sustainability and environmentally beneficial practices into our business wherever possible. At Libstar we are growing our use of renewable energy, and have strategies in place to reduce our energy and water usage, thereby also reducing our carbon footprint.

Refer to pages 27 and 55

Social

We believe in investing in people and equipping them with the skills they need to advance their career and life. During the year, we continued to focus on the talent and succession planning initiatives started in 2018. These initiatives included the identification of high-potential individuals, and tailored development plans and programmes. These will be rolled out to a further grouping of high-potential individuals during 2020.

Refer to page 39

GOVERNANCE

Governance is a critical area for sustainable, ethical business. As a newly-listed group, we focused on continuing to improve our structures and processes. During the year, we revisited the group's purpose, values and corporate identity. This process involved significant interaction with stakeholders and culminated in the birth of our new tagline, "From Our Home to Yours". We believe this process has been extremely valuable for the board, management and employees, as it allowed us to crystallise our strengths and identify areas for improvement. We believe it also reinforced the familial and entrepreneurial culture on which Libstar was founded.

As the group continues to infuse this identity with its three-pronged strategy of category growth, capability expansion and strategic acquisitions, our operating model is also being aligned to ensure that Libstar is best placed to serve its customers.

OUR MARKET

South African GDP growth contracted further during 2019, from 0.8% in 2018 to 0.6%. The Reserve Bank and the International Monetary Fund also reduced their medium-term growth forecasts during January 2020.

These factors, in combination with higher unemployment rates, lower consumer confidence and reduced disposable income, have contributed to a low food-inflation environment, while producers have continued to navigate rising costs of production that have been impacted by electricity supply and infrastructure constraints.

According to Nielsen, South Africa is the second most price-sensitive country in the world, meaning consumers are acutely aware of pricing norms and changes. As a result, a number of key consumer trends have increased, including seeking out value in retailer promotional activity, buying in bulk through larger pack sizes, shifting to dairy as a more affordable protein and the replacement of meals with "snack-sized" substitutes.

As an established private label and dealer-own brand provider, we are particularly well positioned for the increasing requirements from consumers for these products. Our Libstar brands are also established in the market, which has allowed us to continue growing these key brands during the year. We have strong market shares in these areas.

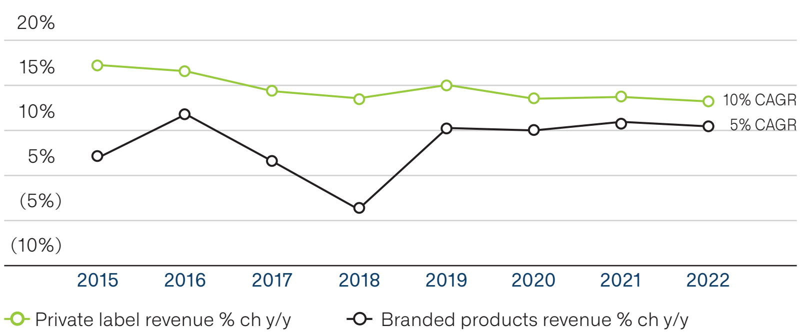
Our investment in efficiency and capability-enhancing projects during the year, across a number of our businesses, has placed us in a strong position for this consumer trend.

LIBSTAR'S RESPONSE

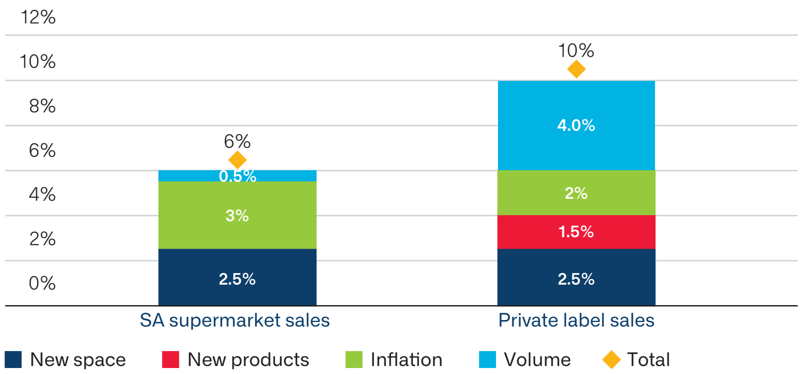
Against the backdrop of deteriorating market conditions, Libstar produced robust results, which once again indicates the resilience of our business model.

The team improved costing systems and measurement of overall equipment effectiveness, and invested in improved logistics tracking tools. Our category approach contributed to strong results, with several examples of our strategy of innovation bearing fruit. For example, in our Libstar brand of Lancewood, we now have a 4% market share in eating yoghurt from a negligible contribution only a year ago.

SA private label revenue to grow faster than branded (c10% vs c5%)



Private label sales CAGR of c10% (2019 to 2022) vs SA supermarkets c6%



Source: Nedbank research.

As the South African economy continued to underperform during 2019, the resulting pressure on consumers and competition within the retail market intensified. Despite this, Libstar once again demonstrated a robust operating model.

A YEAR IN THE PUBLIC MARKET

As a board, we focused on continuing to improve our investor engagement processes and disclosure to educate the market on Libstar's business model and potential. By implementing a new long-term incentive scheme and group share plan, we have created better alignment between the interests of management and Libstar's stakeholders. Our succession framework also continues to be a focus area as we endeavour to create a continuous pool of talent within the organisation, capable of growing the group in a changing environment.

TRANSFORMATION

In the group's last broad-based black economic empowerment (B-BBEE) audit in line with the South African Broad-Based Black Economic Empowerment Act No 53 of 2003, we improved our B-BBEE rating from non-compliant last year to Level 8. Although we acknowledge that we have a long way to go, we are pleased with the progress – and I would like to express my gratitude to the business units within Libstar for their efforts in this regard.

Following delays in the registration process of a new employee share scheme (ESOP), we were confronted with the challenge of fluctuating Libstar and food-sector market prices not being conducive to our efforts to improve our B-BBEE ownership score. As a board, we are considering alternatives to ensure that we meet our objectives, including either restructuring the current ESOP on more favourable terms to beneficiaries, or collapsing the existing ESOP and replacing it with a redesigned scheme or strategically identified black-owned counterparty. Our consultations with stakeholders are ongoing.

OUTLOOK

Within the context of challenging macro-economic indicators and lower average food inflation, the group will need to remain agile and continue to drive its operational excellence initiatives to ensure Libstar remains a low-cost manufacturer. These initiatives include investment in systems that accurately analyse and optimise overall equipment effectiveness and product costing.

The risk factors within the broader South African economic climate remain, especially with the global outbreak of COVID-19 post year-end. These challenges could impact on exchange rates and the group's ability to stay competitive on shelf and to efficiently produce products. However, as outlined on page 39, the team has been working hard to identify mitigating actions.

In addition, as economic pressure continues to weigh on the people of South Africa, effective labour relations are becoming even more prominent to ensure the stability of our workforce. I commend the Libstar management for navigating these matters during the year under review without material adverse impact on the continuity of the group's operations.

APPRECIATION

I thank my fellow board members for another year of incredible support and valuable input. It has been a pleasure to work with the Libstar team to continue maturing as a listed entity.

The management team continued to prove the resilience of the group in extremely taxing market conditions. Not many companies are currently achieving that, and I thank you for your hard work. A special thank you goes to our former chief financial officer Robin Smith, who became the group commercial director on 1 January this year. As a founder, Robin will continue to be invaluable to the group. I would also like to extend a warm welcome to Charl de Villiers in his new role as chief financial officer. Charl has proven his worth at Libstar as a senior financial executive since 2017, and played a crucial role during the group's transition to a listed entity.

Our long-standing relationships with our customers and suppliers represent the lifeblood of our organisation. Libstar also relies on the diligence of its workforce to ensure that it remains a low-cost producer of quality Consumer Packaged Goods that support its customer-centric values. To these stakeholders, I express my sincere thanks, and I look forward to the opportunities these relationships will hold in the forthcoming decade of Libstar's journey.

W Luhabe

Wendy Luhabe
Chairman


LANCEWOOD
WHITE CHEDDAR

Chief executive officer's **review**

It is in the most challenging economic climates that a business is best able to put its value proposition, cultural mettle and strategic resolve to the test. South African organisations have been challenged with weakening macro-economic conditions, lower consumer confidence, high levels of unemployment, COVID-19 and electricity supply and infrastructure constraints.

As a management team, we have worked hard to address these challenges and put measures in place to operate within these trying conditions. Our actions have underscored the robustness of Libstar's business model and the importance of our culture and value proposition in the market. We are extremely proud of the fact that we grew normalised EBITDA by 5.1% and improved our normalised earnings per share and normalised headline earnings per share by 14.3% and 14.1% respectively. This performance was bolstered by improved gross profit margins in all of our product categories, despite the gloomy economic climate.

THE RESILIENCE OF OUR STRATEGY

Our strategic focus has been to grow the four key food categories in our portfolio. We do this through innovative value creation, expanding our world-class manufacturing capabilities, improving our commercial efficiencies and forging deeper partnerships with our customers. We have also optimised our portfolio and sales mix, reduced volumes on commodity lines, and focused on our value-add products and brands.

As a business, we have concentrated over the years on acquiring and integrating high-growth businesses with their founders and management teams. This has created a strong entrepreneurial culture at Libstar. We cherish this culture, as it is the source of innovation in our family of businesses. While our category and consumer insights inspire and guide our innovation, our world-class manufacturing capabilities and commercial efficiencies enable us to capitalise on gaps in the market quickly and effectively.

Throughout the broader group, our focus on innovation contributed 495 new and revamped products.

In addition, our customer-centric approach spearheads the evolution of private label platforms in South Africa and continues to grow Libstar's market share in this space. Through our strategies and world-class manufacturing capabilities, we assist our customers to deliver on their brand promises through the private label, dealer-own brands and branded goods platforms. These valuable partnerships assist our customers to grow their categories and stay relevant to their consumers in an increasingly competitive landscape.

Market data confirms that growth in dealer-own brands and private label products outstrips that of named brands within Libstar's categories. We continued to capitalise on this trend during the year, by increasing our market share in private label brands within Libstar's defined market. Dealer-own and private label products constituted approximately 43% of the group's revenue during 2019 and remain a core growth opportunity.

Our established Libstar brands contributed 32% to group revenue and continued to prove their resilience.

FOCUSED STRATEGY TO REMAIN RELEVANT

As a management team, we continue to focus on honing our strategy to identify new opportunities and growth paths.

Our strong balance sheet and cash generation from the key categories we play in, places us in an excellent position to do three things:

Expand our leadership in the ever-evolving world of private label and Consumer Packaged Goods.

We bring the best of the world to consumers in South Africa. We achieve this by continuously focusing on our product offering, operational efficiencies, expanding our capabilities and strengthening our partnerships with our customers.

Leverage high-growth areas

We continue to identify growth areas for our business through leading product development and identifying scope acquisitions. These acquisitions focus on complementing our existing categories or allow us to enter new growth markets. As outlined in the Bain & Company report *Getting M&A Right in Consumer Products*, scope deals can be a good way for a company to reinvigorate their growth engine. These deals assist companies to expand their reach into new products, geographies and capability areas.

As outlined on pages 18 to 19, we successfully meet changing market requirements, including health and wellness and environmental responsibility. During the year, we acquired a tea business, Healthwise, which provides us with a significant footprint in Asia. A crucial focus for 2020 will be to embed this acquisition and create opportunities between the Healthwise branded tea and value-add export business and Khoisan Gourmet's bulk and export capabilities.

Invest in our key growth categories, and expand our capacity where we see opportunity in the future.

As outlined on page 19, during the year, we invested R401 million in capacity and capability enhancement, delivering new technology, and improving efficiency.

In a low-growth environment, operational excellence is paramount to remaining cost-competitive. As a manufacturing concern, with a high fixed overhead cost structure, the overall equipment effectiveness of our manufacturing facilities, the efficiency of our logistics tracking and sales and distribution capabilities require close scrutiny. For these reasons, we have invested significantly in the standardisation of systems and development of costing systems to track our performance against best-practice standards.

The Libstar Household and Personal Care category is the only non-food category remaining in our portfolio. Its consolidation involved a significant restructuring. This unlocked value and opportunities through the sharing of both the front- and back-end resources, and the consolidation of multiple sites into a single facility.

The clustering of business units around our categories and capabilities will continue into the future. This will reduce overlaps in sales, merchandising and strategic resources, and yield valuable opportunities for collaboration, efficiency and growth.

INVESTING IN OUR PEOPLE

In these uncertain economic times, we will redouble our efforts to enhance our operational efficiencies by reducing expenses while intelligently deploying our resources towards the goal of continuous innovation.

However, we are only able to do that through our greatest asset, the dedication of our people – from the boardroom to the factory floor. We have an incredible family of hard-working, enthusiastic people.

During the year, we initiated a talent development programme. The objective is to create a group of high performers who show promising leadership potential and commitment to leadership development. These candidates were mentored and supported in the growth of their leadership skills to address their developmental gaps. This programme was offered to 32 employees and concluded in October 2019. These employees will continue to develop their leadership skills to ensure they are groomed for more senior positions in the organisation.

At the same time, several senior management and executive candidates have been assessed independently for development purposes. These assessments commenced in 2018 and candidates have all received individualised personal feedback. Tailored development follow-up initiatives have been proposed and are being implemented to fully unlock each candidate's potential.

Two executive leadership development programmes are being offered by Libstar. Both commenced in July 2019 and will conclude in February and April 2020 respectively. This programme was offered to 23 candidates and will conclude in April 2020.

CONCLUSION

In accordance with the COVID-19 measures announced by the President, Libstar has been designated as a company essential to the production of food. As such, Libstar remained open during the 21-day lockdown period from 26 March 2020.

As food service and quick-service restaurants remained closed during the lockdown, demand in the food service channel, which constituted approximately 18% of our group revenue for the year ended 31 December 2019, have experienced lower demand.

Revenue from Libstar's retail sales channel constituted approximately 60% of revenue for the year ended 31 December 2019. Although we have experienced increased demand since the publication of results on 18 March 2020, we expect this to reduce as the lockdown takes effect.

The safety of the group's workforce remains our single most important priority during this time. In this regard, group and divisional steering committees have been established to continuously monitor the unfolding situation. Hygiene practices have been intensified across all sites and remote working practices have been implemented where possible. In line with these efforts, cleaning and hygiene expenses have increased and are expected to remain at above-average levels. Although our people remain motivated to support our ongoing operations, additional expenses may be incurred to provide housing, transportation and related benefits.

Our food categories will remain at the heart of our growth strategy. Despite the difficult market conditions in which we operate and the headwinds we are facing, we are confident of our low-cost manufacturing capabilities, our ability to capitalise on key consumer trends, our innovative approach to product development, our value of customer centricity and the delivery of returns from capital projects during 2020 and beyond.

APPRECIATION

Thank you to the board for their ongoing support. I also extend my appreciation to my management team and employees. You are the bedrock on which this company is built. To our suppliers and customers – these are extremely uncertain times. Thank you for trusting in us to continue delivering our quality products.

Andries van Rensburg
Chief executive officer

Financial **review**

Chief financial officer from 1 January 2020

Chief financial officer until 31 December 2019

We are pleased with our strategic progress during 2019. Through various initiatives, we continued to optimise our food-related business portfolio, grew our categories to leverage key consumer trends, aligned our systems and procedures to best-practice standards and expanded our production capabilities.

We believe these initiatives have contributed to the pleasing financial performance achieved in 2019, despite the well-documented challenges prevalent in our sector and the broader economy.

Normalised EBITDA increased by ↑ 5.1%

Normalised EPS increased by ↑ 14.3%

Normalised HEPS increased by ↑ 14.1%

OUR KEY FINANCIAL MEASURES

There are a number of key measures we use to track our growth and performance. These include:

1 Normalised operating profit, normalised EBITDA and normalised earnings

2 Normalised EPS and normalised HEPS

To facilitate like-for-like analysis of the financial results, we provide normalised financial metrics which are adjusted for once-off, non-trading or non-cash flow items to provide a truer reflection of the underlying operating performance of the group. In particular, our normalised metrics adjust for the amortisation of customer contracts. The majority of these contracts arose from the completion of a group restructuring undertaken in 2014. Approximately R86 million of the group's R150 million amortisation charge recorded in 2019, or 58% of the total charge, arose from that restructuring.

3 Return on invested capital

We are conscious of the requirement to provide meaningful investment returns for our shareholders. We regard return on invested capital (ROIC) as the most accurate gauge of this performance. The group achieved a ROIC of 20% in 2019 compared to 22% in 2018, in line with our target of 20%. We regard this as a good result in light of the prevailing depressed market conditions and the relatively high levels of capital expenditure over the last few years. This was essential for the group to execute on its capacity and capability enhancement strategies and to capitalise on market opportunities. Consider to be less optimistic, due to the current economic conditions on cash flow.

OPTIMISING OUR PRODUCT PORTFOLIO AND CATEGORY REPORTING

Various activities were undertaken during the year under review, reflecting Libstar's efforts to optimise the group's business portfolio. This focused category approach forms the basis of our growth strategy.

The tea operations of Khoisan Gourmet from the Niche Beverages segment were reclassified to the Groceries segment. This better aligns the financial disclosure to the commercial practice where tea is considered to be part of the Groceries stable. The group completed the disposal of the dairy blend and fruit concentrate business of Elvin, previously shown in the Niche Beverages category.

The remaining Niche Beverages businesses, which comprise Chamonix Springwater and the non-beverage Elvin operations, were reclassified and have also been reported under Groceries.

In addition, the operations previously shown under the Specialised Food Packaging segment were reclassified to Groceries.

Comparative figures from both the Niche Beverages category and the Specialised Food Packaging category have been reclassified to show these operations in Groceries.

* Ambient Groceries was renamed Groceries this year.

As a result, the group now reports on five product categories instead of the seven on which it reported in the comparable period. The remaining categories are Perishables, Groceries, Snacks and Confectionery, Baking and Baking Aids and Household and Personal Care (HPC).

In an effort to execute on the group's category approach and address the underperformance of the HPC category specifically, which has been subject to an extended period of competitive pressure, the group has commenced a process to consolidate the HPC businesses into a single cluster. Cost savings from this initiative are anticipated to benefit the category from 2020.

FIRST-TIME ADOPTION OF NEW IFRS ACCOUNTING STANDARDS

To facilitate a true comparison with the operating performance of the group for 2018, the 2019 results have been presented on a like-for-like basis, which excludes the impact of the first-time adoption of IFRS 9 (hedge accounting) and IFRS 16 (leases), unless otherwise indicated. The key results, including the first-time adoption of IFRS 9 (hedge accounting) and IFRS 16 (leases), can be found in the table below.

Additional information can be found on pages 100 to 101 of this report.

The table below sets out the 2019 performance of our key financial performance metrics:

Continuing operations (like-for-like) (R'000)	**2019**	% change	2018
Revenue (Rand)	**9 892 545**	+2.4%	9 659 597
Gross profit margin	**24.0%**	+1.6 pp	22.4%
Normalised operating profit (Rand)	**854 799**	+3.8%	823 525
Normalised operating profit (margin)	**8.6%**		8.5%
Normalised EBITDA (Rand)	**1 034 749**	+5.1%	984 456
Normalised EBITDA (margin)	**10.5%**		10.2%
Normalised EPS (cents)	**84.7**	+14.3%	74.1
Normalised HEPS (cents)	**85.1**	+14.1%	74.6
Diluted EPS (cents)	**63.1**	+30.9%	48.2
Diluted HEPS (cents)	**63.5**	+30.4%	48.7
Continuing operations (After adoption of new accounting standards)			
Normalised EPS (cents)	**82.3**	+11.1%	74.1
Normalised HEPS (cents)	**82.7**	+10.9%	74.6
Diluted EPS (cents)	**59.4**	+23.2%	48.2
Diluted HEPS (cents)	**59.8**	+22.8%	48.7

IMPROVING MARGINS IN VERY DEMANDING MARKET CONDITIONS

Group revenue for the year was 2.4% higher than the previous year. Revenue growth from our food-related categories, which constitute 92% of the group's revenue, was 3.3% (organic 2.7%), while revenue within the HPC cluster, which represents 8% of the group's revenue, declined by 6.8%.

	Food categories*		Household and Personal Care	
FY	92%	of group revenue	8%	of group revenue
H1	+4.5%	Organic revenue growth	-1.2%	Organic revenue growth
H2	+0.7%		-11.3%	
FY	+2.7%		-6.8%	

* Perishables, Groceries (including Khoisan Gourmet, Multi-cup and Chamonix), Snacks and Confectionery and Baking and Baking Aids.

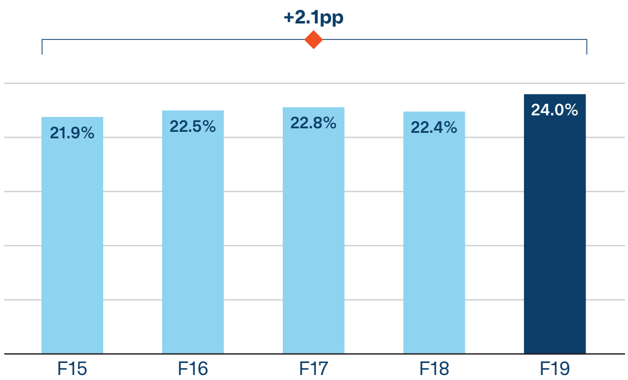
Volumes were down in three of our five categories, mainly as a result of lower bulk sales in previous high-volume product lines. In the Perishables category, volumes declined by 2.9%, mainly as a result of lower bulk hard cheese sales relative to the comparative period.

Volumes in Groceries declined by 7.4%, driven by lower demand for wet condiments in the outsourced manufacturing channel, as well as lower bulk sales of vinegar and water. Even in these conditions, margins improved in all the food-related categories. Household and Personal Care (HPC) volumes declined by 13.8% due to the discontinuation of lower-margin household cleaning products.

However, these volume statistics cannot be viewed in isolation. It is important to bear in mind that the category sales mix improved in all five categories.

We are pleased to have achieved our target of standardising 90% of group revenue onto a single software solution in 2019, as committed to shareholders. This, in combination with an improved sales mix and successful cost-containment efforts, assisted in the achievement of improved gross profit margins across each of our product categories during 2019. Furthermore, the group's gross profit margin increased 1.6 percentage points to 24.0% from 22.4% the previous year, the highest gross profit margin recorded in the last five financial years.

Gross profit margins have improved by 2.1 percentage points over the last five years:



Other income improved by 192% in 2019 as a result of a R38 million foreign exchange gain (2018: R56 million) and the swing from a R45 million unrealised foreign exchange loss in 2018 to a slight gain of R0.2 million in 2019.

Group operating profit was normalised for R177 million in once-off, non-trading items or accounting adjustments. These included amortisation of intangibles (R150 million), retrenchment costs (R17 million), provision for share appreciation rights (R7 million), reversal of unrealised forex gains (R0.2 million) and other non-operating/non-recurring items (R4.0 million). Normalised operating profit therefore increased by 3.8% at an improved margin of 8.6% (2018: 8.5%), mainly as a result of the group's improved gross profit margin performance.

	Food categories		Household and Personal Care	
FY	97%	of group normalised EBITDA^	3%	of group normalised EBITDA^
H1	+7.0%	Normalised EBITDA growth	+5.5%	Normalised EBITDA growth/ decrease
H2	+9.5%		-4.4%	
FY	+8.5%		-0.1%	

^ Excludes corporate costs.

Operating expenses, excluding long-term incentive provisions, retrenchment and restructuring costs and other non-operating or non-recurring normalisation adjustments, increased 11.6% on the prior year (see table below). We are focusing on reducing our costs in the current weak operating environment, and cost savings from various category initiatives are anticipated in 2020.

Operating expenses (R'000)	2019	% change	2018	Comment
Total operating expenses (opex)	**1 754 015**	**+12.3%**	**1 562 419**	
Long-term incentives	**(6 948)**		13 208	Provision for SARs*, LTIP** and GSP***
Retirement and restructuring costs	**(16 646)**		(7 050)	Predominantly HPC cluster
Other non-operating or non-recurring items	**(3 917)**		(21 830)	Normalisation adjustments
Normalised opex after excluding items above	**1 726 504**	**+11.6%**	**1 546 747**	
Depreciation and amortisation	**(210 719)**	+6.9%	(197 198)	2018/2019 capex
Short-term incentives	**(41 400)**	+66.9%	(24 800)	2019 on-target performance
Employee costs – toll manufacturing	**(39 743)**	+235%	(11 834)	NMC^ and K Snacks
Employee costs	**(525 748)**	+10.4%	(476 202)	
Opex excluding above four items	**908 894**	+8.6%	836 713	

* Share appreciation rights.
** Long-term incentive plan.
*** Group share plan.
^ Noodle Manufacturing Contractors.

- Investment in category management team
- Benefit from HPC restructuring not yet realised

Group EBITDA, normalised for the same profit items as those for operating profit, plus the R11 million amortisation of software (2018: R8 million) and the R169 million depreciation of property, plant and equipment (2018: R153 million), increased by 5.1% at an improved margin of 10.5% (2018:10.2%).

We analyse our group normalised EBITDA performance based on food-related and non-food-related businesses. This year's EBITDA from food categories grew by a strong 8.5%, with the second half growing faster than the first half. However, the only remaining non-food-related category, HPC, showed a sharp decline in the second half mainly as a result of the under-recovery of the pre-restructuring cost base of this cluster.

The group's net interest expense on interest-bearing debt declined by 30.7% to R153.7 million. This follows the R700 million reduction in net debt levels after Libstar's JSE listing in May 2018 and the November 2018 renegotiation of group debt facilities on more favourable terms.

MAINTAINING BALANCE SHEET STRENGTH WHILE GROWING OUR CAPABILITIES

The group continues to invest in capacity-enhancing projects in identified growth areas, with 2019 capital expenditure of R401 million (2018: R349 million), representing 4.1% of net revenue (2018: 3.6%).

This was above our target range of 2.0% to 3.0%, mainly as a result of the timing of project completions which spans both the 2019 and 2020 financial years. This resulted in a R110 million (2018: R60 million) balance for work-in-progress projects at 31 December 2019.

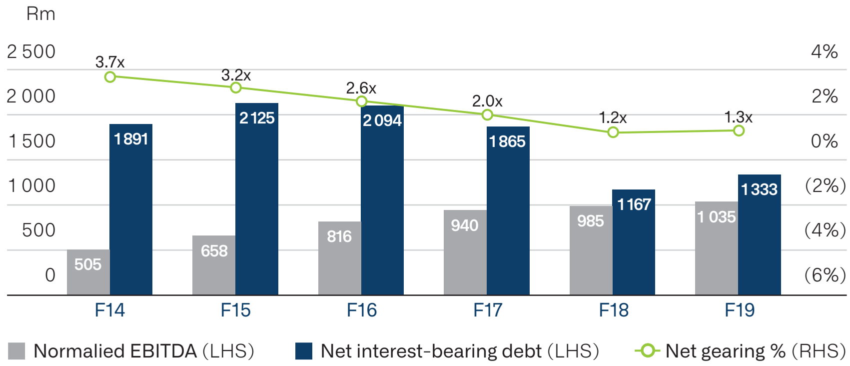
The main projects started or completed in 2019 are listed below:

2019 capital expenditure	Rm
Expansion and operating efficiencies	**233**
Milk-receiving, cheese packaging, distribution centre upgrades (Lancewood)	**126**
Prepared meal facility upgrade (Millennium Foods)	**24**
Par-bake frozen facility (Amaro Foods)	**23**
Bar-line upgrade (Ambassador Foods)	**22**
Line improvements (Montagu)	**15**
Tea plant upgrade (Cape Herb & Spice)	**13**
Strand plant facility upgrade (Cecil Vinegar)	**10**

Notes:

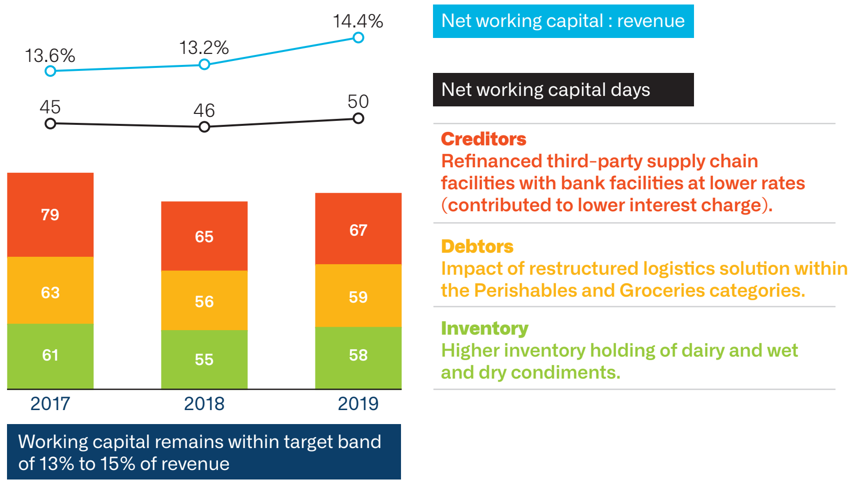
Capex = 4.1% of net revenue (2018: 3.6%).
Completion timing of some projects spans 2019 and 2020.
– R110 million work-in-progress at 31 December 2019 (2018: R60 million).
Capex, excluding work-in-progress, is 2.9% (2018: 3.0%).
Ratio will return to the guided range in 2020.

Despite significant investment in our capabilities during the year, Libstar's gearing remains low at 1.3x normalised EBITDA and well within the group's stated optimal range of one to two times. This includes the R167 million net debt increase, mainly due to R132 million in dividends paid from cash, R92 million in share repurchases and an R86 million increase in working capital.



Cash generated from operating activities decreased by 10.5% to R452 million, mainly due to the increased investment in working capital, which was somewhat offset by the reduced net interest expense.

Net working capital as a percentage of revenue is 14.4% and remains within the group's target of 13% to 15%. However, this was nevertheless adversely impacted by a higher than usual inventory holding of dry condiments (in anticipation of promotional activity post year-end), wet condiments (in anticipation of product launches) and tea (in anticipation of 2020 shipments).



Net investing activities during the year under review totalled R395 million, including R401 million in capital expenditure and the acquisition of Healthwise for R50 million, less proceeds from the sale of discontinued operations and other financial assets disposed of R56 million.

Net financing activities totalled R32 million and include the settlement of the group's annual dividend in respect of the 2018 financial year in the amount of R132 million, declared on 13 March 2019, and a repurchase of shares in the amount of R92 million, less proceeds received of R192 million from term loans and asset-based financing.

STRATEGIC INITIATIVES

In 2018, we invested in a programme to improve our overall cash flow forecasting ability and to reduce realised and unrealised foreign exchange volatility.

This year, we continued to build on the progress made last year to reduce income statement volatility created by unrealised foreign exchange translation gains and losses by implementing hedge accounting (IFRS 9) for the first time. This resulted in the recording of R11.2 million (pre-tax), pertaining to unrealised foreign exchange currency translation gains in a hedging reserve which would otherwise have been recorded in the income statement.

A new logistics tracking IT system was implemented at Rialto Foods during the year with the purpose of improving our product costing abilities. During 2020, we will be rolling out the system at Cape Herb & Spice and certain other business units.

Having established improved cash flow analysis capabilities during 2019, we will automate our cash flow forecasting capabilities during 2020. We will also implement systems and procedures to improve our cash administration systems, optimise our daily cash utilisation and reduce cash drag within the group.

The standardisation of 90% of group revenue onto a single software solution in 2019 provided the ability to implement improved inventory management systems in various divisions during the year under review. This process will continue into 2020.

Cost containment will remain a theme in the coming year following the 11.6% increase in operating expenses (exclusive of incentives and restructuring costs) during 2019. This will include energy-saving initiatives, such as the installation of solar photovoltaic (PV) systems at select manufacturing sites, the implementation of improved overall equipment effectiveness measurement systems, procurement reviews and labour planning.

SHARE REPURCHASE PROGRAMME

The group commenced a share repurchase programme on 19 December 2018, which was completed on 4 April 2019. During this period, a total of 13.1 million Libstar shares were acquired by Libstar Operations (Pty) Ltd, a wholly-owned subsidiary of Libstar Holdings Limited, in the open market, of which 11.9 million shares were acquired during the year under review. The average purchase price was R7,66 per share. Share repurchases on an opportunistic basis will continue to be evaluated by the board.

LOOKING FORWARD

As Libstar expects to continue operating in a market characterised by weak consumer expenditure, it has put various mitigating strategies in place.

The HPC cluster is now the only non-food category remaining in our portfolio. Although the restructuring will impact the group's revenue growth during 2020, the category consolidation will unlock value and opportunities through the sharing of both front- and back-end resources, and the integration of multiple sites into a single facility. The full benefit of these actions is expected from the second half of 2020 onwards.

The improved sales mix resulting from the HPC product rationalisation, as well as the group's continued focus on plant optimisation and investment in systems and plant and machinery, is expected to assist our efforts to improve operating efficiencies in all categories.

Our Perishables, Snacks and Confectionery and Baking and Baking Aids categories continue to be well placed to deliver growth. The wet condiment-producing divisions within the Groceries category are expected to deliver stronger performances within the retail channel in 2020, driven by new product launches and cost-saving efforts. However, anticipated further reductions in export tea selling prices will adversely impact the Groceries category performance.

Furthermore, demand for wet condiments in the outsourced manufacturing channel continued to weaken in line with market conditions during the second half of 2019. These conditions are expected to persist through the first half of 2020.

Against the backdrop of slower dry condiment export shipments in the second half of 2019, volumes of early first half of 2020 shipments have improved.

The consolidation of divisions around our categories and capabilities will continue. This will reduce duplication in sales and merchandising, rationalise resources and yield valuable opportunities for collaboration, efficiency and growth.

The post year-end outbreak of the COVID-19 virus does pose a risk to the group. The potection of Libstar's cash position remains a key priority. The group remains solvent, liquid and operates well within the facility covenants established by its lenders. Covenants are measured and reported every six months.

As at 31 December 2019:

- The group's leverage ratio (net debt to EBITDA) was 1.25 against a covenant of no more than 2.5;
- The group's EBITDA to senior interest cover ratio was 6.73 against a covenant of at least 3.5; and
- Save for capital repayments in relation to vehicle and asset finance facilities of approximately R112 million due in the next 12 months, no capital repayments are due on the group's other long-term facilities.

The board and management will continue to monitor the impact of COVID-19 on our operations and our financial position to take timeous action where required.

DECLARATION OF CASH DIVIDEND

At the time of results on 18 March 2020, the board of directors declared a cash dividend of 25 cents per share for the year ended 31 December 2019. However, given the uncertainty around the duration and extent of the impact that COVID-19 may have on the operations within the markets in which Libstar operates, the board considers it prudent and in the best interests of the group, its people and its stakeholders to preserve its financial liquidity to the fullest extent possible. The board has therefore resolved to postpone the payment of the dividend until the release of our results for the six-month period ended 30 June 2020 in September 2020. This decision remains subject to further review based on a continued assessment of all relevant considerations. Should we be in a position to effect payment earlier, we will endeavour to do so.

APPRECIATION

We wish to thank the board for the support provided to both of us. As the outgoing CFO, I have enjoyed working with the board and have appreciated their guidance. As the incoming CFO, I look forward to working with them.

Thank you also to our finance teams for the long hours and dedication.

Lastly, our appreciation to the financial communities for their ongoing support to Libstar and their continued belief in the strategy and future of the group.

Robin Smith
Outgoing CFO

Charl de Villiers
Incoming CFO

Operational **reviews**

PERISHABLES

Perishable products are products that are refrigerated. The Perishables category is currently our largest category and constituted:

47% OF GROUP REVENUE

44% OF GROUP NORMALISED EBITDA BEFORE CORPORATE COSTS

Lancewood and Finlar Fine Foods account for the bulk of the Perishables category EBITDA, contributing **83%** of Perishables revenue and **89%** of the category's normalised EBITDA.

LIBSTAR'S KEY STRENGTHS WITHIN THE PERISHABLES CATEGORY

The business units within Libstar's Perishables product category have been proudly serving the market and their customers for many years, with several of these relationships spanning over decades. As an example, Finlar Fine Foods and Millennium Foods have been delivering to their core customers for more than 20 years. Denny, the most recognised mushroom brand in South Africa, has been serving households for more than 40 years.

Innovation is another core strength within the Perishables product category.

Lancewood launched 34 new products during 2019, including a range of eating yoghurts that delivered growth in excess of 200%, substantially ahead of the eating-yoghurt market. Finlar Fine Foods launched 53 new products, 14 of which were brought to market within three months for a new customer in the food service channel.

Our Perishables products are also proven to be best-in-class, with regular awards. In 2019, 11 of Lancewood's products won first prize at the 2019 South African Dairy Championship Awards, with three achieving the prestigious Qualité Award. Lancewood's Mascarpone also received "the best cheese in the world" award at the 2018 World Cheese Awards in Norway.

CATEGORY YEAR UNDER REVIEW

During the year under review, the Perishables product category improved normalised EBITDA by 12.3% and normalised EBITDA margin to 10.9% from 9.9% last year.

Revenue from Perishables, our single largest contributor to both group revenue and EBITDA, increased by 2.6%.

The category's gross profit margin improved to 22.0% (2018: 20.6%) due to favourable changes in the category sales mix, which mainly comprised dairy and meat products.

Category volumes declined by 2.9%, mainly as a result of lower bulk hard cheese sales.

Finlar Fine Foods launched several cost-saving initiatives. These included procurement reviews, yield improvement, water-usage reduction and overall equipment effectiveness improvement projects. This culminated in an improved performance during the second half of 2019, despite lower demand for value-add chicken products experienced from the first half of 2019.

Denny continued to build its capability to optimise plant utilisation and price realisation in a competitive supply-and-demand environment. This was achieved by focusing on cost containment, picking yields and sales mix. The total operating cost increase in the year under review was limited to 5%.

CATEGORY OUTLOOK

The group will continue to invest in efficiency and capability-enhancing projects during 2020, totalling more than R120 million. These will include leasehold improvements at Lancewood (R39 million), facility and machinery upgrades at Denny (R28 million) and plant upgrades at Finlar Fine Foods (R30 million).

In the coming year, we will continue to invest in our Lancewood brand for ongoing sales growth, as well as focus on cost reduction. The management team will specifically concentrate on manufacturing conversion costs, which should reduce the investment in the hard cheese packing capabilities. The first full year of Bel cheese production is expected to positively impact margins.

In Finlar Fine Foods, we intend to increase our meat exports by leveraging our long-standing customer relationships and best-in-class manufacturing facilities. We will continue to evaluate the optimal way to ensure increased efficiencies, and will be implementing improved raw material procurement and processing to strengthen margins. Although we have identified exciting growth opportunities in the food service channel and are exploring those with our new commercial team, the outbreak of COVID-19 and the required closure of fast-food outlets during the lockdown in March and April 2020 will have an impact on this channel.

We are enhancing our raw material supply base to ensure continuous supply and improving our inventory management system and our culture to ensure a focus on high performance.

Millennium Foods will optimise the opportunities created by the new frozen meals capability and expand our product range. This will include additions to our frozen food and deli ranges, an increase in our national footprint and potential export opportunities.

Denny will continue to build off a low base through cost containment, increased speed-to-market with new and innovative products, and implementation of a new national merchandising and trade marketing plan.

LANCEWOOD

Lancewood produces and supplies a range of award-winning cheeses, as well as butter and other dairy products. These include cheddar, gouda and mozzarella, cottage cheese, cream cheese, mascarpone and yoghurt, as well as milk, amasi, buttermilk, cream, dairy blends and fruit juices. It also produces a range of private label and dealer-own brands.

Lancewood distributes a range of renowned international brands, including Kiri, Laughing Cow and Bel cheese products, Lurpak Butter and Castello Cheese.

Sonnendal Dairies was included into Lancewood last year.

www.lancewood.co.za

Significant market share:

Pre-packed hard cheese 43% | Soft cheese 70%

Source: IRi South Africa Defined Retailers Manufacturer Value Share, 12MM Sep 2019

Growth in market share:

Eating yoghurt ↑ 200%

The Lancewood brand's spontaneous awareness **increased by**

↑ 150%

Source: AC Nielsen Brand Health Tracker April 2019 vs 2017

YEAR UNDER REVIEW

Market conditions continued to be very challenging, which required agile decision-making to sustain our growth path. Despite deflation in our high-volume product categories, our margins improved significantly, mainly due to an improved sales mix. We successfully completed the last part of the integration of Sonnendal Dairies this year, which included operational and cultural alignment. We commissioned a new cheese factory in Swellendam following this business' acquisition in September 2018.

We commissioned a new, world-class facility in George to locally manufacture a range of previously-imported Bel products. Although the plant was commissioned later than initially planned as a result of additional operational requirements, we expect to fully deliver on this investment during 2020.

FINLAR FINE FOODS EST. 1994

Finlar Fine Foods produces beef, chicken and other perishable food products. Its first plant was established in Cape Town in 1994. As national demand grew, a second operation was opened in Johannesburg in 1995. Finlar Fine Foods' operations are centred around the requirements of its key customers, with whom it has had long and profitable business relationships. Finlar Fine Foods produces meat and value-add crumbed chicken and vegetable products.

www.libstar.co.za/finlar-fine-foods

Raw material processed during 2019 in excess of

20 000 tons

14 new products launched in only three months for a new customer

YEAR UNDER REVIEW

We continue to focus on the optimal production processes and economies of scale. As part of this process, we are evaluating the possibility of a new facility to include a line of vegetable products and to enhance beef production contingencies. We are also working with our business development teams to expand our customer base.

As South Africa has experienced significant disruptions to the supply of water and electricity, this impacted our business continuity. We are currently implementing measures to mitigate against this.

As we deal with animal products, the management of diseases with industry interest groups continues to be a key issue to address.

RIALTO

As the majority of Rialto is included in Groceries, the operational review for this business can be found on page 52•.

Millennium Foods

Millennium Foods is a manufacturer of fresh, ready-to-heat/eat meals for the retail industry in South Africa. During the year under review, this business expanded its production capabilities to include frozen products.

Millennium Foods' offering includes convenience foods and ready-to-eat meals with fresh quality ingredients, meals that are prepared fresh and then frozen to maintain the highest standards, bulk frozen meals for delis and canteens, and fresh short-shelf-life products.

www.millenniumfoods.co.za

TWO DECADES of offering fresh convenience food and ready-to-eat meals

Significantly **expanded production** capacity during 2019

Launching in-house frozen range in 2020

YEAR UNDER REVIEW

The key challenge this year was to ensure continuous production during our facility upgrade. Despite this challenge – and a late addition to the scope of the project, to include the capability to produce frozen products – we managed to ensure the reliability of our supply.

As our key customer focused on reducing waste, orders on some short-shelf-life products declined temporarily, which impacted revenue. However, a few of the upgrades completed during 2019 will address this as we are now able to offer frozen meals and bulk meals as an alternative to short-shelf-life fresh products.

We have also significantly reduced the chilling time of bulk products before assembly, and ensured less handling of sauces. This has improved control, storage and production flow.

DENNY

Denny Mushrooms is a producer of fresh mushrooms in South Africa, with a national footprint and key distribution centres. The products are supplied under the established Denny brand, as well as private label and dealer-own brands.

www.denny.co.za

Supplies approximately 50% of South Africa's fresh mushrooms from three farms

Market leader in fresh mushrooms and **number one fresh produce brand** in South Africa

YEAR UNDER REVIEW

After production issues in 2016, it has taken us longer than expected to recover market share. To address this, we continued to leverage our close retail partnerships to build on the established Denny brand and increase fresh mushroom consumption. This approach has yielded some success, with our sales mix and in-store availability improving.

As Denny is a high fixed cost business with a relatively short-shelf-life product, the utilisation and price realisation of our crop is fundamental to the profitability of the business. We continued to build our capability to optimise these two metrics in a dynamic supply-and-demand environment by focusing on cost containment, picking yields and our sales mix.

The total operating cost increase this year was limited to 5% against a backdrop of increased labour demands and above-inflationary hikes in fuel and electricity costs.


DENNY
FRESH
BROWN
MUSHROOMS
Firm to the touch with a bold, robust, earthy flavour. Ideal for casseroles and stews.
CLASS 1
KEEP REFRIGERATED
250 g

The Ambient Groceries category was renamed Groceries this year following the inclusion of Khoisan Gourmet, Chamonix and Multi-cup. The results of these divisions have been included in this category for the year under review and comparative period financial information was restated accordingly.

GROCERIES

This category comprises foods and products that are stored and preserved at room temperature.

Groceries is our second largest category and constituted:

32% OF GROUP REVENUE

38% OF GROUP NORMALISED EBITDA BEFORE CORPORATE COSTS

Cape Herb & Spice, Rialto Foods and Dickon Hall Foods contribute **61%** of revenue and **77%** of normalised EBITDA in this category.

LIBSTAR'S KEY STRENGTHS WITHIN THE GROCERIES CATEGORY

The businesses within the Groceries category are market leaders with established customer relationships. Several of our partnerships span multiple decades.

Our businesses continuously conduct market research to understand and pre-empt customer requirements and consumer trends. This enables ongoing product innovation at our world-class manufacturing facilities. Examples include:

- Hurters Honey's range of quality honey products within a growing health-conscious market segment continues to grow strongly;
- Cape Herb & Spice introduced a vegan spice range; and
- Multi-cup successfully launched a locally produced range of paper straws and compostable packaging, as well as its own brand of environmentally friendly products called Precious Planet.

Many of Libstar's brands, including Denny, Goldcrest, Cape Herb & Spice and Cook 'n Bake, are well recognised throughout South Africa.

Libstar's dealer-own brand products are differentiated in terms of quality, packaging, specifications and product benefits. These products are offered to a range of retailers with long-standing relationships with the group.

We also represent several well-known international brands in South Africa. We source, import, market and distribute principal brands under a purchase or distributorship arrangement between Libstar and the brand owner. Principal brands allow us to offer premium international brands to the South African market, as many of these are imported, marketed and distributed from European, Asian and American food manufacturers. Examples include Tabasco and Kikkoman sauces.

The business unit responsible for the majority of the group's export revenue in 2019 was Cape Herb & Spice, which contributed 51% of the group's revenue derived from exports. The business also continues to grow its private label dry condiment offering within the export channel by leveraging its long-standing customer relationships.

The businesses in this category have a wide variety of certifications, ranging from the Rainforest Alliance, Organic, UTZ, Fair for Life, Fairtrade, Badatz (Kosher) and Halaal.

CATEGORY YEAR UNDER REVIEW

Revenue from Groceries, the group's second largest contributor to revenue and EBITDA, increased by 1.3%. Category volumes declined 7.4%, mainly driven by reduced bulk sales of vinegar and water. The category gross profit margin improved to 26.7% (2018: 25.5%).

While the strong revenue growth delivered during the first half of 2019 from the sale of local private label spices and seasoning and a significant recovery in dry condiment export markets were not repeated to the same extent during the second half of 2019, the effect of lower input costs bolstered the category's full-year gross profit margin and normalised EBITDA performance.

Rialto Foods delivered a strong performance in its retail channel, particularly with its Asian, pasta, oil and pasta sauce ranges. Food service revenue was bolstered by strong sales of wet condiments.

Lower demand in the first half of 2019 from customers within the outsourced manufacturing channel at Dickon Hall Foods persisted during the second half of 2019. Integration delays following the consolidation of the Montagu and Denny manufacturing facilities also weighed on the category's full-year performance.

Tea export volumes recovered strongly, as expected, during the second half of 2019, although low market prices experienced during the first half of 2019 persisted.

The combination of these factors contributed to an overall increase in the category's normalised EBITDA by 6.7% at an improved EBITDA margin of 13.7% (2018: 13.0%).

CATEGORY OUTLOOK

The wet condiment-producing divisions within the Groceries category are expected to deliver stronger performances within the retail channel in 2020, driven by new product launches and cost-saving efforts. However, expected further reductions in export tea selling prices will adversely impact the Groceries category performance.

Furthermore, demand for wet condiments in the outsourced manufacturing channel continued to weaken in line with market conditions during the second half of 2019. These conditions are expected to persist during the first half of 2020.

Against the backdrop of slower dry condiment export shipments in the second half of 2019, volumes in the early first half of 2020 have improved. The post year-end outbreak of the COVID-19 virus does pose a risk for the export sales channel and imported shipments of value-add Groceries.

At a divisional level, Cape Herb & Spice will continue to identify new target markets to expand customers, channels, regions and offerings. A number of new ranges are planned for the coming year and beyond, including raw food spices, salt-free seasoning ranges and additional organic, vegan, and health and wellness ranges. We will also increase our focus on recyclable packaging and improved operational efficiencies and quality through investments in technology.

Rialto Foods will manage local and global market pressure and the impact on exchange rates. As plant-based food and health products are strong global food trends, the business unit is partnering with its suppliers and expanding its sourcing network into new regions to respond to these and other growing market trends. The 2019 investment in logistics tracking software and other logistics capabilities is expected to extract cost savings and growth opportunities within its value chain.

Within our Dickon Hall Foods business, we will extend our product range, with a number of new products planned for the coming year. These include new sauces, marinades and bastings, and dealer-own products, as well as new bulk sauces for the food service channel.

Cecil Vinegar will optimise its new production and distribution network to increase sales and standardise group systems to increase productivity and extract efficiencies from its plant expansion started during 2019. The business plans to increase its number of products, with a renewed emphasis on opportunities in the vinegar category. It also aims to grow export markets for industrial and retail products, with key opportunities in high-strength bulk exports.

Montagu Foods will grow its product ranges with a particular focus on building its Denny-branded soup market share, as well as expanding the Goldcrest range.

Hurters Honey will maintain its production and equipment efficiencies and ensure ongoing investment in technical innovation and marketing. We will expand our supplier base and reposition our product range to ensure all-year availability and innovate to confirm ongoing relevance.

In a competitive pricing environment, Khoisan Gourmet will focus on aggressive bulk price positioning and will aim to improve our sales mix weighting towards value-add packaged products. We also plan to increase our sales to existing customers through new product development and to establish the correct points of contact to secure business. We will rebrand our product range with a focus on wellness and the attraction of new audiences. The value-add tea export market poses a significant opportunity due to its higher-margin attributes. In this regard, we invested R50 million to acquire Healthwise, a niche branded tea packer with a significant footprint in the Asian market, with effect from 1 October 2019. The expansion of Healthwise's branded, value-add, export-driven product offering, in combination with Khoisan Gourmet's additional volumes, will be a key focus in 2020.

In difficult market conditions, the coming year will be challenging for Chamonix. We will address this through reduced costs and rightsizing operations where possible and by offering cost-effective products.

Multi-cup will also concentrate on a diversified product offering and a broader basket in tough markets. This includes an increased retail presence and contract catering, bedding down its local manufacturing facility and continuing to meet the global requirements for environmentally friendly packaging.

Cape Herb & Spice™

Cape Herb & Spice procures, treats, blends and packs a wide range of innovative, non-irradiated herbs and spices for dealer-own brands, private label and Libstar brands. These are sold by foreign and local retailers. The business specialises in products free from added MSG, artificial colours, flavours and preservatives. Cape Herb & Spice also procures, blends and packs premium dealer-own teas to South African and international markets.

The business extends into fine food gifting, innovating around food trends, and the export of a wide range of third-party and own brands to various markets. All production facilities are accredited according to the highest food safety standards.

www.capeherb.co.za

Certified to the highest food safety accreditations, British Retail Consortium (BRC), International Featured Standards (IFS), Organic, Kosher and Halaal

128 new products in 2019

Awarded the Wabel Grocery Summit Award for **best product in the category of "hot beverages"**

YEAR UNDER REVIEW

In tough economic trading conditions, we concentrated our efforts on efficiencies and cost management, including inventory management and extracting opportunities with existing customers. We also continued to differentiate ourselves by offering customers unique selling opportunities and working closely with them to offer a premium product.

Consumers are increasingly requiring transparent product sourcing information and products that are less processed and that contain no artificial flavourants or ingredients. To keep abreast of these requirements, as well as regulatory changes, we have further strengthened our processes and employed internal compliance professionals.

We have also invested in technologies that will optimise production throughput, lower operating costs and reduce waste.

RIALTO

The value-add perishables portion of Rialto Foods is included in the Perishables category, while the meal-ingredient portion, which represents the majority of the business, is included in the Groceries category.

Rialto Foods sources, imports, packs and sells both perishable and long-life food products from a number of European, Asian and American food manufacturers and is the preferred supplier to a large retailer for a wide range of products.

Rialto Foods also has a value-add production facility for products such as sliced and grated cheese and premium charcuterie. Products include condiments, sauces, noodles, pasta, balsamic vinegars, biscuits, coconut milk, coffee, curry pastes, mineral water, olive oil and speciality meats and cheeses, as well as other canned foods, spreads, marinades and baby foods.

www.rialtofoods.co.za

16 new product development and technical centres

Food service

More than **1 500 customers**

Over **950 products*** sold in 2019

* *Stock-keeping units.*

Five principal brands

YEAR UNDER REVIEW

We faced a very tough consumer environment this year. In addition, exchange rates remained volatile. As an importer, this has a significant impact on us. We invested in software to further manage our costing and foreign exchange exposure.

Optimised stock holding is also a key challenge as an importer. By actively managing this, we have seen a significant improvement in our net working capital days over the last two years. In addition, we have partnered with our suppliers to extend payment terms to improve net working capital.

Our distribution rights on key international brands are often threatened by the import of grey products from competitors. To address this, we partner with our brand principals to mitigate against these imports through competitive pricing deals.

During the year, we also restructured our logistics and merchandising solution, with regional merchandising put in place to ensure improved distribution.

To ensure food safety and maintain our trusted relationships, we have further increased our testing and food safety measures to above what legislation requires.

Cecil Vinegar has been producing naturally fermented vinegar since 1936. It has a range of locally produced vinegars, and imports speciality vinegars. It produces products under private label and dealer-own brands. It also produces vinegar products under the Safari licensed brand. In addition, it sells locally produced apple cider and wine vinegars, together with quality balsamic vinegar imported from Italy, under the Cecil Vinegar brand. All vinegars are produced from natural ingredients using submerged fermentation technology.

www.vinegar.co.za

Main private label and dealer-own brand vinegar supplier to several retailers

A key supplier of vinegar to the major food manufacturers

YEAR UNDER REVIEW

Bulk vinegar sales to the South African food market, which constitute a large part of Cecil Vinegar's volumes, were severely impacted by the poor economic climate. Despite the pressure on volumes and pricing, no market share was lost.

The delay in the registration of an import facility to secure a key raw material that is not available in South Africa had a severe impact on our product costs. The registration is now complete.

To improve our service delivery and increase efficiencies, we implemented a number of factory improvements. Firstly, our facility in the Strand, Western Cape, was expanded to include a facility that is fully compliant with Food Safety System Certification requirements, provides additional storage capacity and improves production line layouts. We also increased our production cycle through investments in our fermentation plants.

During the year, the Alrode plant in Gauteng was certified to supply Badatz (Kosher) vinegar to Jewish customers worldwide. This will expand our geographic reach.

DickonHallFoods

Dickon Hall Foods has been operating in the Groceries industry for 25 years. It provides outsourced manufacturing solutions for leading food manufacturers. It also produces wet condiments such as chutneys, salad dressings, sauces, marinades and mayonnaise, as well as spreads and savoury dips in both bulk and retail pack sizes.

www.libstar.co.za/dickon-hall-foods

Established in 1962

First Libstar acquisition in 2005

Largest chutney producer in South Africa, **producing over 12 000 tons** per annum

YEAR UNDER REVIEW

As with the other businesses in this category, the current state of the economy has impacted us. We have maintained a close working relationship with our principals, improved efficiencies to remain a low-cost producer and continued to identify innovative products in partnership with our customers.

We implemented a detailed and proactive maintenance programme and invested in equipment upgrades and the automation of certain lines. This included the upgrading and automation of one of the chutney lines, robotic packers for tomato paste and an almost new filling line for products transferred from Libstar's disposed Elvin business.

MONTAGU FOODS

Montagu Foods produces a wide range of chutneys, as well as other wet condiments such as sweet chilli sauce, tomato sauces and salad dressings to customers under dealer-own and private label brands. Montagu Foods also produces a range of long-life products, including soups, cook-in sauces, pasta sauces and mustards, other condiments under the Denny brand and dealer-own brands for a large retailer.

www.libstar.co.za/montagu-foods

Established in 2005 in Montagu with 37 employees. Today, it has **grown to almost 250 employees** and is the largest manufacturer in Montagu in the Western Cape

Largest private label supplier in South Africa in the wet condiments category

YEAR UNDER REVIEW

During the year, we integrated Denny Foods into the Montagu factory, which resulted in significant production challenges and delays. Although the integration was successfully completed, the temporary impact on production and warehousing during key periods severely impacted results.

In addition, we integrated our logistics and merchandising solution with Rialto Foods, which resulted in some distribution challenges during the implementation phase. These issues have now been addressed and the business is well placed for an improved performance in 2020.

HURTERS HONEY

Hurters Honey's core business is the sourcing and processing of pure non-irradiated honey. Nectar is harvested from beehives all over South Africa, allowing them to produce a variety of origin and varietal honeys, such as Orange Blossom, Fynbos, Blue Gum and Wild Blossom. The honey is endorsed as badger friendly and Hurters Honey actively takes part in, and supports, responsible beekeeping practices.

www.libstar.co.za/hurters-honey

Significant market share of the South African honey market*

* 23% local and 77% imported.

YEAR UNDER REVIEW

Following the severe drought in South Africa in 2018, there was a significant shortage of local honey. We focused on the expansion of our supplier base and supply areas, which contributed greatly to the procurement of an adequate amount of honey during the drought.

As the demand for South African honey is higher than production, procurement competition is fierce. Proactive price management systems have been put into place to protect the business from severe margin deterioration in light of raw material increases.

To ensure we can continue to certify the quality of our honey, we have further improved our authenticity testing regimes.

khoisan gourmet

This business was included in the Groceries category for the year ended December 2019.

Khoisan Gourmet procures, treats, blends and packs a range of teas in bulk and individual teabags. These teas include rooibos, honeybush, black tea blends and other blends.

Khoisan Gourmet's offering also includes natural vanilla pods, natural vanilla essence and other spices in bulk, as well as retail-ready packs.

www.khoisantea.com

Approximately 80% bulk and 20% pre-packaged value-add products

Exports **increased by ↑31% this year** and we **grew the number of countries** we supply to

We supplied **224 million litres of tea** and **almost 900 million teabags** this year

YEAR UNDER REVIEW

As expected, tea export volumes recovered strongly during the second half of 2019, although low market prices experienced during the first half of 2019 persisted. Price realisation was therefore lower as a result of competitive pricing pressures within the South African and global market.

To address this, we are improving our systems, marketing, sales and brand practices, and sales teams. As part of this, we will be increasing our focus on meeting customers' requirement for sustainability by using only recyclable and environmentally friendly packaging and increasing our support of organic farmers.

CHAMONIX

This business was included in the Groceries category for the year ended December 2019.

Chamonix sells still and sparkling bottled water products, as well as a range of flavoured and enhanced waters and carbonated soft drinks.

www.chamonix.co.za

All products made from **natural underground spring water**

Excellent growth on the private label bar-mix range

Two additional flavours launched and one large new customer secured

YEAR UNDER REVIEW

We launched two new products with an existing customer and managed to approve a range of products with a new customer for launch in 2020. We also worked closely with our new large customer to ensure we align our processes with their requirements.

Due to the severe drought conditions in South Africa in the previous year, we installed telemetry at all our boreholes to monitor usage and replenishment. We received our updated water usage licence with approved abstraction for the entire facility in 2019.

To meet market requirements, we continued to improve our packaging to assist efficient recycling.

multi-cup

This business was included in the Groceries category for the year ended December 2019.

Multi-cup is a supplier of generic and branded hot and cold beverage cups and allied packaging, cup holders and stirrers, cup lids and assorted paper and plastic containers to the food service and vending market segments in Southern Africa.

www.multi-cup.co.za

Ten years of operation, with **143 employees** and a national footprint

Nearly 9 000 m² of warehousing across the country, with over **2 500 products*** supplied to **more than 500 customers** and customer groups

Launched own local production of paper cups and straws in 2019 to diversify sourcing and limit currency exposure

* Stock-keeping units.

YEAR UNDER REVIEW

To address the lower levels of disposable income in a recessionary economic environment, we diversified our product offering from only traditional beverage packaging (cups and lids) to other allied packaging components, such as cutlery, kitchenware and containers.

We also continue to develop alternative biodegradable plant-based materials to ensure consistent raw material supply and launched an environmentally friendly food packaging range, Precious Planet, that focuses on sustainable packaging solutions. In addition, we are concentrating on increasing our direct retail presence with a biodegradable range of packaging.

In a volatile exchange rate environment, we have focused on margin preservation through local manufacture, improved import pricing and a diversified product mix.

BAKING AND BAKING AIDS

We sell an extensive range of baking products to leading retailers in South Africa and abroad, as well as to businesses operating in the food service industry. This category constituted:

7% OF GROUP REVENUE

8% OF GROUP NORMALISED EBITDA BEFORE CORPORATE COSTS

LIBSTAR'S KEY STRENGTHS WITHIN THE BAKING AND BAKING AIDS CATEGORY

Amaro Foods is an award-winning bakery that has produced an extensive range of baked products for a leading retailer for 40 years. It also supplies products to major quick-service restaurants in South Africa. Retailer Brands has represented key brands for 25 years and Cani has been creating rusks from family recipes for more than 20 years.

All businesses have entrenched customer and supplier relationships across a diverse product range, with a number of strong dealer-own brands for customers. We offer a range of well-known household brands, including Robertsons and Cook 'n Bake.

Innovation is a cornerstone of this category, with ongoing products launched to meet changing consumer demands. For example:

- Amaro Foods is the largest producer of gluten-free products in South Africa, which capitalises on growing health and wellness trends;
- Retailer Brands' instant noodles and Amaro Foods' par-baked and frozen breads and rolls provide consumers and customers with convenience; and
- Amaro Foods' flour tortilla wraps are supplied nationally to food service customers.

All businesses have a national footprint, world-class manufacturing facilities and stringent food safety certifications in place.

CATEGORY YEAR UNDER REVIEW

Revenue from Baking and Baking Aids increased 11.5% to R700 million, mainly as a result of strong growth in the sales of rolls, fruit and sweet buns, flat breads and wraps. This was partially offset by lower revenue from private label soups and jellies in Retailer Brands. Category volumes improved by 1.5%.

An improved sales mix within Retailer Brands contributed strongly to a stronger category gross profit margin of 29.8% (2018: 27.6%). However, the significant growth in normalised EBITDA from baked goods within the Amaro Foods division was more than offset by an under-recovery of costs in Retailer Brands. This contributed to the reduction in category normalised EBITDA of 6.3% at a lower EBITDA margin of 12.4% (2018: 14.8%).

CATEGORY OUTLOOK

Following the strong sales of rolls, buns, flat breads and wraps, we will continue to explore additional food service opportunities and new products. For example, we are planning to roll out our offering to additional customers and launch an estimated 30 new products in the coming year. In addition, we expect to gain the full benefit of the new par-bake facility from 2020. Operating efficiencies will remain a key focus area.

Following the under-recovery of costs in Retailer Brands, significant rationalisation efforts are underway to rectify the position during 2020.

The businesses in this category will also roll out detailed customer plans to continue the expansion of their customer base and product ranges of branded and dealer-own branded products through product and packaging innovation.

During the year under review, Cani secured access to an additional manufacturing premise. We will evaluate the increase of our warehouse capability and implement certain efficiency optimisation processes and equipment improvements. The team is also focusing on improving its distribution footprint following the change to a new supplier, as well as increasing its range and refreshing its packaging.

AMARO FOODS

Amaro Foods is an award-winning bakery that produces an extensive range of baked products for a leading retailer and food service customers. Amaro Foods' products include soft white and brown rolls, speciality breads, baguettes, croissants, flapjacks, flour tortilla wraps, hot cross buns, par-baked breads and rolls and naan bread.

Amaro Foods Gluten-Free produces a range of gluten-free bakery products, such as breads, confectionery and crackers for a leading retailer. Amaro Foods Gluten-Free is managed by the same team as Amaro Foods.

Largest supplier of gluten-free products in South Africa

Produced more than nine tons in 2019

YEAR UNDER REVIEW

One of the key issues this business had to deal with this year was increasing costs, including electricity and labour costs, as well as certain raw material costs.

Due to the change in weather patterns, the production of wheat, a key raw material, was impacted and resulted in higher input costs. In addition, foreign exchange movements impacted the cost of certain raw materials we import.

Despite these challenges, the business was able to strongly grow the sales of its rolls, fruit and sweet buns, flat breads and wraps, which improved its sales mix and margin.

RETAILER BRANDS

QUALITY ASSURED

Retailer Brands produces food products under private label, Libstar brands and licensed brands for the retail and wholesale trade in South Africa. Retailer Brands produces a wide range of baking aids (including essences and colourants) and dry food products, including soups, jellies, spices, custard powder, sauces, meal kits and spices for the retail and wholesale trade in South Africa. It produces and sells baking aids under the Robertsons licensed brand, as well as under the Libstar brands of Cartwrights, Sheridans, Cook 'n Bake and NCP Yeast.

Established 25 years ago

Represents the **majority of Libstar's wholesale channel revenue**

Produces **18 tons of noodles** per day

YEAR UNDER REVIEW

This business also had to contend with labour cost increases and the cost and intermittent supply of water and electricity. Although a generator can run the whole factory, this is very expensive.

Weak consumer demand contributed to a decline of volumes in the consumer goods sector and major retail and wholesale chains are putting significant pressure on suppliers to reduce costs. As we are a low-cost producer, the impact was somewhat buffered, although cost pressures remained during the year under review.

A change of wholesale and merchandising agents during the year impacted adversely on sales in the first half of 2019. However, these challenges were fully addressed in the second half.

CANI

ARTISAN BAKERS QUALITY INGREDIENTS

Cani produces home-styled rusks, crunchies and shortbread made from quality natural ingredients.

Market share of 16%

The Cani brand **growing at ↑25%**

Manufactured almost **1 800 tons of rusks** in 2019

YEAR UNDER REVIEW

As the plant reached its full capacity in 2019, an adjacent building was secured to improve our manufacturing area and warehousing. We are currently exploring the introduction of additional equipment and resources in the next expansion phase.

We also had to address increased labour costs this year and adapt to new distributor and sales agents.

Despite these challenges, the capacity expansion during the year under review has positioned us well to grow our own-brand and private label market share in 2020.

SNACKS AND CONFECTIONERY

Our snacks and confectionery products respond to the consumer's demand for convenience and "on-the-go" snacking. This category constituted:

6% OF GROUP REVENUE

7% OF GROUP NORMALISED EBITDA BEFORE CORPORATE COSTS

LIBSTAR'S KEY STRENGTHS WITHIN THE SNACKS AND CONFECTIONERY CATEGORY

The main business in this category, Ambassador Foods, was established 30 years ago. It manufactures more than 370 different snacks and confectionery products under private label at its world-class manufacturing facilities in Mpumalanga and the Western Cape.

The business has deep retailer relationships and a model built on innovation, with significant new product development to meet market trends.

Through the current private label manufacturing stream, we own and supply to 40% of the South African nut and dried fruit market. This business' production of healthy nut snacks also exploits the consumer requirement for healthier food options.

The new business in this category, K Snacks, established the first Pringle potato snack facility in South Africa in 2019 through its manufacturing agreement with Kellogg's South Africa.

CATEGORY YEAR UNDER REVIEW

Revenue from the Snacks and Confectionery category grew 12.7% to R538 million, assisted by the commissioning of the new Pringle facility during June 2019. This, in conjunction with a snack bar range brand relaunch and promotional activity, contributed to a stronger second half gross profit and normalised EBITDA performance of the category.

Gross profit margins in the category improved strongly to 28.4% from 23.6% in the prior year, while normalised EBITDA increased 13.6% at an improved margin of 15.4% (2018:15.3%).

CATEGORY OUTLOOK

The Snacks and Confectionery category remains very well placed to deliver growth through an ongoing focus on new innovations and promotions. We will also focus on export sales through growing relevant categories into specific countries and to ensure our product is premium to the market at the best price.

We continue to focus on efficiencies in our production processes and cost management, as well as ensuring the shortest possible route-to-market to gain a competitive sales price advantage. In the coming year, we will also negotiate improved payment terms with import suppliers to improve our working capital.

The full first year of production at the Pringle facility will continue to assist this category's performance in 2020.

AMBASSADOR FOODS

Ambassador Foods is based in White River, Mpumalanga. Ambassador Confectionery, a division of Ambassador Foods, is located in Paarl in the Western Cape. Ambassador Foods is a processor of a wide variety of edible nuts, seeds and related snack products. Its product range includes fruit and nut mixes, granolas, cereal, health and energy bars, nut and protein bars, as well as a variety of roasted and flavoured nuts. Ambassador Confectionery manufactures sweet treats, including nougat, fudge, turkish delight and brittles.

Sole nut supplier to Woolworths

Top two products include peanuts and raisins and luxury nut tubs

One of the largest employers in the Lowveld in Mpumalanga, South Africa

Almost **200 000 meals** and **576 food parcels provided to charities** over nine months in 2019

YEAR UNDER REVIEW

Slow economic growth in the South African market is putting pressure on consumers and the industry. To address this, we have created a number of new products for our customers, as well as increasing marketing and promotions.

During the year, we had to manage a number of increased costs, such as labour, imported raw materials, electricity and fuel costs during load shedding.

We are implementing increased factory efficiencies and cost-saving initiatives. To address the impact of the weaker Rand, we are exploring opportunities for exports.

We have also teamed up with an enterprise development partner to create a bio-fuel plant, which will use recycled oil to run our generators.

K Snacks

K Snacks operates the first Pringle potato snack facility in South Africa through its manufacturing agreement with Kellogg's South Africa.

Factory established in June 2019

YEAR UNDER REVIEW

The focus during the year was on commissioning the plant, which involved rebuilding the previous line that was transferred from Malaysia. The business had to address a number of mechanical and electrical issues, as well as train the teams to operate the new line. The factory has now reached operational stability, with technical challenges addressed.

During the year under review, a process commenced to merge the divisions of Chet Chemicals, Glenmor Soap and Contactim into a single Household and Personal Care (HPC) cluster. The HPC category is now the only non-food category remaining in the group portfolio.

HOUSEHOLD AND PERSONAL CARE

This category serves the segments of cleaning accessories, tissues and cotton wool, bleach, dishwashing, all-purpose cleaners, bath and shower products and soap. This category constituted:

8%
OF GROUP REVENUE

3%
OF GROUP NORMALISED EBITDA BEFORE CORPORATE COSTS

LIBSTAR'S KEY STRENGTHS WITHIN THE HOUSEHOLD AND PERSONAL CARE CATEGORY

The businesses in this category have served the South African market for more than 50 years, producing private label and branded products to major retailers.

We have long-standing relationships with customers and are leaders in private label manufacturing, as well as being key players with established market shares.

CATEGORY YEAR UNDER REVIEW

Our HPC cluster of businesses has commenced a significant restructuring to ensure its viability, underpinned by the sharing of a sales force and resources, as well as the consolidation of multiple manufacturing sites into a single facility.

During the year, revenue from HPC products decreased by 6.8% to R789 million. Although volumes declined by 13.8%, gross profit margins improved to 17.5% (2018: 16.4%) due to an improved sales mix.

Category normalised EBITDA decreased by 0.1% at an improved margin of 4.6% (2018: 4.3%).

CATEGORY OUTLOOK

While some rationalisation benefits are reflected in the improved margin performance during 2019, the finalisation of the restructuring of this category and the physical integration of four manufacturing facilities during 2020 are expected to yield further improvements.

Although the restructuring will impact the group's revenue growth during 2020, the category consolidation will unlock value and opportunities through the sharing of both the front- and back-end resources, and the integration of multiple sites into a single facility.

The improved sales mix resulting from the HPC product rationalisation, as well as the group's continued focus on plant optimisation and investment in systems and plant and machinery, is expected to assist our efforts to improve operating efficiencies in all categories.

Markets will continue to remain tough due to pressure on consumers. Nielsen reported in 2019 that 30% of total consumer goods volumes sold in 2019 was sold at a discount. This makes South African consumers the third highest price-sensitive consumer in the world. This trend should assist the demand for private label products.


SKiN
BEAUTY SOAP
TROPICAL


no name
THIN BLEACH
SPRING FRESH

Measures, compliance and remuneration

Assurance measures

Libstar's operations are independently assured by external assurance providers on a variety of aspects each year.

The table outlines the material ones.

Assured business processes	Assurance/verification provided	Assurance providers
Financial position and performance of the group	Fair representation in all material aspects	Moore Cape Town Inc
Food safety and compliance	To ensure processes meet a range of requirements. These include: ■ Halaal or Kosher ■ Organic ■ FSSC 22000 ■ JAS organic ■ ISO 22000 ■ HACCP (SANS 10330) ■ IFS ■ BRC ■ FSA ■ Certificate of acceptability ■ ZA export ■ Approved EST (certificate of veterinary approved establishment)	Muslim Judicial Council Halaal Trust South African National Halaal Authority (SANHA) National Independent Halaal Trust Islamic Council of South Africa Halaal Fund Beth-Din COFRAC Several South African municipalities Lacon Institute ProCert SABS TUV NORD CERT GmbH NSF SGS Control Union Certification Intertek Sappi Ecocert Union of Orthodox Synagogues of South Africa Tiger Brands KIWA BCS Oko-Garantie GmbH NDA, DAFF, Export Control and Vet Services
Ethical, fair trade and responsible processes	To assure processes are ethical, fair and responsible	SMETA IBL Intertek Enviroscientific Globus-Ethical SAI Global Partner Africa FSSINT Canada – Ethical ProCert Aldi UK NSF
Quality and hygiene processes	To assure quality processes, which include audits in terms of: ■ ISO 9001: 2015 ■ Woolworths PPC ■ Unilever SHQ ■ Tiger Brands audit ■ Shoprite Checkers Compliance Audit ■ Clicks quality audit ■ Pick n Pay quality ■ BSN quality ■ Nestlé FSMS ■ McDonald's SQMSA and SWA ■ Kellogg's MQFS ■ Cipla quality ■ SANBWA Bottled Water	SHEQ national certification SGS IBL Tiger Brands Unilever Clicks Group Limited Pick n Pay BSN Medical Nestlé SAI Global LTL Consultants Kellogg's FSSI Global AIB Cipla Medpro Manufacturing NSF
Health and safety	All our manufacturing plants comply with ISO 4500 and are independently assessed	TUV NORD CERT GmbH IBL SHEQ National Certification
Environmental aspects	Our environmental impact is measured in line with ISO 14000	TUV NORD CERT GmbH
Employee processes	Employment/equity compliance audit	Employment Concepts
Empowerment	B-BBEE verification	AQRate Verification Agency

Independent auditor's **report**

On the condensed consolidated financial statements

TO THE SHAREHOLDERS OF LIBSTAR HOLDINGS LIMITED

OPINION

The condensed consolidated financial statements of Libstar Holdings Limited, contained in the accompanying integrated report, which comprise the condensed consolidated statement of financial position as at 31 December 2019, the condensed consolidated income statement, condensed consolidated statements of other 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 Libstar Holdings Limited for the year ended 31 December 2019.

In our opinion, the accompanying condensed consolidated financial statements as set out on pages 92 to 118, are consistent, in all material respects, with the audited consolidated financial statements of Libstar Holdings Limited, in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, set out in note 2 to the summary financial statements and with the requirements of International Accounting Standard 34: Interim Financial Reporting and the requirements of the Companies Act of South Africa as applicable to condensed financial statements.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the condensed consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon The condensed consolidated financial statements and the audited consolidated financial statements do not reflect the effects 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 17 March 2020. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period

DIRECTORS' RESPONSIBILITY FOR THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the condensed consolidated financial statements in accordance with the requirements of the JSE Limited Listings Requirements for summarised reports, set out in note 2 to the condensed consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to condensed financial statements, and for such internal control as the directors determine is necessary to enable the preparation of the condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Listings Requirements require summarised reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, and to also, as a minimum, contain the information required by IAS 34, Interim Financial Reporting.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the condensed consolidated financial statements are consistent, in all material respects, with the audited consolidated 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.

Moore Cape Town Inc.

Moore Cape Town Inc.
Chartered Accountants (SA)
Registered Auditor

Per: Alan Billson
Director
Chartered Accountant (SA)
Registered Auditor

1 April 2020

2nd Floor Block 2
Northgate Park
Paarden Eiland,
7406

Remuneration committee chairman’s **review**

As the chairman of the remuneration committee, I am pleased to report that the committee successfully focused on a number of remuneration aspects this year.

The previous remuneration committee chairman, Wahid Hamid, resigned in August 2019.

As outlined on page 35, the group’s brand and culture were evaluated and repositioned during the year. The remuneration committee worked with Libstar to design, develop and implement a Libstar talent and succession management plan for the group. This programme aims to build a sustainable talent pipeline to ensure a competitive advantage in an ever-changing business environment and to develop and retain talent in key roles. We have also identified mission-critical roles across the group and mapped succession plans for these roles.

At our first AGM as a listed entity, shareholders expressed some concerns around aspects such as improved disclosure on key performance indicators in the variable pay schemes, audit fees and the board composition.

We take our shareholders’ views seriously and have engaged with them to better understand their concerns and outline our plans to address these issues. We will continue to canvas a sample of our large shareholders ahead of each AGM to address concerns timeously.

The voting results at the 2018 AGM were:

	Vote % in favour
Remuneration policy	**74.89%**
Remuneration implementation	**76.80%**

Refer to page 78 for additional information.

KEY FOCUS AREAS DURING THE YEAR

Focus areas	What this means
1 Finalisation and approval of the performance measures for the Libstar Group Share Plan and Long-Term Incentive Plan (LTIP).	Performance measures, expressed as measurable metrics for the LTIP and Libstar Group Share Plan, were documented and approved by the board.
2 Awards offered to employees under the Libstar Group Share Plan and LTIP.	91 employees, ranging from executive directors to senior management level and members of key operations, were offered awards under the new LTIP. Executive directors and executives also received awards under the Libstar Group Share Plan.
3 Engagement with shareholders on remuneration matters raised at the AGM held in May 2019.	We invited feedback from shareholders. The results were documented and considered, and amendments were made to the remuneration policy that will be tabled at the next AGM. Information regarding this process is set out on page 78.
4 Review and approval of executive salary increases for January 2020 and short-term incentive (STI) payments for 2019.	We reviewed individual salary increases and STI payments for executive directors, executive committee members and CEOs of business units, as well as summarised salary increases and STI payments for divisional business unit executives and group office senior management, for approval by the board.
5 Reviewed fee levels for non-executive directors.	We benchmarked the non-executive director fee levels against companies in the Consumer Packaged Goods (CPG) sector on the JSE for approval by shareholders at the next AGM.

REMUNERATION BASED ON 2019 RESULTS

During this year, total remuneration (TGP and STI) was reviewed against companies in the CPG sector. The review found that total remuneration (TGP plus STI) packages of executive directors were lagging companies in the sector.

Executive directors (CEO and chief financial officer) – at 31 December 2019

SALARIES	SHORT-TERM INCENTIVES	LONG-TERM INCENTIVES
An increase in the amount of 5.0% of TGP was approved with effect from 1 January 2020.	The average bonuses paid amounted to 54.8% of the total guaranteed portion of the total package in recognition of strong company performance in a very challenging operating environment and to align total remuneration with peers in the CPG sector. The remuneration committee is satisfied that executive director total remuneration is now aligned to the market.	Awards will be made under the LTIP to executive directors in 2020 following board approval.

Executives (which include executive committee members and CEOs of business units) – at 31 December 2019

The group assessed the talent in the group for purposes of the design and implementation of a talent and succession plan. Several of the CEOs of the business units are founders of these businesses or have been with the business units for many years.

SALARIES	SHORT-TERM INCENTIVES	LONG-TERM INCENTIVES
Salary increases for this group of employees averaged 3.8% of TGP.	Based on stronger performance in most of the operating units during 2019, average bonuses paid were 25.8% of TGP.	Awards will be made under the LTIP in 2020 to employees, ranging from senior management level and members of key operations.

REMUNERATION BASED ON 2018 RESULTS

Executive directors (CEO and chief financial officer) – at 31 December 2018

SALARIES	SHORT-TERM INCENTIVES	LONG-TERM INCENTIVES
No increases were approved for executive directors in January 2019.	Bonuses equal to 15% of total guaranteed package (TGP) were approved by the remuneration committee.	Awards were made to executive directors in terms of the LTIP and the Libstar Group Share Plan.

Executives (which include exco members and CEOs of business units) – at 31 December 2018

SALARIES	SHORT-TERM INCENTIVES	LONG-TERM INCENTIVES
Salary increases for this group of employees averaged 4.5% of TGP.	No STI payments were made to employees at the group office. Bonuses were limited to business units who qualified in terms of the rules of the scheme.	Awards were made to 89 employees, ranging from senior management level and members of key operations, in terms of the LTIP. In addition, 16 of these employees at executive level received awards under the new Libstar Group Share Plan.

LOOKING AHEAD

Key focus areas for the committee in the coming year will include:

Focus areas	What this means
Succession planning at executive and senior management levels	Monitor talent pool and leadership development initiatives.
Ongoing shareholder engagement with regard to remuneration policy and related matters	Ongoing engagement with shareholders to ensure our remuneration policies and disclosures are understood and supported and are aligned to changing trends in remuneration to address any ongoing concerns.

VOTING AT AGM

As required by King IV, the remuneration policy and implementation report detailed in the remuneration review will be tabled for separate non-binding advisory votes by shareholders at the upcoming AGM.

We encourage shareholders to provide feedback on the various voting requirements and commit to ongoing interaction with shareholders to discuss issues of concern.

APPRECIATION

I extend my appreciation to my fellow remuneration committee members, the human resources team and our remuneration consultant for their valuable support and input during this year.

Sandeep Khanna

Chairman of remuneration committee

Remuneration **review**

In line with King IV, shareholders will have the opportunity to approve the group's remuneration policy at the annual general meeting in June 2020. The approval will focus on:

- A non-binding advisory vote on section 2 of this report.
- A non-binding advisory vote on section 3 of this report (excluding recommended fees for directors).
- The recommended fees for directors (included in section 3 of this report).

In the event that there are 25% or more votes against the approval of the remuneration policy and its implementation, the group undertakes to do the following:

- Shareholders who voted against the policy and implementation will be consulted to ascertain the nature of their dissatisfaction. Amendments will be considered by the remuneration committee.
- An official response will be drafted to shareholders that will outline actions to be taken on the issues raised.

Refer to page 78 for additional information.

SECTION 1: BACKGROUND

As outlined in the chairman's introduction, certain shareholders expressed concerns at our previous AGM. We have considered these comments and outline our responses on page 78.

We also implemented additional disclosures, as follows:

1. Performance indicators relating to short-term incentives (STIs).
2. Detailed explanation of short-term incentives.
3. Vesting criteria, thresholds and JSE peer group composition relating to longer-term incentives.
4. Information relating to the audit fees is included on note 6 on page 102 of the annual financial statements.

Our reporting remains at the start of our improvement journey as a newly-listed group and we will aim to continue improving our reporting each year.

Our remuneration policy is focused on recognising the relative contribution of each employee to the performance of the group as a whole. We place a high value on entrepreneurship by adopting remuneration strategies that encourage senior employees to challenge boundaries and to incentivise our people for thinking innovatively.

As outlined on page 35, during the year the group embarked on a re-branding and repositioning strategy, which involved a detailed review of our culture and way of operating. This included the implementation of a talent and succession management programme.

THE REMUNERATION COMMITTEE

The remuneration committee members have the relevant skills and experience to perform their duties. The members have no business or other relationships that could materially affect their independent judgement. Executive directors are not allowed to participate in discussions regarding their own remuneration or entitled to vote at such meetings.

The previous remuneration committee chairman, Wahid Hamid, resigned on 12 August 2019 and Sandeep Khanna was appointed as the new chairperson. JP Landman was appointed as a member of the committee on 1 January 2020. The members of the remuneration committee are Wahid Hamid (member and chairman – resigned 12 August 2019), Sandeep Khanna (chairman from 12 August 2019), Wendy Luhabe (member) and JP Landman (appointed on 1 January 2020).

Meetings held during 2019

	3 April	5 June	26 November
Wahid Hamid (chairman)[1]	✓	✓	
Wendy Luhabe	✓	✓	✓
Sandeep Khanna[2]	✓	✓	✓
Attending by invitation:			
Chief executive officer	✓	✓	✓
Chief financial officer	✓	✓	✓
HR executive	✓	✓	✓
Remuneration committee external adviser	✓	✓	✓

1 Resigned after 5 June 2019 meeting.
2 Appointed as chairman on 26 November 2019 meeting.

ADVICE SOUGHT

Libstar used the services of an external remuneration consultant to advise on and implement the following:

- Annual benchmarking, as well as individual benchmarking for appointments and internal transfers;
- Best practice in terms of remuneration structuring and variable pay;
- Administration of the STI and LTI plans; and
- Administration of the annual remuneration review.

SECTION 2: OVERVIEW OF REMUNERATION POLICY

REMUNERATION PRINCIPLES

The group's key remuneration principles are to:

- Ensure that Libstar's approach to remuneration is fair, equitable, transparent and market-related, taking into account both the requirements and performance of the group;
- Recognise the contribution of employees in the performance of the group;
- Maintain the value of entrepreneurship by adopting remuneration strategies that encourage senior employees to challenge boundaries; and
- Ensure compliance with legislation and regulations relating to remuneration of employees (including their benefits and incentives) and the reporting thereon.

REMUNERATION GOVERNANCE

The board is ultimately responsible for the implementation of the remuneration policy. To assist the board in fulfilling its responsibilities, it has appointed and mandated the remuneration committee.

The remuneration committee takes an active role in reviewing the remuneration policy, the remuneration philosophy, strategy and practices to align to industry best practice, as well as to the goals and strategic objectives of the group.

The operations of the remuneration committee are regulated by specific terms of reference in line with King IV. The composition of the remuneration committee is compliant with the JSE Listings Requirements and all statutory laws. The remuneration committee consists of three independent non-executive directors. The chairman of the board serves as a member of the remuneration committee, but is not the chairman.

The remuneration committee is responsible for:

- Monitoring, reviewing and implementing the remuneration policy;
- Monitoring leadership development and succession planning;
- Ensuring compliance with latest governance standards;
- Ensuring that Libstar's remuneration policy meets its strategic objectives;
- Providing advice regarding non-executive directors' remuneration;
- Reviewing and approving all short- and long-term incentive structures;
- Reviewing and approving annual salary increase parameters;
- Reviewing and approving the total quantum, vesting criteria and director allocations in the share and share appreciation rights schemes; and
- Reviewing total remuneration packages for executive management.

REMUNERATION STRUCTURE

The remuneration policy covers the following reward elements:

TOTAL REWARD	Element	Who is eligible?	What are the objectives?	How is the pay level set?
TOTAL REMUNERATION – VARIABLE PAY	**LONG-TERM INCENTIVES** (share plan and LTIP)	Executive directors, executive committee members, CEOs of business units, senior management, other key employees	Rewards individual and company performance, attraction/retention, recognition of individual contribution to operating business success	Allocation based on TGP and/or STI achievement, subject to financial performance
TOTAL REMUNERATION – VARIABLE PAY	**SHORT-TERM INCENTIVES** (STIs) (annual cash bonus)	Executive directors, executive committee members, CEOs of business units, senior management, other key employees	Rewards individual and company performance, attraction/retention	Required to achieve at least 90% of group or business unit EBITDA target
TOTAL REMUNERATION – TOTAL GUARANTEED PAY (TGP)	**13th CHEQUE** (at levels where applicable)	Employees not participating in STI	Motivation	Guided by employment agreements
TOTAL REMUNERATION – TOTAL GUARANTEED PAY (TGP)	**BENEFITS** (pension/ provident fund, medical aid, death benefits)	Facilitated by business units	Motivation	Linked to market practices
TOTAL REMUNERATION – TOTAL GUARANTEED PAY (TGP)	**ALLOWANCES** (car, phones)	Where appropriate	Attraction/motivation	Linked to market practices
TOTAL REMUNERATION – TOTAL GUARANTEED PAY (TGP)	**BASIC** (monthly salary, weekly/hourly wage)	All employees		
NON- FINANCIAL BENEFITS	**RECOGNITION**	All employees	Motivation	Provided for in budgets
NON- FINANCIAL BENEFITS	**PERSONAL GROWTH**			
NON- FINANCIAL BENEFITS	**POSITIVE WORKPLACE**			
NON- FINANCIAL BENEFITS	**CAREER PROGRESSION**			

* Executives are defined as employees from group CEO level to executives of operating business units.

OUR EXECUTIVE REMUNERATION

Executives are defined as employees from group CEO level to executives of operating business units.

Executive remuneration elements are captured in this section:

REMUNERATION ELEMENTS | **Description** | LINK TO BUSINESS STRATEGY

1. TOTAL GUARANTEED PAY (TGP)

- A TGP approach is followed, which may include items such as car and phone allowances.
- An annual review of TGP is conducted, effective on 1 January each year, taking into account the size and complexity of business units.
- Increases are considered against factors such as projected annual increases in CPI, company performance and affordability, performance of businesses in the CPG sector on the JSE, external market conditions, internal equity and the performance of the individual.
- The company uses the Paterson job grading system, as well as remuneration benchmarking against other companies in the CPG sector (Tiger Brands, RCL Foods, Pioneer Foods, AVI, Oceana Fishing, Rhodes Food Group) and data from the PE Corporate Executive Staff Survey.
- The company facilitates the following plans:
  - Pension and provident funds for permanent employees;
  - Insured risk benefits; and
  - Medical aid benefits.

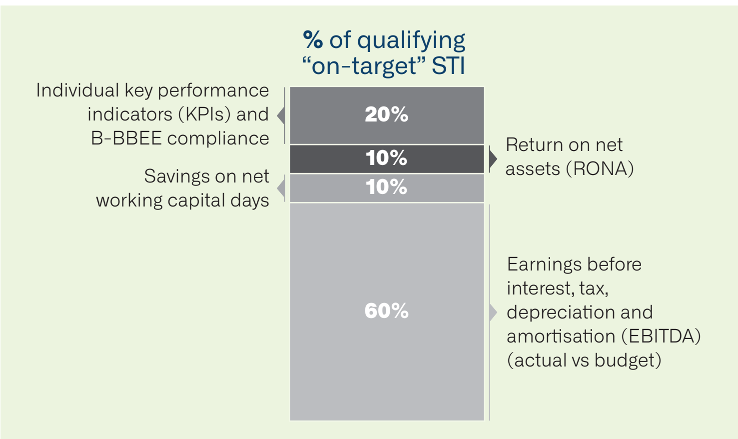
Link to business strategy: **Attraction/ retention of key employees**

2. SHORT-TERM INCENTIVES (STIs)

The STI is a performance bonus designed to incentivise participants to improve short-term business performance. An employee may qualify for an STI once the EBITDA targets for the year have been achieved. The "on-target" bonus levels as a percentage of annual total guaranteed pay (TGP) are:

- Group CEO – 50%
- Group central office executives and CEOs of business units – 35% to 45%
- Senior management – 20% to 35%

The group must achieve at least 90% of its EBITDA budget before any bonuses become payable. The diagram below indicates the weighting of each component in the final bonus calculation.



Payments are made in two tranches to obviate a claw back provision in the rules:

- 70% payable in December, based on October business forecasts
- 30% payable in the following April based on the audited results

All STI payments are subject to the discretion of and approval by the remuneration committee.

Link to business strategy: **Attraction/ retention**

Reward for individual and company performance

REMUNERATION ELEMENTS	Description	LINK TO BUSINESS STRATEGY
3. LONG-TERM INCENTIVES (LTIs)	■ Prior to the group's listing, the long-term incentives comprised a share appreciation rights scheme (SARS), based on an unlisted market valuation, with a three-year vesting period that was introduced during 2016. Final awards under the **LTI scheme** were made in 2018. ■ The new Libstar Share and Long-Term Incentive Plans were approved by shareholders at the annual general meeting held in May 2019. 1. The **Libstar Group Share Plan** (**Share Plan**) is offered to key strategic executives, settled in shares and focused on group performance; and 2. The **Libstar Long-Term Incentive Plan** (**LTIP**) is offered to key operational executive and senior management, settled in cash and focused predominantly on operational performance. Under both plans, executives and senior employees may be offered the following on an annual basis: ■ Allocations of share appreciation rights; ■ Awards of performance shares/units; and ■ Grants of forfeitable shares/units. ***The fundamental difference between the two plans is that the Share Plan will settle in equity (transfer of shares) whereas the LTIP will settle through a cash payment equal to equity value. Both are supported by shares in the company.*** The two plans are summarised on the next page.	**Reward for individual and company performance** **Recognition of individual contribution to company success**

<table>
<tr><th>Libstar Group LTIP and Share Plan</th><th>Performance shares</th><th>Forfeitable shares</th><th>Share appreciation rights</th></tr>
<tr><td>ELIGIBILITY</td><td colspan="2">Executive directors and selected executives</td><td>Executive directors, executives, senior managers and selected other managers</td></tr>
<tr><td>GRANT BASIS</td><td>% of annual TGP</td><td>% of STI</td><td>% of annual TGP</td></tr>
<tr><td>APPRECIATION BASIS</td><td colspan="2">Full value</td><td>Appreciation only</td></tr>
<tr><td>PERFORMANCE CONDITIONS ON VESTING</td><td>
TSR[1] versus JSE Consumer Packaged Goods peer group (40%)
<table>
<tr><td>40th percentile</td><td>0% vesting</td></tr>
<tr><td>Median</td><td>100% vesting</td></tr>
<tr><td>Upper quartile (pro rata between 0% and 300%)</td><td>300% vesting</td></tr>
</table>
Libstar's three-year performance (60%)
Targeted ROAA[2] versus WACC[3]
<table>
<tr><td>Below WACC</td><td>0% vesting</td></tr>
<tr><td>WACC</td><td>75% vesting</td></tr>
<tr><td>WACC+1%</td><td>100% vesting</td></tr>
<tr><td>WACC+5%</td><td>(pro rata between 100% and 300% vesting)</td></tr>
</table>
Libstar group CAGR[4] in normalised headline earnings
<table>
<tr><td>Below CPI</td><td>0%</td></tr>
<tr><td>CPI+2%</td><td>100%</td></tr>
<tr><td>CPI+4% (pro rata between 0% and 300%)</td><td>300%</td></tr>
</table>
</td><td>Achievement of Libstar group B-BBEE targets</td><td>Achievement of real growth (CPI+2%) in normalised headline earnings
<table>
<tr><td>Below CPI</td><td>0% vesting</td></tr>
<tr><td>CPI+2% or greater</td><td>100% vesting (pro rata between 0% and 100%)</td></tr>
</table>
</td></tr>
<tr><td>VESTING PERIOD</td><td colspan="2">Third anniversary</td><td>Third anniversary, with settlement no later than seven years</td></tr>
<tr><td>SETTLEMENT</td><td colspan="3">Group Share Plan: shares issued or acquired in the market
LTIP: cash</td></tr>
<tr><td>TERMINATION (unless the board, in its discretion, decides otherwise)</td><td>No fault termination: vests on a pro rata basis to the extent of company performance
Fault termination: forfeited and cancelled</td><td>No fault termination: vests in full to the extent of company performance
Fault termination: forfeited and cancelled</td><td>No fault termination: vests automatically
Fault termination: cancelled</td></tr>
<tr><td>LINK TO BUSINESS STRATEGY</td><td colspan="3">Rewards for individual and company performance
Recognition of individual contribution to company success</td></tr>
</table>

1. TSR: total shareholder return 2. ROAA: return on adjusted assets 3. WACC: weighted average cost of capital 4. CAGR: compound annual growth rate

OFFER METHODOLOGY

1 The rules applicable to the Libstar Group Share Plan and the LTIP provide for allocations, awards and grants in accordance with a methodology and plan determined by the board, in conjunction with the remuneration committee, from time to time.

2 The methodology informs the allocations, awards and grants under the Libstar Share Plan and LTIP. The reward strategy remuneration mix of Libstar is determined with reference to:

- The relationship between guaranteed pay and variable pay; and
- The participation in and balance of the various variable pay structures within Libstar.

3 Each senior employee's remuneration mix is based on:

- A short-term bonus paid in terms of the STI scheme; and
- The expected future accrual in terms of the Libstar long-term incentive plan in which the senior employee participates, resulting from targeted share and financial performance. These are expressed as a percentage of the senior employee's guaranteed pay at the time of an allocation, award or grant under either the Libstar Group Share Plan or the LTIP.

4 The board has developed an implementation schedule which governs the expected value to be derived from each of the instruments that are offered to participants under the Libstar Group Share Plan and the LTIP. These consider an employee's current status, role and current remuneration.

The implementation schedule will:

1. Translate the long-term component of the reward strategy pay mix into a value apportionment between the three methods of allocation in the Libstar Group Share Plan and the LTIP.
2. Dictate the face value (Rands) of offers to be made. This is expressed as a percentage of a guaranteed short-term incentive bonus.

The face value (Rands) derived through the application of the implementation schedule is converted for each individual into the number of instruments that will be offered to participants by dividing the Rand value by the current price of an ordinary share in the company at the time the offer is made.

The implementation schedule may sometimes be adjusted for future offers based on evolving economic, market, performance or strategic considerations.

DILUTION LIMIT

The maximum number of shares to be acquired by participants under the Libstar Share Plan and any other plan will not exceed 6 820 000 shares. This represented 1% of issued share capital at 31 December 2019. The allocation for any participant in terms of the Share Plan and any other plan will not exceed 1 364 000 shares. This represented 0.20% of issued share capital at 31 December 2019.

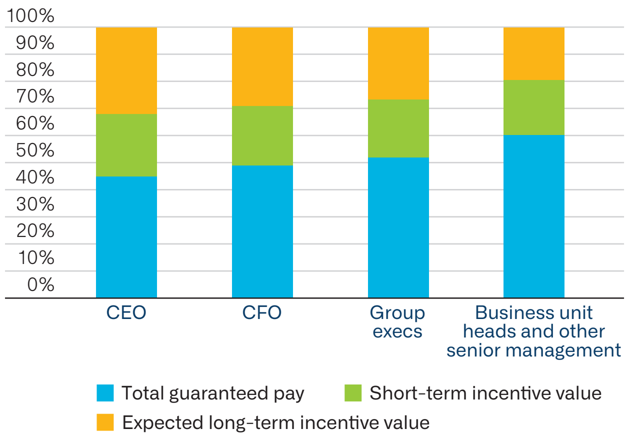
In the application of the above limits, shares which have been acquired through the market on behalf of participants will not be taken into account. Any shares which are not subsequently issued or transferred to any participant, for example, as a result of a forfeiture, shall revert back to the Share Plan.

REMUNERATION MIX

Remuneration packages consist of TGP and variable pay. Libstar's variable pay methods include the STI, as well as the LTIP and Libstar Group Share Plan.

The remuneration mix for senior levels places the emphasis on variable pay, making it a more "at risk" structure. For employees at more junior levels, the mix is weighted towards guaranteed pay.

Libstar's on target remuneration mix for the different levels is outlined below. The mix is aligned with market practice and there were no amendments to the package structure from 2018.



The potential total remuneration outcomes for executive directors

The variable pay arrangements set out on this page may have various potential outcomes. These outcomes could be from zero (minimum), to the expected level of performance outcomes (on-target), to the maximum potential pay outcomes (maximum).

It should be noted that:

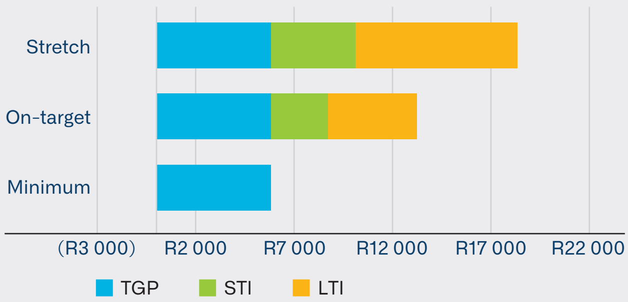
- TGP is as at 31 December 2019.
- The STI component is the cash bonus component, where:
  - "Minimum" equals performance below 90% of EBITDA budget;
  - "On-target" equals performance on EBITDA budget; and
  - "Stretch" equals performance at 15% above EBITDA budget.
- The LTI component is the face value of the LTIP share appreciation rights allocations, performance share/unit awards and forfeitable share/unit grants, where "stretch" represents full vesting (three times vesting value) of performance shares.

	CEO		
Remuneration mix (%)	**Minimum**	**On-target**	**Stretch**
TGP	100	44	32
STI	–	22	23
LTI	–	34	45
TOTAL	100	100	100

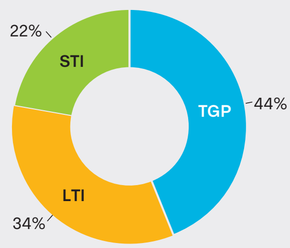
	CFO		
Remuneration mix (%)	**Minimum**	**On-target**	**Stretch**
TGP	100	47	35
STI	–	21	23
LTI	–	32	42
TOTAL	100	100	100

The potential remuneration outcomes for the CEO are:

CEO (R million)

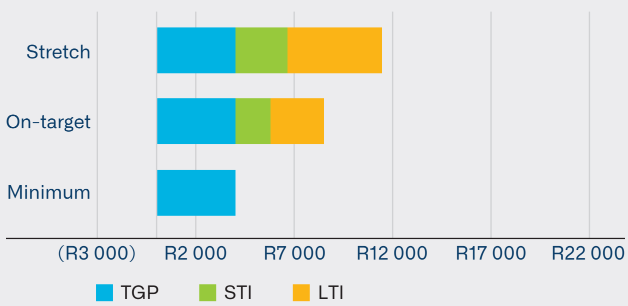


On-target remuneration mix (%)

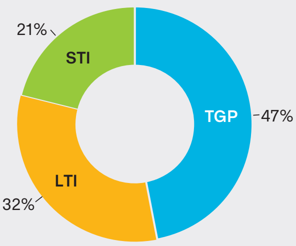


The potential remuneration outcomes for the CFO are:

CFO (R million)



On-target remuneration mix (%)



CLAWBACK AND MALUS

The directors of Libstar may, in its absolute discretion, reduce (to nil, if appropriate), lapse, amend or vary any allocation of share appreciation rights, or any award of performance shares or the grant of forfeitable shares under the Share Plan and LTIP, or a portion thereof.

EMPLOYEE AND EXECUTIVE CONTRACTS

All permanent employees are issued employment contracts that comply with statutory requirements. Notice of termination is one month, unless longer periods are agreed. The notice period for executive directors and executives is three months.

PAYMENTS ON TERMINATION OF OFFICE

There is no provision for ex-gratia payments on termination of office, save for payments that are due under existing long-term incentive plans.

SIGN-ON, RETENTION AND RESTRAINT OF TRADE PAYMENTS

There is no provision for sign-on, retention or restraint of trade payments. Should a payment of this nature be made, it would be approved by the remuneration committee and disclosed.

NON-EXECUTIVE DIRECTORS

Non-executive directors receive meeting attendance fees for their participation on the board and board committees. Non-executive directors do not receive annual incentive awards.

The chairman is not present when his/her remuneration is reviewed. Recommendations are made to the board for consideration and presented at the AGM for shareholder approval.

The chairman receives meeting attendance fees for his/her participation on the board and board committees. He/she does not receive annual incentive awards.

The remuneration committee reviews the fees paid to non-executive directors annually, taking into consideration the individual's responsibilities and board committee membership. Fees are reviewed annually against:

- The annual PWC non-executive remuneration review;
- The annual PE Corporate non-executive director report; and
- Companies in the CPG sector on the JSE, which include Tiger Brands, RCL Foods, Pioneer Foods, AVI, Oceana Fishing and Rhodes Food Group.

SECTION 3: IMPLEMENTATION OF THE REMUNERATION POLICY

Shareholders expressed some concerns at the last AGM.

VOTING OUTCOMES AT THE 2018 AGM

% vote in favour of	May 2019
Remuneration policy	**74.89%**
Remuneration implementation	**76.80%**

In an effort to identify and address shareholders' concerns, Libstar engaged its top 15 institutional shareholders, which included dissenting shareholders and which collectively hold more than 70% of the company's shares in issue. The findings of this consultation process are set out on this page.

KEY MATTER 1:
REMUNERATION POLICY AND LIBSTAR GROUP SHARE PLAN

Shareholders requested that the integrated annual report, and specifically the remuneration review, discloses the weighting and composition of key performance indicators (financial and strategic), vesting criteria, thresholds and TSR peer group composition for purposes of short-term and long-term incentives.

Libstar's response

The integrated report includes feedback on the performance indicators as they relate to short-term incentives (STIs). These disclosures include, inter alia, performance against EBITDA, net working capital, RONA and B-BBEE compliance.

Refer to page 80

Information relating to the key performance indicators, vesting criteria, thresholds and JSE peer group composition relating to longer-term incentives have also been included. These are briefly summarised below:

- Executives and senior employees may be offered the following award under the Libstar Group Share Plan and Long-Term Incentive Plan (LTIP), on an annual basis:
  - Allocations of share appreciation rights;
  - Awards of performance shares/units; and
  - Grants of forfeitable shares/units.
- The fundamental difference between the two plans is that the Libstar Group Share Plan will settle in equity (transfer of shares) whereas the LTIP will settle through a cash payment equal to equity value. Both are underpinned by the value of shares in the company.

Refer to pages 72 to 73

KEY MATTER 2:
GENERAL AUTHORITY TO ISSUE SHARES FOR CASH

Shareholders advised that their internal policies capped the authority to issue shares for cash at lower levels than the authority sought by Libstar at the AGM in 2019.

Libstar's response

Libstar will seek authority from shareholders at the AGM in June 2020 to issue shares for cash up to a maximum of 5% of shares in issue, in line with investor guidelines.

OTHER MATTERS RAISED BY SHAREHOLDERS INCLUDED:

The strengthening of the board's fast-moving consumer goods and other business/accounting acumen through additional members and/or amended committee structures.

Libstar's response

The composition of the board is under consideration, specifically as it relates to the appointment of the required skills.

The requirement for replacement of the group's existing auditors with a "Big Four" audit firm.

Libstar's response

The board is confident that the current auditors are providing a quality service. However, the board will continue to consider this in line with mandatory auditor rotation rules.

HISTORIC PAYMENTS FOR ALL LEVELS OF EMPLOYEES

Increases granted (awarded in December for the year ahead) for 2020

Gross profit	**2020 %**	2019 %	2018 %
Executive directors	**5.0**	–	19.0
Group office executives and CEOs of business units	**3.8**	4.5	7.1

SALARY INCREASES

EXECUTIVE DIRECTORS

In 2018, the remuneration committee approved special adjustments to the salaries of the executive directors to be consistent with the peer group prior to listing. There were no salary increases for executive directors between 2018 and 2019. In 2020, an increase of 5.0% to the salaries of executive directors were made, slightly lower than the 5.5% to 6.5% annual executive salary movements, as reported in the Deloitte Consumer and PE Corporate Executive staff surveys.

STI PAYMENTS*

In light of the uncertainty surrounding the duration and extent of the impact of COVID-19 on operations, the board and management considered it prudent and in the best interests of the group, our employees and stakeholders to preserve our financial liquidity to the fullest extent. With this in mind, executive directors, members of the executive committee and senior executives agreed on a voluntary basis to postpone the payment of the 30% balance of STI payments due. These payments were payable in April 2020 and will be postponed until after the publication of the interim results of the group. This will ensure that STI payments will coincide with the proposed dividend payment to shareholders in September 2020, as announced on SENS.

% of TGP	**2019**	2018	2017
Executive directors	**STI 36.6 Discretionary bonus 18.3 Total 54.9**	15.00	39.2
Group office executives and CEOs of business units	**25.8**	11.9	27.1

Rand value R'000	**2019**	2018	2017
Executive directors	**STI 3 592 Discretionary bonus 1 796 Total 5 388**	1 473	3 235
Group office executives and CEOs of business units	**17 982**	7 433	18 961

* Bonuses are expressed as a percentage of TGP for each of the sub-groups.

EXPLANATION OF THESE PAYMENTS

STI AWARDS

Libstar is required to achieve at least 90% of its EBITDA target against budget before any bonuses become payable.

The individual performance metrics that were applied in 2019 were set out in the 2018 remuneration review. These are summarised here again:

Performance measure	Target	Actual for 2019	Weighting
Normalised EBITDA	Budget (threshold: 90% of budget)	Above threshold	60%
Net working capital days	Improvement from previous year	Not achieved	10%
RONA	Improvement from previous year	Not achieved	10%
B-BBEE	Compliant status	Achieved target	20%

Based on these results, the executive directors received STI payments in the amount of 36.6% of TGP, as well as a discretionary bonus for strong company performance in a very challenging operating environment, and alignment of total remuneration with peers in the CPG sector.

Group office executives were paid STIs in line with company performance in terms of the rules of the STI scheme. CEOs and executives of business units were paid STIs in line with the performance of the relevant business unit against budget.

LTI, LTIP AND LIBSTAR GROUP SHARE PLAN AWARDS

Awards made in 2016 in terms of the former long-term incentive (LTI) plan to 46 employees vested on 1 January 2019, amounting to R12.9 million.

The new LTIP and Libstar Group Share Plan were approved by shareholders at the AGM in May 2019. The salient features of these plans are included in "Our executive remuneration" section on pages 72 to 73 and in more detail in the remuneration policy that can be found at www.libstar.co.za.

The table below sets out the awards to executive directors made in terms of the LTI, LTIP and Libstar Group Share Plan:

	Date of grant	Vesting date	Expiry date (SARs only)	SAR strike price/LTIP and Share Plan price on grant	Number of instruments awarded	Number of instruments vested	Number of instruments lapsed	Closing number of unvested and/or vested but unexercised instruments	Total face value on grant Rands
CEO									
LTI	Jan 2018	Jan 2021	Jan 2021	12.92	**411 242**	–	–	**411 242**	5 313 250
LTIP									
SARs	Apr 2019	Apr 2022	Apr 2026	8.08	**273 713**	–	–	**273 713**	2 211 600
Performance shares	Apr 2019	Apr 2022	Apr 2022	8.08	**229 775**	–	–	**229 775**	1 856 580
Forfeitable shares	Apr 2019	Apr 2022	Apr 2022	8.08	**57 264**	–	–	**57 264**	462 690
Libstar Group Share Plan									
SARs	Jul 2019	Jul 2022	Jul 2026	8.85	**249 898**	–	–	**249 898**	2 211 600
Performance shares	Jul 2019	Jul 2022	Jul 2022	8.85	**209 783**	–	–	**209 783**	1 856 580
Forfeitable shares	Jul 2019	Jul 2022	Jul 2022	8.85	**52 281**	–	–	**52 281**	462 690
CFO									
LTI	Jan 2018	Jan 2021	Jan 2021	12.92	**252 283**	–	–	**252 283**	3 259 500
LTIP									
SARs	Apr 2019	Apr 2022	Apr 2026	8.08	**173 267**	–	–	**173 267**	1 400 000
Performance shares	Apr 2019	Apr 2022	Apr 2022	8.08	**129 208**	–	–	**129 208**	1 044 000
Forfeitable shares	Apr 2019	Apr 2022	Apr 2022	8.08	**32 302**	–	–	**32 302**	261 000
Libstar Group Share Plan									
SARs	Jul 2019	Jul 2022	Jul 2026	8.85	**158 192**	–	–	**158 192**	1 400 000
Performance shares	Jul 2019	Jul 2022	Jul 2022	8.85	**117 966**	–	–	**117 966**	1 044 000
Forfeitable shares	Jul 2019	Jul 2022	Jul 2022	8.85	**29 492**	–	–	**29 492**	261 000

SINGLE FIGURE REMUNERATION

The following tables disclose total remuneration received by executive directors for 2017, 2018 and 2019:

R'000	Basic salary	Travel allowance	Bonuses and incentives	Retirement fund contributions	Gains on exercise of share options	Total remuneration
31 December 2019						
A van Rensburg	**5 820**	**–**	**3 318**	**–**	**–**	**9 138**
R Smith	**4 000**	**–**	**2 070**	**–**	**–**	**6 070**
31 December 2018						
A van Rensburg	5 820	–	873	–	–	6 693
R Smith	4 000	–	600	–	–	4 600
31 December 2017						
A van Rensburg	4 850	–	2 005	–	–	6 855
R Smith	3 400	–	1 230	–	–	4 630

NON-EXECUTIVE DIRECTORS' FEES

The total proposed fees for 2020 are set out below and are subject to approval by shareholders at the AGM in May 2020. The increases have been aligned with the average increases for the rest of the group at 5%. However, in the current challenging conditions in South Africa, especially since the outbreak of the COVID-19 pandemic, the board has elected to offer their increases to the employees of Libstar and to only accept the same remuneration as in 2019.

Position	**Proposed fee for the year ending 31 December 2020 Rands**	Fee paid for the year ended 31 December 2019 Rands
Board		
Chairperson	**735 000**	700 000
Independent director	**283 500**	270 000
Audit and risk committee		
Chairperson	**273 000**	260 000
Committee member	**147 000**	140 000
Remuneration committee		
Chairperson	**262 500**	250 000
Committee member	**115 500**	110 000
Social and ethics committee		
Chairperson	**210 000**	200 000
Committee member	**105 000**	100,000
Nomination committee		
Chairperson	**210 000**	200 000
Committee member	**105 000**	100 000
Investment and strategy committee		
Chairperson	**210 000**	200 000
Committee member	**105 000**	100 000

Governance **review**

SECTION 1: CORPORATE GOVERNANCE

Libstar's values are aimed at building and maintaining a culture that promotes professional conduct, commitment, and open and honest communication. The board endorses the King IV Report on Governance for South Africa 2016 (King IV) and recognises the need to conduct its business with integrity and in accordance with generally accepted corporate practices.

Following the listing of the company on the JSE Limited (JSE) on 9 May 2018, the group continued to proactively take steps to ensure full compliance with the JSE Listings Requirements and the principles of King IV.

KEY FOCUS AREAS

Focus areas during the year for the board included:

- Further bedded down the governance structure and processes post the listing.
- Measures and strategy to improve the group's broad-based black economic empowerment (B-BBEE) rating. This included an interim audit to identify and address gaps to attain a more favourable score.
- Improved the monitoring of risks.
- Focused on internal control measures, including strengthening internal audit processes.
- Identified successors within critical roles throughout the group and provided the necessary support and training for these individuals. During the year, the finance position at the group level was changed following a focused succession plan during the last few years. Charl de Villiers was appointed as CFO to replace Robin Smith, the previous CFO and commercial director.
- Worked with management to further improve stakeholder engagement processes.
- Continued focus on the talent and succession planning initiatives started during 2018. These initiatives included the identification of high-potential individuals and tailored development plans and programmes, as well as the drafting of a succession planning framework and policy. These programmes will be rolled out to a further grouping during 2020.

KEY FOCUS AREAS FOR 2021

The board's key focus areas for the coming year are outlined below:

- Protect the business and its people and work with management to preserve cash following the outbreak of COVID-19 post year-end. As outlined on pages 39 and 45, several initiatives have been put in place.
- The roll-out of the talent management programme will continue, with a strong focus on implementation of the succession framework.
- Evaluate strategic options available to unlock value for shareholders.
- Ongoing improvement of the group's broad-based black economic empowerment positioning.
- Continued assessment and management of risk.
- Further improvements to stakeholder engagement.
- Formalisation of the board's annual evaluation process.

Governance during the year

GOVERNANCE STRUCTURE

The board has five committees in place to assist them in their duties and responsibilities.

GROUP BOARD

COMMITTEES

- Audit and risk
- Remuneration
- Nomination
- Social and ethics
- Investment and strategy

THE BOARD

The board comprises seven directors, with four independent non-executive directors and three executive directors.

The board is responsible for ensuring that the company complies with all its statutory obligations specified in the memorandum of incorporation of the company, the Companies Act, the JSE Listings Requirements and other regulatory requirements. An effective compliance framework is in place, with the board ensuring the integrity of its financial reporting and risk management, together with timely and transparent disclosure to shareholders.

The board has a framework in place for the delegation of authority to management. It remains cognisant that delegating authority to committees or management does not in any way impact or dissipate the discharge by the board and its members of its duties and responsibilities. The board also ensures that the positions of the CEO and board chairman are separate, with a clearly-defined division of responsibilities in both offices to ensure a balance of authority and power. The chairman does not interfere in the day-to-day running of the business, but has access to routine group information, including internal reports, to enable her to remain up to date with the operations of the group and industry.

The board has a minimum of four scheduled meetings per financial year, excluding any ad hoc meetings held to consider special business.

The board has a board charter in place, regulating, amongst other things, the role and responsibilities of the chairman, the lead independent director and the functioning of the board as a whole.

Board vacancies are filled by the board on recommendation from the nomination committee that scrutinises and identifies suitable candidates.

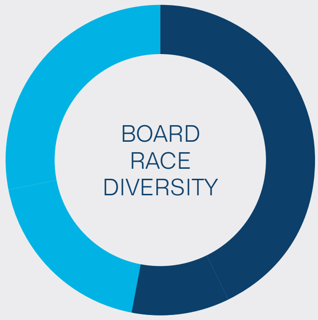
INDEPENDENCE OF DIRECTORS

All non-executive directors, including the chairman, are classified as independent in terms of King IV and the JSE Listings Requirements.

GENDER AND RACE DIVERSITY

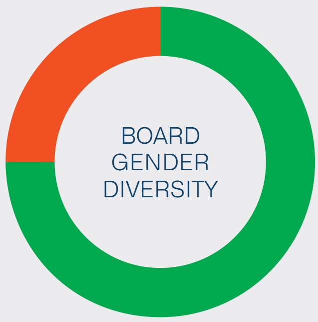
The group has set itself race and gender targets at board, group and business unit level. As a board, we have set a voluntary target of 30% female representation by the end of 2020. The group currently has two female directors at main board level, which represents 29% female representation. All appointments are made on merit, in the context of skills, experience, independence and knowledge which the board as a whole requires to be effective. Due regard is given to diversity in respect of Libstar's transformation initiatives, specifically those of gender and race and an appropriate mix of qualifications, skills and experience across the board. The board has taken note of the amendments to the JSE Listings Requirements implemented in 2019, for the promotion of broader diversity at board level. It will revise its board diversity policy during 2020 to include the additional diversity elements.

We also remain committed to improve our race and gender diversity at executive level.



57% White

43% Black*



71% Male

29% Female

* Black, Indian and Coloured.

APPOINTMENT AND ROTATION OF DIRECTORS

No director is appointed for an indefinite period. At each AGM, at least one third, or the closest number to a third, of the non-executive directors will retire from office. The non-executive directors who will retire every year will be those who have been in office the longest since their election. The appointment of directors during the year is subject to confirmation by shareholders at the first AGM following their appointment.

CONFLICTS OF INTEREST

We are committed to the highest standards of ethical, moral and legal business conduct. A conflict of interest policy is in place.

DEALING IN SECURITIES

We have a formal policy, established by the board and implemented by the company secretary, prohibiting dealing in securities by directors, officers and other specific employees for a designated period preceding the announcement of financial interim and final results or in any other period, which may be required in terms of the JSE Listings Requirements. A closed financial period starts at half-year and year-end periods and is lifted upon publication of the half-year or year-end results on SENS. The policy on dealing in securities is circulated prior to a closed period to remind the affected persons. Before dealing in Libstar shares, directors must obtain prior written clearance to transact.

INTERNAL CONTROL SYSTEMS

We have implemented systems of internal control which are designed to detect and minimise the risk of fraud, potential liability, loss and material misstatement. These systems also provide reasonable, but not absolute, assurance regarding compliance with statutory laws and regulations and the maintenance of formal accounting records. The group uses various third-party software systems to manage a range of operational and management systems and identify, amongst other things, health and safety and technical risks in the production facilities of the business units.

The purpose of the systems of internal control is to maintain a sound system of risk management and to sustain an effective internal control environment, ensuring that the financial statements are honest and reliable, as well as to safeguard the group's assets.

We also have certain cost control measures in place, including an independent internal audit function which reports to the audit and risk committee. An internal audit plan is agreed on an annual basis and adopts a risk-based approach to key financial aspects impacting the group. The internal audit function operates under a written charter which is reviewed annually.

ASSURANCE FRAMEWORK

Libstar operates a combined assurance framework which coordinates the efforts of management, internal assurance providers and external assurance providers in a manner that ensures collaboration and assists in providing a profile of the risks.

First line of defence – management

Second line of defence – external assurance providers

Third line of defence – internal and external auditors

Fourth line of defence – oversight bodies (the board and sub-committees)

APPLICATION OF KING IV

Libstar has analysed its compliance with King IV's principles and recommended practices. Since listing, the board has focused on ensuring that the corporate documents of Libstar are aligned to achieve both technical and practical compliance with the outcomes of King IV, as well as to facilitate the implementation thereof.

Refer to the detailed governance review on the group's website, www.libstar.co.za, where the application of the 17 King IV corporate governance principles are outlined.

SECTION 2: COMPLIANCE AND REGULATORY

Relevant legislation	Primary responsibility
COMPANIES ACT, JSE LISTINGS REQUIREMENTS, KING IV REQUIREMENTS	Group company secretary
TAX ADMINISTRATION	Group finance
BASIC CONDITIONS OF EMPLOYMENT, LABOUR RELATIONS ACT, EMPLOYMENT EQUITY ACT	Group human resources
BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE ACT AND AMENDMENT ACT)	Group human resources
PRIVACY LAWS	Group commercial and risk
CORPORATE AND COMMERCIAL PROCUREMENT LEGISLATION	Group commercial, supply chain and risk
ANTI-BRIBERY AND ANTI-CORRUPTION LEGISLATION COMPETITION LAW	Group commercial, supply chain and risk
SAFETY, HEALTH AND ENVIRONMENTAL LEGISLATION	Group commercial, supply chain and risk

COMPLIANCE

KEY STANDARDS

Mandatory compliance with internationally-accepted public standards is required by each of the business units. These include a range of standards that are certified by relevant assurance providers.

Refer to page 64 and the detailed governance review on the group's website.

Legislative and regulatory compliance

Libstar manages its business responsibly and in compliance with statutory and regulatory requirements. Regulatory legislation and compliance relevant to the group is presented to the board. An external consultancy has been appointed to evaluate the group's employment equity and transformation initiatives to maintain compliance and align the group to best practice.

Anti-bribery and anti-corruption legislation

Libstar's values encompass integrity and transparency. We have developed a specific programme to counter bribery. This involves the adoption of an anti-bribery policy and the introduction of a whistle-blowing line.

Libstar is committed to:

- Conduct its business fairly, honestly and transparently;
- Not making or offering bribes, whether directly or indirectly, to gain business advantages;
- Not accepting bribes, whether directly or indirectly, to give business advantages; and
- A zero tolerance towards bribery.

The corporate code of conduct and ethics policy sets the guidelines that define acceptable and responsible behaviours for the group and employees.

The code prohibits:

- Cash gifts;
- The giving or receiving of gifts, loans, favours or any other benefit which may be regarded as influencing business, labour or governmental decisions;
- Donations or contributions to a political party; and
- Engaging in activities which may involve a conflict of interest with the group's employment position.

The board recognised the need for a confidential reporting mechanism (whistle-blowing hotline) covering fraud and other risks. A tip-offs anonymous whistle-blowing hotline, with an anonymous toll-free number, will provide an impartial facility for all stakeholders to report fraud, statutory malpractice, crime and deviations from policy. This is being introduced to the group.

We will also implement training initiatives, where appropriate, in line with our objective to continuously improve and entrench ethical and anti-fraud practices.

SECTION 3: RISK MANAGEMENT

Introduction

The board recognises that risk management is a key component of good governance, which involves a consideration of both risks and opportunities. In this context, Libstar is required to not only mitigate negative consequences of actions, but to also seek out opportunities.

Libstar has the following risk management framework and standards in place:

Continuous improvement of risk management framework

Stakeholders' requirements for risk management

Establish (Plan)

Implement & operate (Do)

Monitor & review (Check)

Maintain & improve (Adjust)

Stakeholders' risk management

Plan: Establish the risk management framework
Do: Implement and operate
Check: Monitor and review its effectiveness
Adjust (Act): Maintain and continuously improve

The group has established a risk management framework. The process involved:

- Defining an operating model, along with strategic and operational objectives;
- Defining external and internal factors that give rise to the risk that the group might not meet its objectives;
- Determining externally-imposed risk parameters (including regulatory, legal, social and contractual); and
- Application of the risk management process and definition of internal parameters.

A group risk register is in place, which is reviewed by the audit and risk committee every quarter. The register includes the key risks facing Libstar, mitigating actions and residual risks.

RISK ASSESSMENT

The risk assessment process consists of three steps:

1 Risk identification

2 Risk analysis

Including consideration of the sources and causes of a specific risk event occurring, consequences/impact of the risk event occurring, the likelihood that the risk event will occur, and the impact on the group's objectives.

3 Risk evaluation

We have sound management processes to manage risks. The key financial risk management aspects are outlined in more detail.

FINANCIAL RISK MANAGEMENT

The divisions within the group monitor and manage the financial risks relating to their operations through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

We seek to minimise the effects of these risks by using derivative financial instruments to hedge risk exposures.

The use of financial derivatives is governed by the group's policies approved by the board which provide written principles on foreign exchange risk. Compliance with policies and exposure limits are reviewed by the internal audit function on a continuous basis. The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

CAPITAL RISK MANAGEMENT

We manage our capital to ensure that entities in the group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The group's overall strategy remains unchanged. The capital structure of the group consists of net debt (bank loans and asset-based finance), offset by cash and bank balances and equity of the group (comprising issued capital, reserves, retained earnings and non-controlling interests).

The group is not subject to any externally imposed capital requirements.

MARKET RISK

Our activities expose us primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The group enters into derivative financial instruments to manage its exposure to foreign currency risk, specifically forward foreign exchange contracts to hedge the exchange rate risk arising on the export and import of food products, mainly to and from Australia, New Zealand, the United Kingdom, the European Union, the USA and Canada.

There has been no change to the group's exposure to market risks or the manner in which these risks are managed, except that the group has applied hedge accounting from 1 January 2019.

FOREIGN CURRENCY RISK MANAGEMENT

As the group undertakes transactions denominated in foreign currencies, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

INTEREST RATE RISK MANAGEMENT

The group is exposed to interest rate risk, as entities in the group borrow funds at floating interest rates. The risk is managed by linking the interest rate of the loan to the JIBAR over the period of the loan.

CREDIT RISK MANAGEMENT

Credit risk arises from the risk that a counterparty may default or not meet its obligations timeously.

The group limits its counterparty exposure arising from financial instruments by only dealing with well-established institutions of high credit standing. We do not expect any counterparties to fail to meet their obligations given their high credit ratings.

The group's credit exposure, in respect of its customer base, is represented by the net aggregate balance of amounts trade receivable. The maximum credit exposure at balance sheet date was R1.6 billion (2018: R1.5 billion).

Cash and cash equivalents are kept with counterparties that have sound credit ratings. Management does not expect any counterparties to fail to meet its obligations.

The group's credit exposure in respect of the financial assets is not considered to be material.

Credit risk in respect of the group's customer base is controlled by the application of credit limits and credit monitoring procedures. Certain significant receivables are monitored on a daily basis. Where appropriate, credit guarantee insurance is obtained. The group does not hold any collateral in respect of its customers.

LIQUIDITY RISK MANAGEMENT

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the group's short-, medium- and long-term funding and liquidity management requirements. We manage liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

GROUP RISKS

The following key risks were identified from a group perspective during the risk reviews conducted.

Category	Issues	Identified risks	Mitigation
STRATEGIC	**Reliance on key customers and competition from local and multi-national companies**	Stringent competition could impact profitability.	The group leverages the long-standing relationships with customers in the retail, wholesale, industrial and export channels. We produce products that are marketed to consumers under our own and dealer-own or private label brands which are developed in partnership with our customers. We maintain relevance through our ability to produce innovative products which cater to changing consumer demands and trends.
	Supply chain business interruption	Disruption to the sourcing of raw materials and packaging goods could impact overall profitability. The post year-end outbreak of COVID-19 poses additional risk to the interruption of Libstar's supply chain.	The group's business units maintain contingency plans which cater for the sourcing of key inputs from at least two alternative suppliers, where possible.
EXTERNAL AND FINANCIAL	**COVID-19**	Impact on volumes, financial performance, cost management, supply and exports. The safety of our workforce.	Group and divisional steering committees have been established to continuously monitor the unfolding situation. Hygiene practices have been intensified across all sites and remote working practices have been implemented where possible. We are maintaining close communication with our trading partners, suppliers and landlords to find mutually beneficial solutions and address the extraordinary circumstances in which we operate. Protection of Libstar's cash position remains a key priority.
	Foreign currency risk	Exchange rate fluctuations may adversely affect group import costs, group export revenues, gross margins and profitability.	The group has formalised foreign exchange hedging policies designed to mitigate the impact of foreign currency fluctuations. Outsourced treasury consultants assist the group to ensure that these policies are appropriately implemented.
	Interest rate risks, import tariffs, general taxes and utility costs	Changes in these rates could impact the profitability of the company.	Agreements have been renegotiated. The impact of swap covers and forward covers are reviewed on a quarterly basis to determine whether these should be entered into to counter the effect of any significant movements. The business units have mechanisms to react to changes in import tariffs, general taxes and utility costs using import agencies, and reviewing of pricing structures.
	Economic and sovereign risk	■ Weakening macro environment of South Africa, particularly in the wake of the post year-end outbreak of COVID-19. ■ Increased cost of raw material input costs. ■ Reduction of consumer ability to spend. ■ Potential downgrading by credit rating agencies. ■ Electricity supply constraints and load shedding.	A sustainable business model that withstands any downgrades in the ratings of the economy, as well as economic pressure and electricity supply issues.
	Port strikes	Port strikes may compromise the availability of raw materials and impact on the profitability of the business.	Contingency stock levels maintained to reduce the impact.

Category	Issues	Identified risks	Mitigation
ENVIRONMENTAL	**Fire risk**	The nature of the group's manufacturing operations increases the risk of fire damage to property, plant and equipment. A fire incident poses a risk to business continuity and profitability.	Frequent inspections and recommendations by suitably qualified outsourced bodies to ensure appropriate fire prevention plans are developed for each site.
	Water restrictions and power interruptions	Water restrictions and power interruptions can either limit or completely restrict the group's ability to manufacture its products.	Water contingency plans, which include the availability of borehole water at critical manufacturing sites, have been implemented. Power generators have been installed at the majority of the group's manufacturing sites.
IT AND CYBER-SECURITY	**Cybercrime and the temporary or permanent disruptions to information systems and failures of system integrations may compromise the integrity of financial and non-financial information**	Failure of the information systems or systems integrations may compromise the integrity of the financial and non-financial results, including loss of data and its recovery.	The group employs information technology and integration specialists who design, implement and project manage system implementation or integrations across all business units in conjunction with external software design teams. These include fail over techniques, backups and regular testing of backups.
LEGAL/REGULATORY	**Health and safety certifications**	Reputational and financial harm arising as a result of loss of food safety certifications.	We conduct product testing throughout our manufacturing sites and have protocols in place. Internal audits are performed by competent and independent auditors. Independent verifications are performed by customers. Disaster management protocols are in place at business unit level.
	Broad-based black economic empowerment (B-BBEE) compliance	Non-compliance with B-BBEE requirements could result in the loss of customer contracts.	We are compliant and have linked transformation to management's key performance indicators.
	Food fraud	The deliberate and intentional substitution, addition, tampering or misrepresentation of food and food ingredients.	We source from approved suppliers with the requisite certification, which includes testing of raw materials and monitoring of global food fraud platforms.
HUMAN RESOURCES	**Labour**	Protracted industrial action could impact profitability.	Wage negotiations are decentralised. Where appropriate, wage agreements are locked in for more than a year to promote labour force stability. We also have ongoing engagement with the unions.
	Loss of skilled labour	Loss of skilled labour can impact on the profitability of the company.	We have skills development, and training programmes and succession planning in place.


GOLDCREST
CHOICE GRADE
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Abridged Annual Financial Statements 2019

Contents

Condensed consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2019

	Notes	2019 Audited R'000	2018 Audited R'000
CONTINUING OPERATIONS			
Revenue		**9 892 545**	9 659 597
Cost of sales		**(7 513 655)**	(7 493 721)
Gross profit		**2 378 890**	2 165 876
Other income	5	**52 725**	18 062
Operating expenses		**(1 729 857)**	(1 562 419)
Operating profit	6	**701 758**	621 519
Investment income		**54 025**	47 617
Finance costs		**(262 774)**	(269 310)
Profit before tax		**493 009**	399 826
Income tax expense		**(136 325)**	(125 907)
Profit for the year from continuing operations		**356 684**	273 919
DISCONTINUED OPERATIONS			
Loss for the year from discontinued operations		**(77 057)**	(50 906)
Profit for the year		**279 627**	223 013
Other comprehensive income for the year, net of tax		**7 735**	(417)
Items that may be reclassified to profit or loss			
Gains on hedging reserves		**8 067**	–
Items that will never be reclassified to profit or loss			
Defined benefit plan actuarial losses		**(332)**	(417)
Total comprehensive profit for the year		**287 362**	222 596
Profit attributable to:			
Equity holders of the parent		**278 395**	222 224
Non-controlling interest		**1 232**	789
		279 627	223 013
Total comprehensive income attributable to:			
Equity holders of the parent		**286 130**	221 807
Non-controlling interest		**1 232**	789
		287 362	222 596
Basic earnings per share (cents)			
From continuing operations	7	**59.5**	48.2
From continuing and discontinued operations	7	**46.6**	39.2
Diluted earnings per share (cents)			
From continuing operations	7	**59.4**	48.2
From continuing and discontinued operations	7	**46.5**	39.2
Headline earnings per share (cents)			
From continuing operations	7	**59.9**	48.7
From continuing and discontinued operations	7	**55.7**	45.9
Diluted headline earnings per share (cents)			
From continuing operations	7	**59.8**	48.7
From continuing and discontinued operations	7	**55.6**	45.9

Condensed consolidated statement of financial position

as at 31 December 2019

	Notes	2019 Audited R'000	2018 Audited R'000
ASSETS			
Non-current assets		**6 685 881**	6 009 716
Property, plant and equipment	9	**1 392 678**	1 205 921
Right-of-use assets	10	**655 596**	–
Goodwill		**2 534 656**	2 521 058
Intangible assets		**2 092 060**	2 269 199
Other financial assets		**5 824**	8 018
Operating lease asset		**–**	5 418
Deferred tax assets		**5 067**	102
Current assets		**4 141 076**	3 784 159
Inventories		**1 199 619**	1 121 330
Trade and other receivables		**1 763 463**	1 628 038
Biological assets		**29 407**	26 662
Other financial assets		**31 593**	17 921
Current tax receivable		**16 742**	2 796
Cash and bank balances		**1 100 252**	987 412
Total assets		**10 826 957**	9 793 875
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders of the parent		**5 424 601**	5 410 079
Share capital	11	**4 727 314**	4 818 884
Defined benefit plan reserve		**(2 089)**	(1 757)
Share-based payment reserve		**2 211**	–
Retained earnings		**764 266**	668 120
Premium on acquisition of non-controlling interests		**(75 168)**	(75 168)
Hedging reserves		**8 067**	–
Non-controlling interests		**9 893**	8 661
Total equity		**5 434 494**	5 418 740
Non-current liabilities		**3 490 774**	2 734 401
Other financial liabilities		**2 087 970**	1 921 591
Lease liabilities	10	**677 674**	–
Deferred tax liabilities		**707 000**	769 960
Employee benefits		**9 583**	8 919
Share based payments	13	**8 547**	20 811
Operating lease liability		**–**	13 120
Current liabilities		**1 901 689**	1 640 734
Trade and other payables		**1 462 502**	1 401 337
Other financial liabilities		**111 737**	77 086
Lease liabilities	10	**75 712**	–
Share based payments	13	**4 156**	–
Current tax payable		**1 945**	4 239
Bank overdraft		**245 637**	158 072
Total liabilities		**5 392 463**	4 375 135
Total equity and liabilities		**10 826 957**	9 793 875

Condensed consolidated statement of changes in equity

for the year ended 31 December 2019

	Share capital R'000	Defined benefit plan reserve[1] R'000	Share-based payment reserve R'000	Premium on acquisition of non-controlling interests[2] R'000	Retained earnings R'000	Put options exercisable by non-controlling interests and executive management[3] R'000	Hedging reserves[4] R'000	Non-controlling interests R'000	Total R'000
Balance at 1 January 2018	**4 187 177**	**(1 340)**	**–**	**(63 624)**	**445 896**	**(8 836)**	**–**	**7 696**	**4 566 969**
Total comprehensive income for the year	**–**	**(417)**	**–**	**–**	**222 224**	**–**	**–**	**789**	**222 596**
Profit or loss for the year	–	–	–	–	222 224	–	–	789	223 013
Other comprehensive income for the year	–	(417)	–	–	–	–	–	–	(417)
Transactions with owners of the Company									
Contributions and distributions	**631 707**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**631 707**
Capital distribution	(800 000)	–	–	–	–	–	–	–	(800 000)
Issue of shares	1 500 730	–	–	–	–	–	–	–	1 500 730
Held as treasury shares	(730)	–	–	–	–	–	–	–	(730)
Share repurchase	(7 964)	–	–	–	–	–	–	–	(7 964)
Capitalisation of costs directly attributable to issue of shares	(60 329)	–	–	–	–	–	–	–	(60 329)
Changes in ownership interests	**–**	**–**	**–**	**(11 544)**	**–**	**–**	**–**	**176**	**(11 368)**
Acquisition of non-controlling interest in subsidiary	–	–	–	(11 544)	–	–	–	176	(11 368)
Movement in put options	**–**	**–**	**–**	**–**	**–**	**8 836**	**–**	**–**	**8 836**
Fair value adjustment through equity	–	–	–	–	–	8 836	–	–	8 836
Balance at 31 December 2018	**4 818 884**	**(1 757)**	**–**	**(75 168)**	**668 120**	**–**	**–**	**8 661**	**5 418 740**
Adoption of new accounting standard	**–**	**–**	**–**	**–**	**(50 560)**	**–**	**–**	**–**	**(50 560)**
IFRS 16 Leases adoption (refer to note 10)	–	–	–	–	(50 560)	–	–	–	(50 560)
Total comprehensive income for the year	**–**	**(332)**	**–**	**–**	**278 395**	**–**	**8 067**	**1 232**	**287 362**
Profit or loss for the year	–	–	–	–	278 395	–	–	1 232	279 627
Other comprehensive income for the year	–	(332)	–	–	–	–	8 067	–	7 735
Transactions with owners of the Company									
Contributions and distributions	**(91 570)**	**–**	**–**	**–**	**(131 689)**	**–**	**–**	**–**	**(223 259)**
Share repurchase	(91 570)	–	–	–	–	–	–	–	(91 570)
Dividends paid	–	–	–	–	(131 689)	–	–	–	(131 689)
Share-based payment expenses	**–**	**–**	**2 211**	**–**	**–**	**–**	**–**	**–**	**2 211**
Group share plan	–	–	2 211	–	–	–	–	–	2 211
Balance at 31 December 2019	**4 727 314**	**(2 089)**	**2 211**	**(75 168)**	**764 266**	**–**	**8 067**	**9 893**	**5 434 494**
Notes	11		13						

1. *Defined benefit plan reserve: Reserves comprises actuarial gains or losses in respect of defined benefit obligations that are recognised in other comprehensive income.*
2. *Premium on non-controlling interests: Represents the difference between the carrying amount of the non-controlling interests and the fair value of the consideration given on acquisition of non-controlling interests.*
3. *Put options exercisable by non-controlling interest and executive management relates to the liability raised in respect of put options exercisable by non-controlling interests and executive management.*
4. *Hedging reserves: Represents the gains relating to foreign currency transactions recognised in other comprehensive income.*

Condensed consolidated statement of cash flows

for the year ended 31 December 2019

	2019 Audited R'000	2018 Audited R'000
NET CASH FLOW FROM OPERATING ACTIVITIES	**579 769**	505 044
Cash generated from continuing operations	**944 777**	876 187
Finance income received	**54 025**	47 617
Finance costs paid	**(207 689)**	(269 310)
Taxation paid	**(191 404)**	(139 341)
Cash utilised by discontinued operations	**(19 940)**	(10 109)
NET CASH FLOW FROM INVESTMENT ACTIVITIES	**(394 730)**	(345 979)
Purchase of property, plant and equipment and computer software	**(400 902)**	(348 745)
Sale of property, plant and equipment and computer software	**7 155**	3 505
Proceeds from sale of discontinued operations	**46 716**	1 000
Other financial assets disposed/(advanced)	**2 301**	(1 739)
Acquisition of business	**(50 000)**	–
NET CASH FLOW FROM FINANCING ACTIVITIES	**(159 764)**	318 948
Proceeds from issue of equity shares	**–**	1 500 000
Capital distribution	**–**	(800 000)
Share issue costs	**–**	(60 329)
Share repurchase	**(91 570)**	(7 964)
Loans repaid to shareholders	**(846)**	(17 267)
Loans repaid by shareholders	**–**	39 648
Proceeds/(repayment) of other financial liabilities	**2 235**	(34 462)
Repayment of loans from non controlling interests	**–**	(28 592)
Purchase of non-controlling interests	**–**	(11 368)
Principal elements of lease payments	**(127 547)**	–
Proceeds from term loans and asset based financing	**270 765**	2 584 364
Repayment of term loans and asset based financing	**(81 112)**	(2 845 082)
Dividend paid	**(131 689)**	–
Net increase in cash and cash equivalents	**25 275**	478 013
Cash and cash equivalents at the beginning of the year	**829 340**	351 327
Cash and cash equivalents at the end of the year	**854 615**	829 340
Continuing operations	**854 615**	829 340

Segmental analysis

	Year ended 31 December 2019 R'000	Restated Year ended 31 December 2018 R'000

BASIS OF SEGMENTATION

The executive management team of the Group has chosen to organise the Group into categories and manage the operations in that manner. The information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance is based on five categories.

The following summary describes each segment:

Perishables
Perishable products are products that are refrigerated.

Groceries (previously referred to as Ambient Groceries)
Groceries (also known as "shelf-stable" groceries) is a category of foods that can be stored and preserved at room temperature. The category also includes beverages and specialised food packaging.

Snacks and Confectionery
Premium snacks and confectionery products.

Baking and Baking Aids
Baked goods, specialised gluten-free offering and baking aids.

Household and Personal Care
Detergents and household cleaning products, as well as personal care products.

Reclassifications between segments
During the current year, management reclassified the tea operations of Khoisan Gourmet from the Niche Beverages segment to the Groceries segment. This better aligns the financial disclosure to the commercial practice where tea is considered to be part of the groceries stable.

The dairy blend and fruit concentrate business of Elvin, previously shown in the Niche Beverages category, was sold during the current year.

The remaining Niche Beverages businesses, which comprise Chamonix Springwater and the non-beverage Elvin operations, were reclassified and have been reported under Groceries.

During the current year, management also reclassified the operations previously shown under the Specialised Food Packaging segment to the Groceries segment. This aligns the financial disclosure to the manner in which the Specialised Food Packaging is managed.

Comparative figures of both the Niche Beverages segment and the Specialised Food Packaging segment have been reclassified to show these operations within the Groceries segment.

INFORMATION ABOUT REPORTABLE SEGMENTS

	Year ended 31 December 2019 R'000	Restated Year ended 31 December 2018 R'000
Revenue from contracts with customers		
Perishables	**4 688 126**	4 569 593
Groceries	**3 177 811**	3 138 461
Snacks and Confectionery	**537 972**	477 391
Baking and Baking Aids	**699 841**	627 839
Household and Personal Care	**788 795**	846 313
	9 892 545	9 659 597
Revenue comprised as follows:		
Total revenue for reportable segments	**9 917 389**	9 692 191
Elimination of inter segment revenue	**(24 844)**	(32 594)
Perishables	**(8 328)**	(5 663)
Groceries	**(12 141)**	(14 954)
Snacks and Confectionery	**(722)**	(94)
Baking and Baking Aids	**(3 434)**	(11 599)
Household and Personal Care	**(219)**	(284)
	9 892 545	9 659 597

	Year ended 31 December 2019 R'000	Restated Year ended 31 December 2018 R'000
Operating profit (EBIT)		
Perishables	**402 686**	338 942
Groceries	**313 249**	239 401
Snacks and Confectionery	**60 666**	58 723
Baking and Baking Aids	**60 916**	64 731
Household and Personal Care	**(6 364)**	5 492
Corporate	**(129 395)**	(85 770)
	701 758	621 519
Reconciliation of operating profit per segment to profit before tax		
Operating profit	**701 758**	621 519
Investment income	**54 025**	47 617
Finance costs	**(262 774)**	(269 310)
Profit before tax	**493 009**	399 826

The chief operating decision maker reviews the revenue and operating profit on a regular basis. The chief operating decision maker does not evaluate any of the Group's assets or liabilities on a segmental basis for decision making purposes.

NORMALISED EBIT AND EBITDA

	Year ended 31 December 2019 R'000	Restated Year ended 31 December 2018 R'000
Group – continuing operations		
Operating profit	**701 758**	621 519
Amortisation of customer contracts and brands with definitive useful lives	**150 172**	140 841
Due diligence costs	**2 884**	3 319
Expenses relating to share based payments	**6 948**	(13 208)
Government grants	**(155)**	(46)
Impairment losses on assets	–	556
Gain on disposal of property, plant and equipment	**466**	3 190
Costs and fees attributable to the Initial Public Offering	–	5 007
Retrenchment and settlement costs	**16 646**	7 050
Securities transfer tax	**281**	66
Straight-lining of operating leases	–	3 694
Strategic advisory fees	**301**	43
Unrealised loss on foreign exchange	**11 035**	45 494
Donation	–	6 000
Normalised EBIT (after adoption of IFRS 16)	**890 336**	823 525
Amortisation of software	**10 913**	8 017
Depreciation of property, plant and equipment	**272 427**	152 914
Normalised EBITDA (after adoption of IFRS 16)	**1 173 676**	984 456
Impact of IFRS 16 (lease payments and lease modifications)	**(138 927)**	–
Normalised EBITDA (excluding adoption of IFRS 16)	**1 034 749**	984 456
Perishables		
Operating profit	**402 686**	338 942
Amortisation of customer contracts	**43 610**	44 677
Due diligence costs	**797**	–
Government grants	**(155)**	–
Impairment losses	–	243
Loss on disposal of property, plant and equipment	**45**	365
Retrenchment and settlement costs	**6 610**	2 024
Straight-lining of operating leases	–	3 530
Unrealised loss on foreign exchange	**2 094**	5 456
Normalised EBIT (after adoption of IFRS 16)	**455 687**	395 237
Amortisation of software	**2 090**	306
Depreciation of property, plant and equipment	**90 159**	59 109
Normalised EBITDA (after adoption of IFRS 16)	**547 936**	454 652
Impact of IFRS 16 (lease payments and lease modifications)	**(37 501)**	–
Normalised EBITDA (excluding adoption of IFRS 16)	**510 435**	454 652

	Year ended 31 December 2019 R'000	Restated Year ended 31 December 2018 R'000
Groceries		
Operating profit	**313 249**	239 401
Amortisation of customer contracts	**71 239**	70 173
Government grants	**–**	(46)
Impairment losses	**–**	313
Loss on disposal of property, plant and equipment	**371**	2 275
Retrenchment and settlement costs	**357**	2 306
Straight-lining of operating leases	**–**	257
Unrealised loss on foreign exchange	**8 578**	39 904
Normalised EBIT (after adoption of IFRS 16)	**393 794**	354 583
Amortisation of software	**2 404**	4 485
Depreciation of property, plant and equipment	**93 161**	48 839
Normalised EBITDA (after adoption of IFRS 16)	**489 359**	407 907
Impact of IFRS 16 (lease payments and lease modifications)	**(54 317)**	–
Normalised EBITDA (excluding adoption of IFRS 16)	**435 042**	407 907
Snacks and Confectionery		
Operating profit	**60 666**	58 723
Amortisation of customer contracts	**4 402**	4 402
Profit/(loss) on disposal of property, plant and equipment	**(4)**	44
Retrenchment and settlement costs	**790**	–
Straight-lining of operating leases	**–**	(112)
Strategic advisory fees	**118**	–
Unrealised loss/(gain) on foreign exchange	**589**	(116)
Normalised EBIT (after adoption of IFRS 16)	**66 561**	62 941
Amortisation of software	**3 821**	809
Depreciation of property, plant and equipment	**19 957**	9 301
Normalised EBITDA (after adoption of IFRS 16)	**90 339**	73 051
Impact of IFRS 16 (lease payments and lease modifications)	**(7 383)**	–
Normalised EBITDA (excluding adoption of IFRS 16)	**82 956**	73 051
Baking and Baking Aids		
Operating profit	**60 916**	64 731
Amortisation of customer contracts	**6 870**	9 406
Loss on disposal of property, plant and equipment	**98**	59
Retrenchment and settlement costs	**–**	280
Straight-lining of operating leases	**–**	(666)
Unrealised (gain)/loss on foreign exchange	**(61)**	258
Normalised EBIT (after adoption of IFRS 16)	**67 823**	74 068
Amortisation of software	**876**	794
Depreciation of property, plant and equipment	**35 091**	17 774
Normalised EBITDA (after adoption of IFRS 16)	**103 790**	92 636
Impact of IFRS 16 (lease payments and lease modifications)	**(17 029)**	–
Normalised EBITDA (excluding adoption of IFRS 16)	**86 761**	92 636

	Year ended 31 December 2019 R'000	Restated Year ended 31 December 2018 R'000
Household and Personal Care		
Operating (loss)/profit	**(6 364)**	5 492
Amortisation of customer contracts and brands with definitive useful lives	**24 051**	12 183
(Profit)/loss on disposal of property, plant and equipment	**(27)**	407
Retrenchment and settlement costs	**8 655**	1 946
Straight-lining of operating leases	**–**	685
Strategic advisory fees	**183**	42
Unrealised gain on foreign exchange	**(163)**	(8)
Normalised EBIT (after adoption of IFRS 16)	**26 335**	20 747
Amortisation of software	**23**	(569)
Depreciation of property, plant and equipment	**29 140**	16 179
Normalised EBITDA (after adoption of IFRS 16)	**55 498**	36 357
Impact of IFRS 16 (lease payments and lease modifications)	**(19 165)**	–
Normalised EBITDA (excluding adoption of IFRS 16)	**36 333**	36 357
Corporate		
Operating loss	**(129 395)**	(85 770)
Due diligence costs	**2 087**	3 319
Expenses/(income) relating to share based payments	**6 948**	(13 208)
(Profit)/loss on disposal of property, plant and equipment	**(17)**	40
Costs and fees attributable to the Initial Public Offering	**–**	5 007
Retrenchment and settlement costs	**234**	494
Securities transfer tax	**281**	66
Unrealised gain on foreign exchange	**(2)**	–
Donation	**–**	6 000
Normalised EBIT (after adoption of IFRS 16)	**(119 864)**	(84 052)
Amortisation of software	**1 699**	2 193
Depreciation of property, plant and equipment	**4 918**	1 712
Normalised EBITDA (after adoption of IFRS 16)	**(113 247)**	(80 147)
Impact of IFRS 16 (lease payments and lease modifications)	**(3 531)**	–
Normalised EBITDA (excluding adoption of IFRS 16)	**(116 778)**	(80 147)
Export revenue		
The Group mainly operates in South Africa. Revenue derived from customers domiciled within South Africa is classified as revenue from South Africa. Revenue from customers domiciled outside of South Africa is classified as export revenue.		
Export revenue for the year	**1 220 092**	1 270 480
Major customers		
During the period under review, revenue from certain customers exceeded 10% of total revenue.		
Customer A	**19%**	18%
Customer B	**13%**	14%
Customer C	**10%**	11%

Notes to the condensed annual financial statements

for the year ended 31 December 2019

1. REPORTING ENTITY

Libstar is a leading producer and supplier of high-quality products in the CPG industry and markets a wide range of products in South Africa and globally. The Group provides a multi-product offering in several categories across multiple channels, while strategically positioning itself within the food and beverage and HPC sectors and maintaining the flexibility to capitalise on growth areas in the CPG industry.

2. BASIS OF PREPARATION AND REPORT OF THE INDEPENDENT AUDITOR

The summary consolidated financial statements of the Group for the year ended 31 December 2019 have been prepared in accordance with the requirements of the JSE Limited Listings Requirements ("The Listings Requirements") for preliminary reports, and the requirements of the Companies Act of South Africa, Act 71 of 2008, as amended, applicable to summary financial statements. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council and also, as a minimum, to contain the information required by IAS 34 – Interim Financial Reporting. This summarised report is extracted from audited information, but has not been audited.

These summarised consolidated financial statements and the audited consolidated financial statements, were prepared by P Makate CA(SA) under the supervision of CB de Villiers CA (SA), the Group Chief Financial Officer. The results were approved by the board of directors on 17 March 2020 and the directors take full responsibility for the preparation thereof.

The consolidated financial statements were audited by Moore Cape Town Inc., who expressed an unmodified opinion thereon. The audited annual financial statements and the auditor's report thereon are available for inspection at the Company's registered office.

3. ACCOUNTING POLICIES

The accounting policies applied by the Group in these financial statements are consistent with those applied in the consolidated annual financial statements for the year ended 31 December 2018 except as detailed below:

- **IFRS 16 Leases**

The Group has applied IFRS 16 Leases retrospectively from 1 January 2019 and applied the modified retrospective approach. The Group has therefore not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening retained earnings balance on 1 January 2019. The new accounting policies are disclosed in the Accounting Policies section for Leases.

On adoption of IFRS 16 Leases, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 8.97%.

The right-of-use assets were measured on a retrospective basis as if the new rules had always been applied. The prior year straight-line accrual was adjusted directly against retained earnings on 1 January 2019.

In applying IFRS 16 Leases for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 Leases and Interpretation 4 Determining whether an Arrangement contains a Lease.

Adjustments recognised in the statement of financial position on 1 January 2019

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

- right-of-use assets – increased by R510.3m;
- deferred tax assets – increased by R19.7m; and
- lease liabilities – increased by R588.2m;
- retained earnings – decreased by R50.6m.

- **Hedge accounting**

  The Group has applied hedge accounting prospectively to all forward contracts entered into from 1 January 2019.

  The Group hedges the majority of its foreign currency exposures. Import-related exposures are hedged to the value of 6 to 9 months' firm commitment imports and export-related exposures are hedged to the value of 9 to 12 months' firm commitment exports, or within 48 hours of receipt of a firm order, whichever date is earlier. Hedging instruments are limited to standard foreign exchange contract (FEC's) only.

  A foreign currency transaction is recognised, on initial recognition in South African Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

  At the end of the reporting period, the foreign currency monetary items are translated using the closing rate of exchange. Derivative financial instruments are initially and subsequently recognised at fair value, with changes in fair value being included in profit or loss other than derivatives designated as cash flow hedges.

  The Group designates its derivatives as cash flow hedges. A hedge of the foreign currency risk of a firm commitment is designated and accounted for as a cash flow hedge. If these cash flow hedges meet the conditions for hedge accounting the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

  Amounts deferred to the hedging reserves are recognised through profit and loss in the same period in which the hedged item affects profit and loss. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for firm commitment transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the firm commitment transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

  A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

4. ACCOUNTING JUDGEMENTS AND ESTIMATES

Management is required to make estimates and assumptions that affect the amounts presented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates.

In preparing these summarised consolidated financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated annual financial statements for the year ended 31 December 2018, except as noted above and note 13.

	2019 R'000	2018 R'000
5. OTHER INCOME		
Bad debts recovered	–	23
Commissions received	**38**	35
Gain on foreign exchange	**26 927**	10 337
Realised gain on foreign exchange	**37 962**	55 831
Unrealised loss on foreign exchange	**(11 035)**	(45 494)
Government grants[1]	**206**	137
Insurance claims received	**385**	2 020
Rebates received	–	67
Discounts and incentives received	**871**	–
Rental income	**5 577**	454
Sundry income	**18 721**	4 989
	52 725	18 062

1 *Income from government grants includes income received under the Manufacturing Competitiveness Enhancement Program, Skills Development Program and the Employer Tax Incentive program.*

6. OPERATING PROFIT

Operating profit from continuing operations is calculated after taking into account the following:

6.1 OPERATING EXPENDITURE

	2019 R'000	2018 R'000
Depreciation of property, plant and equipment	**168 824**	152 915
Depreciation of right-of-use assets (refer note 10)	**103 387**	–
Amortisation of brands	**11 867**	–
Amortisation of software	**10 913**	8 017
Amortisation of customer contracts	**138 305**	140 841
Loss on disposal of property, plant and equipment	**466**	3 190
Employee benefits	**1 307 546**	1 105 388
Salaries and wages	**1 290 900**	1 099 166
Retrenchment and settlement costs	**16 646**	6 222
Strategic advisory fees	**301**	43
Due diligence costs	**2 884**	8 326
Costs and fees attributable to the Initial Public Offering	–	5 007
Charges relating to share appreciation rights granted (LTI scheme)	**(1 456)**	(13 203)
Charges relating to long-term incentive scheme (LTIP scheme)	**6 194**	–
Charges relating to share based payments (GSP)	**2 211**	–
Securities transfer tax	**281**	66
Operating lease charges	–	140 451
Premises	–	110 364
Straight-lining of operating leases	–	3 694
Motor vehicles & equipment	–	26 393
Research and development costs expensed as incurred	**1 773**	430
Auditors remuneration	**8 407**	7 562

	2019 R'000	2018 R'000
7. EARNINGS PER SHARE		
7.1 BASIC EARNINGS PER SHARE		
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:		
Earnings used in the calculation of basic earnings per share	**278 395**	222 224
From continuing operations	**355 452**	273 130
From discontinued operations	**(77 057)**	(50 906)
Weighted average number of ordinary shares for the purposes of basic earnings per share ('000)	**597 519**	566 445
Basic earnings per share in cents		
From continuing operations	**59.5**	48.2
From discontinued operations	**(12.9)**	(9.0)
From continuing and discontinued operations	**46.6**	39.2
7.2 DILUTED EARNINGS PER SHARE		
The earnings used in the calculation of diluted earnings per share does not require adjustments. Refer to note 8.1 above for the earnings used in the calculation of diluted earnings per share.		
The weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows:		
Weighted average number of ordinary shares for the purposes of diluted earnings per share ('000)	**598 481**	566 445
Diluted earnings per share in cents		
From continuing operations	**59.4**	48.2
From discontinued operations	**(12.9)**	(9.0)
From continuing and discontinued operations	**46.5**	39.2
Reconciliaton of weighted average number of shares used as the denominator:		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**597 519**	566 445
Adjustments for calculation of diluted earnings per share:		
Deferred Shares – GSP[1]	**962**	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**598 481**	566 445

1 *Awards to deferred shares granted to executives under the GSP are included in the calculation of diluted earnings per share, assuming all outstanding awards will vest. The deferred shares are not included in the determination of basic earnings per share. Further information about the GSP is provided in note 13.*

7. EARNINGS PER SHARE continued

7.3 NORMALISED EARNINGS PER SHARE (EPS)

To arrive at Normalised EPS, the after-tax earnings from continuing operations is adjusted for the after-tax impact of the following:

	2019 R'000	2018 R'000
Profit for the year from continuing operations	**355 452**	273 130
Normalised for:	**136 368**	146 776
Amortisation of customer contracts and brands with definitive useful lives	**108 124**	101 406
Due diligence costs	**2 884**	3 319
Expenses/(income) relating to share based payments	**5 003**	(9 510)
Government grants	**(155)**	(46)
Costs and fees attributable to the Initial Public Offering	**–**	5 007
Retrenchment costs	**11 985**	5 076
Securities transfer tax	**281**	66
Straight lining of operating leases	**–**	2 660
Strategic advisory fees	**301**	43
Donation	**–**	6 000
Unrealised forex losses	**7 945**	32 757
Normalised earnings used in the calculation of basic earnings per share	**491 820**	419 906
Weighted average number of ordinary shares for the purposes of basic earnings per share ('000)	**597 519**	566 445
Normalised basic earnings per share in cents	**82.3**	74.1

The headline earnings used in the calculation of headline earnings and diluted headline earnings per share are as follows:

2019	**Gross**	**Net of tax**
Basic earnings from continuing operations	**355 452**	**355 452**
Adjustments	**466**	**2 322**
Loss on disposal of property, plant and equipment	**466**	**2 322**
Headline earnings from continuing operations	**355 918**	**357 774**

2018	**Gross**	**Net of tax**
Basic earnings from continuing operations	273 130	273 130
Adjustments	3 190	2 475
Loss on disposal of property, plant and equipment	3 190	2 475
Headline earnings from continuing operations	276 320	275 605

7. EARNINGS PER SHARE continued

7.4 HEADLINE EARNINGS PER SHARE

	2019 R'000	2018 R'000
Basic earnings from discontinued operations	(77 057)	(50 906)
Adjustments (net of tax)	52 258	35 304
(Profit)/loss on disposal of property, plant and equipment	(7 000)	5 064
Impairment of brands	34 258	30 240
Impairment of goodwill	25 000	–
Headline earnings from discontinued operations	(24 799)	(15 602)
Headline earnings from continuing and discontinued operations	332 975	260 003
Headline earnings per share in cents		
From continuing operations	59.9	48.7
From discontinued operations	(4.2)	(2.8)
From continuing and discontinued operations	55.7	45.9
Diluted headline earnings per share in cents		
From continuing operations	59.8	48.7
From discontinued operations	(4.2)	(2.8)
From continuing and discontinued operations	55.6	45.9

7.5 NORMALISED HEADLINE EARNINGS PER SHARE (HEPS)

To arrive at normalised HEPS, the Normalised EPS is adjusted for the after-tax impact of the below:

2019	Net
Normalised basic earnings from continuing operations	491 820
Adjustments	2 322
Loss on disposal of property, plant and equipment	2 322
Normalised headline earnings from continuing operations	494 142
Normalised headline earnings per share from continuing operations (cents)	82.7

2018	Net
Normalised basic earnings from continuing operations	419 906
Adjustments	2 475
Loss on disposal of property, plant and equipment	2 475
Normalised headline earnings from continuing operations	422 381
Normalised headline earnings per share from continuing operations (cents)	74.6

8. DIRECTORS' REMUNERATION

Name/designation	Basic salary R'000	Bonuses R'000	Total remuneration and benefits R'000
2019			
AV van Rensburg (Executive Director)	**5 820**	**3 123**	**8 943**
RW Smith (Executive Director)	**4 000**	**1 858**	**5 858**
W Luhabe (Chairman Non-Executive Director)	**1 060**	**–**	**1 060**
JP Landman (Lead Independent Non-Executive Director}	**610**	**–**	**610**
S Masinga (Independent Non-Executive Director)	**730**	**–**	**730**
S Khanna (Independent Non-Executive Director)	**720**	**–**	**720**
Total – 2019	**12 940**	**4 981**	**17 921**
2018			
AV van Rensburg (Executive Director)	5 820	873	6 693
RW Smith (Executive Director)	4 000	600	4 600
TF Judge (Executive Director)* Resigned in April 2018	700	287	987
TW Millar (Executive Director)* Resigned in April 2018	436	–	436
W Luhabe (Chairman Non-Executive Director)	758	–	758
JP Landman (Lead Independent Non-Executive Director)	547	–	547
P Langeni (Independent Non-Executive Director)	457	–	457
Total – 2018	12 718	1 760	14 478

Mr CB De Villiers was appointed as executive director effective 1 January 2020.

9. PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2019, the group acquired plant, equipment and computer software in the amount of R401 million (2018: R349 million). These include major capex of R122 million at Lancewood, of which R73 million was earmarked to upgrade the milk-receiving area, distribution centre and hard cheese packing lines, R23 million in respect of a new par-bake frozen facility at Amaro, R22 million in respect of capital enhancing projects which include a bar-line upgrade at Ambassador, R24 million in respect of prepared meal facility at Millennium, R13 million relating to a tea plant upgrade at Cape Herb and Spice.

There has been no major change in the nature of property, plant and equipment, the policy regarding the use thereof, or the encumbrances over the property, plant and equipment as disclosed in the audited financial statements for the year ended 31 December 2018.

10. LEASES

This note provides information for leases where the group is a lessee. The Group has applied IFRS 16 Leases using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been amended. Please refer to the Accounting Policies section for the accounting policy and adjustments recognised on adoption of IFRS 16 Leases on 1 January 2019.

AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Consolidated Statement of Financial Position shows the following amounts relating to leases:

	2019 R'000
Non-current right-of-use assets	655 596
Non-current lease liabilities	(677 674)
Current lease liabilities	(75 712)
Right-of-use assets	
Right-of-use assets recognised on 1 January 2019	510 304
Modification and additions in the current year	248 679
Depreciation for the year	(103 387)
Increase in assets	655 596
Deferred tax asset	
Retrospective adjustment to deferred tax asset at 1 January 2019	19 662
Movement for the year	6 190
Increase in deferred tax asset	25 852
Finance Lease Liability	
Lease liability recognised as at 1 January 2019	(588 230)
Modification and additions in the current year	(237 618)
Add: finance costs	(55 085)
Less: lease payments	127 547
Increase in financial liabilities	(753 386)
Amounts recognised in the Consolidated Statement of profit or loss and other Comprehensive Income	
The statement of profit or loss and other comprehensive income shows the following amounts relating to leases:	
Lease rental expense and lease modification	138 927
Depreciation of right-of-use assets	(103 387)
Finance costs in respect of lease liability	(55 085)
Reduction in profit before tax	(19 545)

The total cash outflow for leases in 2019 was R127,5m.

11. SHARE CAPITAL

	2019 R'000	2018 R'000
Share capital	**4 727 314**	4 818 884
Share premium	**–**	–
	4 727 314	4 818 884
Authorised capital comprises:		
10,000,000,000 ordinary shares of no par value		
1,000,000 preference shares		
Issued capital comprises:		
595,812,254 (2018: 607,759,505) fully paid ordinary shares of no par value	**4 727 314**	4 818 884
1,000,000 preference shares of no par value	**–**	–
	4 727 314	4 818 884

11.1 FULLY PAID ORDINARY SHARES

	Number of shares[1]	Share capital R'000
Balance at 1 January 2018	3 910 973	4 187 177
Share split	484 960 644	–
Share issue	193 049 783	1 500 730
Capital distribution	–	(800 000)
Treasury shares	(73 049 783)	(730)
Share repurchase	(1 112 112)	(7 964)
Capitalisation of costs directly attributable to issue of shares	–	(60 329)
Balance at 31 December 2018	**607 759 505**	**4 818 884**
Share repurchase	**(11 947 251)**	**(91 570)**
Balance at 31 December 2019	**595 812 254**	**4 727 314**

1 *Included in the number of shares are 73 049 783 treasury shares with a share capital of R0.7m wholly owned by an Employee Share Trust established for the benefit of employees of the group.*

Alterations to authorised and issued shares

- During the year 11,947,251 shares were repurchased. There were no additional shares issued in the current year;
- In the prior year the shareholders of the Company approved the subdivision of each Ordinary Share into 125 Ordinary Shares such that, following the subdivision, the Company had an authorised Ordinary Share capital consisting of 1 250 000 000 Ordinary Shares and an issued Ordinary Share capital consisting of 488 871 625 Ordinary Shares; and
- In the prior year the shareholders of the Company approved an increase in the number of authorised Ordinary Shares by 8 750 000 000 Ordinary Shares such that the number of authorised Ordinary Shares is 10 000 000 000 Ordinary Shares.

12. SHAREHOLDER ANALYSIS

ORDINARY SHARES AS AT 31 DECEMBER 2019

Directors' Interests

Ordinary share capital

	December 2019				December 2018			
Name/designation	**Direct shares held**	**Held indirectly or by an associate**	**Total shares held**	**Total % held**	Direct shares held	Held indirectly or by an associate	Total shares held	Total % held
AV van Rensburg	**5 954 592**	–	**5 954 592**	**0.87**	5 954 592	–	5 954 592	0.87
RW Smith	**3 947 915**	–	**3 947 915**	**0.58**	3 947 915	–	3 947 915	0.58
WS Hamid*	–	–	–	**0.00**	–	–	–	0.00
S Khanna	–	–	–	**0.00**	–	–	–	0.00
JP Landman[1]	–	**75 000**	**75 000**	**0.01**	–	60 000	60 000	0.01
W Luhabe	–	–	–	**0.00**	–	–	–	0.00
P Langeni^	–	–	–	**0.00**	–	–	–	0.00
S Masinga	–	–	–	**0.00**	–	–	–	0.00
TF Judge^	–	–	–	**0.00**	–	–	–	0.00
TW Millar^	–	–	–	**0.00**	–	–	–	0.00

* *Resignations in the current period: WS Hamid*
^ *Resignations in the prior period: P Langeni, TF Judge; TW Millar*
1 *Indirect shares held by Ruland Trust, an associate of JP Landman*

Where directors have resigned in the current financial period, the table above shows nil values in respect of the current period and the direct and indirect shareholding held at the end of the prior period. Where directors have been appointed in the year under review, the table above shows nil values in respect of the prior period.

There has been no change in directors' interests or any share dealings by directors in the ordinary shares of the Company subsequent to 31 December 2019 and to the date of this report.

Preference share capital

No directors held a direct interest in preference share capital during the current or prior periods.

The following directors held an indirect interest in preference share capital due to their participation in the Ratchet Trust (100% shareholder of preference share):

- van Rensburg held 12.9 units at the close of the current and prior period;
- Smith held 11.1 units at the close of the current and prior period;
- Judge held 8.4 units at the close of the prior period and resigned during the prior period; and
- Millar held 4.4 units at the close of the prior period and resigned during the prior period.

12. SHAREHOLDER ANALYSIS continued

Ordinary shareholder spread	Number of shareholders	Number of shares	% of shares in issue
Public	1 695	246 844 081	36.2
Non-public	8	435 077 327	63.8
▪ Directors	2	9 902 507	1.5
▪ Associates of directors	1	75 000	0.0
▪ The trustees of any employees' share scheme or pension fund established for the benefit of any directors or employees of the applicant and its subsidiaries;	2	73 049 783	10.7
▪ Treasury shares^	1	13 059 362	1.9
▪ Persons interested in 10% or more (other than directors or associates of directors)	2	338 990 675	49.7
Total issued shares	**1 703**	**681 921 408**	**100.0**

^ *Libstar Operations Proprietary Limited, a subsidiary of Libstar Holdings Limited, purchased 13,059,363 treasury shares at an average price of R7,62 per share and these shares reverted to authorised but unissued.*

In so far as it is known to the company, the following shareholders, directly or indirectly beneficially hold 5% or more shares in the issued share

Major ordinary shareholders	Number of shares	% of shares in issue
APEF Pacific Mauritius Limited	252 463 077	37.0
Government Employees Pension Fund	86 527 598	12.7
Business Venture Investments 2071*	39 334 499	5.8

* *Business Venture Investments No 2071 (RF) Proprietary Limited (BDT SPV), is wholly-owned by an Employee Share Trust established for the benefit of employees of the Group.*

Ordinary shareholder spread	Number of shareholders	% of shareholders	Number of shares	% of shares in issue
1 – 1 000 000 shares	1 625	95.4	76 044 634	11.2
1 000 001 – 3 000 000 shares	53	3.1	89 835 565	13.2
3 000 001 – 6 000 000 shares	17	1.0	70 924 558	10.4
6 000 001 – 40 000 000 shares	6	0.4	106 125 976	15.6
More than 40 000 000 shares	2	0.1	338 990 675	49.7
	1 703	100.0	681 921 408	100.0

	2019 R'000	2018 R'000
13. SHARE-BASED PAYMENTS		
Non-current liabilities:		
Cash settled share appreciation rights (LTI scheme)	**2 353**	20 811
Cash settled share based payments (LTIP)	**6 194**	–
	8 547	20 811
Current liabilities:		
Cash settled share appreciation rights (LTI scheme)	**4 156**	–
Equity:		
Equity settled share based payments (GSP)	**2 211**	–

13.1 DETAILS OF THE CASH SETTLED SHARE APPRECIATION RIGHTS SCHEME OF THE GROUP (LTI SCHEME)

During 2016, the Group established a share appreciation rights scheme for executives and senior employees of the Group. In accordance with the terms of the plan, qualifying executives and senior employees may be awarded units annually, based upon their performance. Each unit allocated is the equivalent of an ordinary share in the Group. The units allocated are issued at the then prevailing market value of an ordinary share in the Group and incorporates a suitable discount factor. The units vest over a three year period from the date of issue. Upon vesting of a unit, the holder thereof is entitled to receive the difference between the then determined market value of the unit and its issue price, payable in cash.

The number of units granted is calculated in accordance with the performance-based formula approved by the Board and the remuneration committee. The formula rewards executives and senior employees to the extent of the Group's and the individual's achievement judged against both qualitative and quantitative criteria from the following financial measures:

- Improvement in share price;
- Improvement in net profit; and
- Employee performance bonus for the prior financial year.

The number of units previously granted were adjusted for subdivision allocations prior to the Initial Public Offering. Issue prices were adjusted to take into account a suitable discount factor.

The Group is in the process of winding down this scheme, and the final allocations in terms of this scheme were made in the prior year. The LTI scheme will run its course and units will vest in terms of the rules of the LTI scheme up to 2020.

The following share appreciation rights were awarded during the current financial year:

Unit series	Number	Vesting date	Issue price
(1) Granted on 1 January 2016	**4 086 513**	**31/12/2018**	**9,79**
(2) Granted on 1 January 2017	**4 593 946**	**31/12/2019**	**11,87**
(3) Granted on 1 January 2018	**7 150 161**	**31/12/2020**	**12,92**

13. SHARE-BASED PAYMENTS continued

13.1 DETAILS OF THE CASH SETTLED SHARE APPRECIATION RIGHTS SCHEME OF THE GROUP (LTI SCHEME) continued

13.1.1 Fair value of the share appreciation rights allocated in the year

The total movement of the share appreciation rights during the financial year is a decrease of R9,8m (2018: R13,2m decrease). Units were priced using the Economic Value Added model. Expected volatility is based on the historical share price volatility over the past 3 years.

Inputs into the model

	2019	2018
Issue date share price	–	R12,92
Expected vesting date share price	–	R13,84
Expected volatility	–	15.0%
Vesting period	–	3 years
Dividend yield	–	–
Risk-free interest rate	–	8.9%

13.1.2 Movements in share appreciation rights during the year

The following table reconciles the share appreciation rights outstanding:

	Number of units issued	Weighted average issue price R	Number vested	Value R'000
Balance at 1 January 2018	8 680 459	11,87	–	34 019
Movement in fair value of units issued in 2018	–	–	–	(18 945)
Allocated during the year	7 150 161	12,92	4 086 513	5 737
Balance at 1 January 2019	**15 830 920**	**12,92**	**4 086 513**	**20 811**
Movement in fair value of units issued in 2019	–	–	**4 593 946**	**(14 302)**
Balance at 31 December 2019	**15 830 920**	–	**8 680 459**	**6 509**

The first allocation of units vested in full on 31 December 2018. The second allocation of units vested in full on 31 December 2019.

13.2 DETAILS OF THE LONG-TERM INCENTIVE SCHEME OF THE GROUP – (LTIP SCHEME)

The Group has developed a new cash-settled long term incentive scheme (known as the LTIP). The LTIP is designed as a cash-settled incentive scheme whereby senior employees may be awarded notional units which are linked to the price of ordinary shares of the Group. The LTIP is regulated by a detailed set of rules. As with the previous LTI scheme, the LTIP seeks to attract and retain senior employees and promote ongoing loyalty, commitment and motivation. All senior employees are eligible to participate in the LTIP. The LTIP is implemented by the Board through the direction of the Remuneration Committee. On an annual basis, senior employees may be offered three components (i) allocations of Share Appreciation Rights ("SARs"), (ii) awards of the Performance Share Plan ("PSP"), or (iii) grants of the Forfeitable Share Plan ("FSP").

13. SHARE-BASED PAYMENTS continued

13.2 DETAILS OF THE LONG-TERM INCENTIVE SCHEME OF THE GROUP – (LTIP SCHEME) continued

A summary of each component of offer under LTIP is set out below.

13.2.1 Share appreciation rights (SARs)

On 4 April 2019, eligible employees were allocated conditional and notional awards, at an allocation price of R8.08, which if settled in the future will be settled in cash equal to the appreciation of Libstar Holdings Limited ("Libstar") shares as calculated on the exercise date. Settlement is contingent on the extent to which the performance criteria has been met and the holder exercising their right. Award holders shall be settled a cash amount to the value of X, which will be determined as follows:

A = appreciation in Libstar share market value = Libstar share market value at exercise date – allocation price

N = number of vested rights exercised

X = N x A

Award holders are not entitled to a dividend during the life of the award. The awards vest 3 years after allocation, from which point the rights may be exercised to the extent that the performance condition, as described below, has been met. The awards may be exercised for the next 4 years, ie: between the vesting date of 4 April 2022 and the maturity date of 4 April 2026.

The performance condition is measured over a minimum of a 3 year period starting at the allocation date and ending at the vesting date. The real growth in normalised headline earnings ("NHE") of Libstar is compared to the consumer price index ("CPI") using a vesting scale of the NHE versus CPI to determine the portion of awards that will vest. Vesting is further contingent on the award holder remaining employed by the Group.

The SARs was valued by utilising the binomial tree approach valuation method. The result of which represent the fair value per unit (excluding pre-vesting forfeiture), which is fixed in time. A range of expected vesting percentages for the NHE vs. CPI performance condition were utilised. The number of awards was adjusted by these expected vesting percentages as well as adjusted for pre-vesting forfeiture to arrive at a number of awards expected to vest. The fair value per unit was then multiplied the number of awards expected to vest to arrive at a total value. Refer to 13.2.4 for the inputs and assumptions used in the measurement of the fair values at grant date and reporting date.

There were no SARs granted in prior years, and none of the SARs had vested as at 31 December 2019. Refer to 13.2.4 for number of awards issued during the current financial year.

13.2.2 Performance Share Plan (PSP)

On 4 April 2019, eligible employees were allocated conditional and notional awards, which if settled in the future will be settled in cash equal to the value of Libstar shares. Settlement is contingent on the extent to which the 3 performance criteria have been met and the award holder exercising their right.

In contrast to the SARs, the award holders do not pay any consideration for the awards and receive the cash equal to the Libstar share value in full. The awards vest 3 years after allocation on 4 April 2022, from which point the rights may be exercised to the extent that certain performance conditions, as described below, have been met. The performance conditions are measured over the 3 year period starting at the allocation date and ending at the vesting date.

The PSP is subject to the following performance conditions in the proportions stated:

1. NHE vs. CPI performance condition (as described in section 23.2.1) – 30%;
2. ROAA vs. WACC performance condition (as described below) – 30%; and
3. TSR performance condition (as described below) – 40%.

The Libstar return on adjusted assets ("ROAA") is compared to the Libstar adjusted weighted average cost of capital ("WACC") using a vesting scale to determine the portion of awards that will vest under the ROAA versus WACC performance condition.

Libstar's total shareholder return ("TSR") will be compared to the TSR of a group of peer companies, each weighted by their market capitalisation using a vesting scale to determine the portion of awards that will vest under the TRS performance condition.

Vesting is further contingent on the award holder remaining employed by the Group. There were no PSPs granted in prior years, and none of the PSPs had vested as at 31 December 2019. Refer to 23.2.4 for number of awards issued during the current financial year.

13. SHARE-BASED PAYMENTS continued

13.2 DETAILS OF THE LONG-TERM INCENTIVE SCHEME OF THE GROUP – (LTIP SCHEME) continued

13.2.3 Details of the Forfeitable Share Plan (FSP)

On 4 April 2019, eligible employees were allocated conditional and notional awards which if settled in the future will be settled in cash equal to the value of Libstar shares. Settlement is contingent on the extent to which the performance criteria has been met and the holder exercising their right. Award holders shall be settled a cash amount to the value of X, which will be determined as follows:

S = Libstar share market value at allocation, reduced for expected dividends during the vesting period

N = number of vested rights exercised

X = N x S

In contrast to the SARs, the award holders do not pay any consideration for the awards and receive the cash equal to the Libstar share value in full.

The awards vest 3 years after allocation at 4 April 2022, when the rights may be exercised to the extent that the performance condition, as described below, have been met.

The performance condition is measured over the 3 year period starting at the allocation date and ending at the vesting date. The awards will vest if Libstar attains a "Complaint Contributor" status in terms of B-BBEE and Transformation on an all-or-nothing basis. Vesting is further contingent on the award holder remaining employed by the Group.

There were no FSPs granted in prior years, and none of the FSPs had vested as at 31 December 2019. Refer to 13.2.4 for the number of awards issued during the current financial year.

13.2.4 Fair value of the LTIP

Valuation methods:

The SARs was valued by utilising the binomial tree approach valuation method. The result of which represent the fair value per unit (excluding pre-vesting forfeiture), which is fixed in time. A range of expected vesting percentages for the NHE vs. CPI performance condition were utilised. The number of awards were adjusted by these expected vesting percentages as well as adjusted for pre-vesting forfeiture to arrive at a number of awards expected to vest. The fair value per unit was then multiplied by the number of awards expected to vest to arrive to a total value. Refer to the below for the inputs and assumptions used in the measurement of the fair values at grant date and reporting date.

The PSP was valued in two parts:

1. Fair value per unit (excluding performance conditions)

   The fair value per unit (excluding performance conditions) is calculated as the share price at valuation date, reduced for expected dividends over the remainder of the vesting period. The fair value per unit is then multiplied by the number of shares remaining adjusted for forfeiture.

2. Proportion of shares vesting under the performance conditions

   To determine the number of shares that will vest at the end of the vesting period as a result of the performance conditions, a model was built that has both stochastic (i.e. random future outcomes) and deterministic (i.e. fixed future outcomes) features. Awards subject to the NHE vs. CPI and ROAA vs. WACC performance conditions were modelled deterministically and awards applicable to the TSR condition were modelled stochastically with a Monte Carlo Simulation Model.

The FSP was valued in two parts:

1. Fair value per unit (excluding forfeiture)

   The fair value per unit (excluding forfeiture) is calculated as the share price at valuation date, reduced for expected dividends over the vesting period. The fair value per unit is then multiplied by the number of shares remaining adjusted for forfeiture.

2. Proportion of shares expected to vest

   A range of expected vesting percentages for the B-BBEE performance condition were provided by management. The number of awards were adjusted by these expected vesting percentages as well as adjusted for forfeiture to arrive at a number of awards expected to vest. The fair value per unit was then multiplied by the number of awards expected to vest to arrive at a total value.

13. SHARE-BASED PAYMENTS continued

13.2 DETAILS OF THE LONG-TERM INCENTIVE SCHEME OF THE GROUP – (LTIP SCHEME) continued

13.2.4 Fair value of the LTIP continued

The following inputs were used as at 31 December 2019 to calculate a fair value for the 3 components of the LTIP. Service and non-market performance conditions attached to the arrangements were not taken into account in measuring fair values.

	2019
Valuation date	**31 December 2019**
Grant date	**4 April 2019**
Vesting date	**4 April 2022**
Maturity date	**4 April 2026**
Share price at grant date	**R8.08**
Share price at valuation date	**R7.59**
Awards issued – SARs	**7 110 829**
Awards issued – PSP	**1 377 944**
Awards issued – FSP	**344 593**
Forfeiture rate p.a	**5.00%**
Dividend yield p.a	**See table below**
Risk-Free interest rate	**BESA Swap Curve**
Volatility	**See table below**
Exercise Multiple	**1.8**
Non-Market performance conditions vesting percentages	**See table below**
Expected Dividend Yields	
Scenarios	
Lower Bound	**3.00%**
Mid Estimate	**3.25%**
Upper Bound	**3.50%**
Volatility Range	
Scenarios	
Lower Bound	**36.04%**
Mid Estimate	**38.54%**
Upper Bound	**41.04%**
Volatility was calculated based on the daily returns of the share price, under the assumption that the natural logarithm of the share price returns are normally distributed. Since the Libstar share price data only exists from 8 May 2018, the standard deviation of the daily log returns on the available data as at the valuation date of 31 December 2019 was considered to arrive at a range which is deemed to be reasonable.	
Non-Market Performance Conditions Vesting Percentages	
Expected NHE vs. CPI Performance Condition Vesting Percentages	
Scenarios	
Lower Bound	**65.00%**
Mid Estimate	**70.00%**
Upper Bound	**75.00%**
Expected ROAA vs. WACC Performance Condition Vesting Percentages	
Scenarios	
Lower Bound	**75.00%**
Mid Estimate	**80.00%**
Upper Bound	**85.00%**
Expected B-BBEE Performance Condition Vesting Percentages	
Scenarios	
Lower Bound	**70.00%**
Mid Estimate	**75.00%**
Upper Bound	**80.00%**

13. SHARE-BASED PAYMENTS continued

13.2 DETAILS OF THE LONG-TERM INCENTIVE SCHEME OF THE GROUP – (LTIP SCHEME) continued

13.2.5 Movements in LTIP components during the year

The following table reconciles the 3 LTIP components outstanding:

	Number of units issued	Weighted average issue price R	Number vested	Value R'000
Share Appreciation Rights (SARs)				
Balance at 1 January 2019	–	–	–	–
Awards issued – 4 April 2019	8 474 882	8,08	–	3 743
Movement in fair value of units issued in 2019	(1 364 053)	–	–	(969)
Balance at 31 December 2019	7 110 829	8,08	–	2 774
Performance Share Plan (PSP)				
Balance at 01 January 2019	–	–	–	–
Awards issued – 4 April 2019	1 586 360	8,08	–	3 158
Movement in fair value of units issued in 2019	(208 416)	–	–	(418)
Balance at 31 December 2019	1 377 944	8,08	–	2 740
Forfeitable Share Plan (FSP)				
Balance at 1 January 2019	–	–	–	–
Awards issued – 4 April 2019	396 659	8,08	–	736
Movement in fair value of units issued in 2019	(52 066)	–	–	(56)
Balance at 31 December 2019	344 593	8,08	–	680
Total balance of the LTIP at 31 December 2019	8 833 366		–	6 194

13.3 DETAILS OF THE GROUP SHARE PLAN – GSP

The Group has also developed a new share-settled Group Share Plan ("GSP"). On an annual basis, senior employees may be offered 3 components (i) allocations of Share Appreciation Rights ("SARs"), (ii) awards of the Performance Share Plan ("PSP"), or (iii) grants of the Forfeitable Share Plan ("FSP").

These allocation methods of the 3 components are substantially similar to those used in the LTIP. The difference is that the GSP is settled in Libstar shares to the value of the awards as opposed to the LTIP which is settled in cash. The GSP is an equity settled share scheme and the grant date was 31 July 2019. Further details of the GSP components are not included and should be read together with the LTIP scheme components above. Refer to section 13.2.1 – 13.2.3.

13. SHARE-BASED PAYMENTS continued

13.3 DETAILS OF THE GROUP SHARE PLAN – GSP continued

13.3.1 Fair value of the GSP

The valuation methods used to value the 3 components of the GSP are substantially similar to the valuation methods of the LTIP. Refer to section 13.2.4 for further details.

The following inputs were used as at 31 December 2019 to calculate a fair value for the 3 components of the GSP. Service and non-market performance conditions attached to the arrangements were not taken into account in measuring fair values.

	2019
Valuation date	31 July 2019
Grant date	31 July 2019
Vesting date	31 July 2022
Maturity date	31 July 2026
Share price at grant date	R8.65
Awards issued – SARs	2 269 550
Awards issued – PSP	1 274 590
Awards issued – FSP	318 796
Forfeiture rate p.a	5.00%
Dividend yield p.a	See table in section 13.2.4
Risk-Free interest rate	BESA Swap Curve
Volatility	See Table in section 13.2.4
Exercise Multiple	1.8
Non-Market performance conditions vesting percentages	See Table in section 13.2.4

13.3.2 Movements in GSP components during the year

The following table reconciles the 3 GSP components as at 31 December 2019:

	Number of units issued	Weighted average issue price R	Number vested	Value R'000
Share Appreciation Rights (SARs)	2 269 550	8,56	–	597
Performance Share Plan (PSP)	1 274 590	8,56	–	1 391
Forfeitable Share Plan (FSP)	318 796	8,56	–	223
Total balance of the GSP at 31 December 2019	**3 862 936**		–	**2 211**

There were no awards granted in prior years, and none of the SARs, awards of the PSP and FSP vested as at 31 December 2019.

13. SHARE-BASED PAYMENTS continued

13.4 EXPENSES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2019 R'000	2018 R'000
Charges/(credit) relating to share appreciation rights granted (LTI scheme)	**(1 456)**	(13 208)
Charges relating to long-term incentive scheme (LTIP scheme)	**6 194**	–
Charges relating to share based payments (GSP)	**2 211**	–
	6 949	(13 208)

14. FINANCIAL INSTRUMENTS

At the reporting dates, the financial assets and liabilities of the group that are classified at fair value through profit and loss comprise forward exchange contracts. These are classified at a Level 2 in terms of the fair value hierarchy.

15. SUBSEQUENT EVENTS

The Board of Libstar has approved and declared a final cash dividend of 25 cents per ordinary share (gross) in respect of the year ended 31 December 2019.

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