Integrated Annual Report 2020

From our Home to Yours

Contents

Libstar is a producer and distributor of quality products and brands for the Consumer Packaged Goods industry in South Africa and internationally.

Everything we create is enjoyed in homes. Our extensive product portfolio consists of more than **9 000 products** and features many well-loved household staples. **92% of Group revenue** is generated from food and includes dairy and value-added meat products, fresh produce, convenience food, groceries, baking and baking aids, snacks and confectionery.

About this report

This integrated annual report covers the activities of Libstar for the year ended 31 December 2020.

The board of directors approved this report on 8 April 2021.

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 page 13 in this report.

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.

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

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.

AFS https://www.libstar.co.za/wp-content/uploads/2021/03/Annual-Financial-Statements-2020.pdf

Focus areas

Our strategy has enabled us to remain agile in a dynamic environment. We have dedicated pages 16-20 to how this strategy has benefited us in responding to the challenges faced this year. We have continued to interact with all stakeholders and, based on the feedback, this integrated annual report has distilled the key strategic areas and other priorities that will drive growth going forward. We outline these on pages 34-37 and discuss them and other relevant matters throughout this report.

While the full effects of the COVID-19 pandemic are still unfolding and remain unquantifiable, we have dedicated pages 18-19 to outline our response to the pandemic.

Stakeholder engagement

The challenging trading environment necessitated increased engagement with our key stakeholders.

As a Group, we have consistently prioritised:

- The protection, safety, health and well-being of Libstar's people;
- The preservation of cash and maintenance of the Group's financial stability; and
- The delivery of superior service levels and product availability to customers.

How we report to our stakeholders

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

https://www.libstar.co.za

Annual financial results

AFS https://www.libstar.co.za/wp-content/uploads/2021/03/Libstar-SENS-Booklet-2020.pdf

Annual financial statements

AFS https://www.libstar.co.za/wp-content/uploads/2021/03/Annual-Financial-Statements-2020.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/

The integrated annual report references research from Nielsen on pages 10, 42 and 43. Nielsen Information reflects estimates of market conditions based on samples and is prepared primarily as a marketing research tool for Consumer Packaged Goods manufacturers and others in the consumer goods industry. This information should not be viewed as a basis for investments.

Snapshot of our performance

Financial

Revenue increased

↑ **4.0%**

Gross profit margin decreased by 0.4 percentage points to

↓ **23.6%**

Normalised EBITDA decreased

↓ **5.0%***

Normalised EPS decreased

↓ **55.3%**

Normalised HEPS decreased

↓ **13.8%**

* Excluding extraordinary COVID-19 expenses of R65 million, normalised EBITDA increased by 0.5%.

Dividend maintained at
25 cents
per share

Cash flows and net debt
R345 million
Invested in capacity or capability-enhancing projects

3.4%
of revenue

Net interest-bearing debt of
R1.3 billion
to normalised EBITDA remains at 1.3 times

R1 027 million
cash generated from operations before working capital movements

Operating cash conversion ratio up to
94%

Return to shareholders

Return on tangible invested capital (ROIC) of **13%**

Facilities and products

39
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

485
new products launched

139
products renovated

92%
black* employees

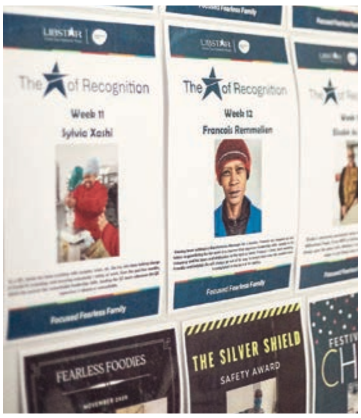
52%
female employees

R23.6 million
invested in training

378
bursaries, learnerships, apprenticeships and internships

People and culture

We have prioritised the health, safety and well-being of our people. R65 million was spent on protecting our workforce. We also significantly increased our communication during the year through dedicated campaigns, such as:



Star of Recognition
A 'Focused Fearless Family' peer nomination campaign that recognised and celebrated 362 employees for living our values.

Libstar lunchtime talks
A series of virtual talks to discuss topical mental health issues, including coping with the pandemic and related personal challenges.

Fearless Foodies
A light-hearted virtual cooking competition that encouraged employees to share their favourite recipes to win food hampers and a virtual cookalong with a celebrity chef. Over 120 recipes were received and a selection of these have been turned into a Libstar family recipe book for key stakeholders.

* Black, Indian and Coloured.

Our business

LIBSTAR

Founded in 2005, the Libstar family enriches lives through the much-loved food and household products it brings to homes in South Africa and abroad.

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

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 teams and leaders in the businesses we acquired over the years are still with the Group. Some of our businesses have also been manufacturing, importing and exporting their brands and goods for generations.

Purpose

Enriching people's daily lives.

Brand promise

From Our Home to Yours.

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.

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.

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.

Integrity

Proper business is honest business.

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

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.

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 distribution of leading branded and private label products that deliver the highest standards for consumers.

FOOD

92% of Group revenue

1 Perishables

LANCEWOOD

FINLAR FINE FOODS EST. 1994

Millennium Foods

RIALTO

DENNY™

2 Groceries

CapeHerb&Spice™

DickonHallFoods

CAPE COASTAL Honey* EST 1978

RIALTO

Cecil Vinegar Works EST. 1936 Naturally Fermented

LIBSTAR CHAMONIX SPRING WATER

khoisan gourmet

MONTAGU FOODS

multi-cup

* Formerly Hurter's Honey before re-brand during 2020.

LIBSTAR
From our Home to Yours

OTHER

8% of Group revenue

3 Baking & Baking Aids

CANI Artisan Bakers Quality Ingredients

AMARO FOODS

RETAILER BRANDS QUALITY ASSURED

4 Snacks & Confectionery

AMBASSADOR FOODS EST. 1989

K Snacks

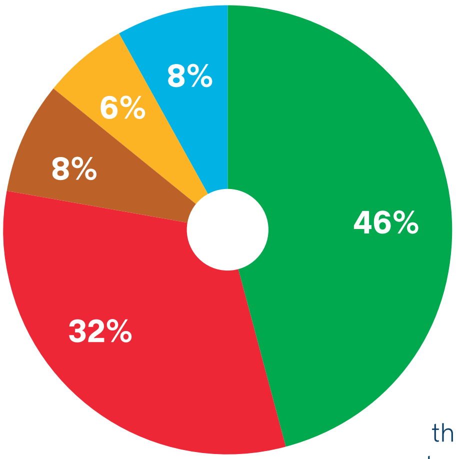
5 Household & Personal Care

LIBSTAR Household & Personal Care

What we offer

Our brand solution includes private label, dealer-own brands, Libstar brands and principal brands, in our five product categories.

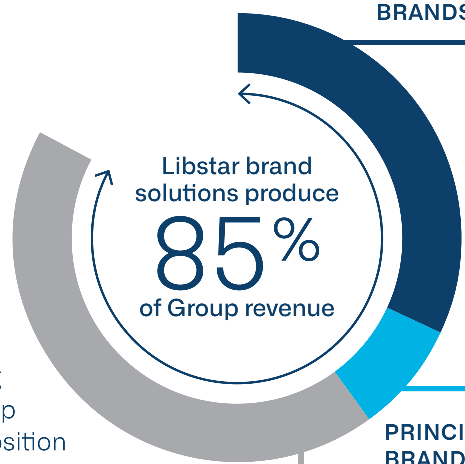
CATEGORY CONTRIBUTION TO REVENUE



- Perishables
- Groceries
- Baking & Baking Aids
- Snacks & Confectionery
- Household & Personal Care

OUR BRAND SOLUTION

We grow these categories by partnering with our customers to help them deliver their value proposition to consumers and shoppers through **private label, dealer-own brands, Libstar brands and principal brands.** This holistic, agile approach to brand solutions is made possible by our deep customer relationships, our category expertise and our passion for innovation.



LIBSTAR BRANDS

PRINCIPAL BRANDS

PRIVATE LABEL/ DEALER-OWN BRANDS

Private label and dealer-own brands 47%

Each retailer has a unique private label/dealer-own brand strategy, designed through an understanding of their specific shoppers' needs and their own retail positioning. Private label brands are owned and sold by a specific retailer and bear the retailer's name. Dealer-own brands often have a unique name, and are available exclusively at the retailer that owns them.

According to a Nielsen report, the total private label market share in South Africa **increased by 1.2% year-on-year to 20.4%** (June 2020)

Why do retailers invest in private label?

- Drives brand loyalty
- Differentiation
- Gives customers choice
- Ability to innovate to meet changing consumer requirements and shopper behaviours
- Facilitates strategic category growth

Why do consumers choose private label?

- Greater variety
- Value for money
- Premium/innovative offering

Libstar brands

30%

Many Libstar brands are well-recognised brands in South Africa. These are produced and distributed by the Group and sold under labels and trademarks that are proprietary to us or produced and distributed by us under licence agreements with a brand owner.

* Licensed

* Licensed

* Licensed

Principal brands

8%

We represent several well-known international brands in South Africa – sourcing, importing, marketing and distributing these under a purchase or distributorship arrangement between Libstar and the owner of the brand. Principal brands allow us to offer premium international brands to the local market, as many of these are imported, marketed and distributed from European, Asian and American food manufacturers. The endorsement from world-famous labels demonstrates the trust in our marketing and distribution capabilities.

Our sales channels

% of Group gross revenue

64%

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. Our brand solutions, combined with long-standing and successful relationships with South Africa's largest food retailers, allow us to strategically position our Libstar brands alongside dealer-own, private label and principal brands on retail shelves. Not only does this balance profitability across product categories, it also ensures a competitive range of products within our offering in each of the product categories. By growing our categories we also increase our share of the shopper's wallet by providing a variety of products across critical price points.

14%

Food service channel

Leading companies in the food service industry, including quick-service restaurants (QSR) and South African family restaurants, choose us as their long-term partner to manufacture and supply perishables, groceries, baked goods and packaging. This channel therefore confirms the quality of our manufacturing operations. Products include beef, chicken and related meat products, soft and hard cheeses, and mushrooms. In addition, we supply food packaging, table sauces, and other wet condiments from the Groceries category, as well as value-added beef and chicken products and tortilla wraps sold in the QSR sector.

11%

Export channel

We exported to more than 50 countries in 2020. Our main export markets are the United States, Germany, Hong Kong, the United Arab Emirates, the United Kingdom, Australia, Japan and several countries in the rest of Africa. Exports currently contribute 11% of Group revenue. The business unit responsible for the majority of the Group's export revenue in 2020, contributing 52%, was Cape Herb & Spice. Some of our large customers in the retail sales channel also export our products into neighbouring African countries and beyond.

11%

Industrial and contract manufacturing channel

The products that are manufactured and sold through this channel are supplied to trusted brand owners in South Africa and globally. These products span four of the five product categories, namely Perishables (value-added chicken, meat and cheeses), Groceries (table sauces and food packaging), Snacks & Confectionery (granolas, nuts, snack bars and Pringles potato snacks) and Household & Personal Care (cleaning and personal care products).

Where we operate

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

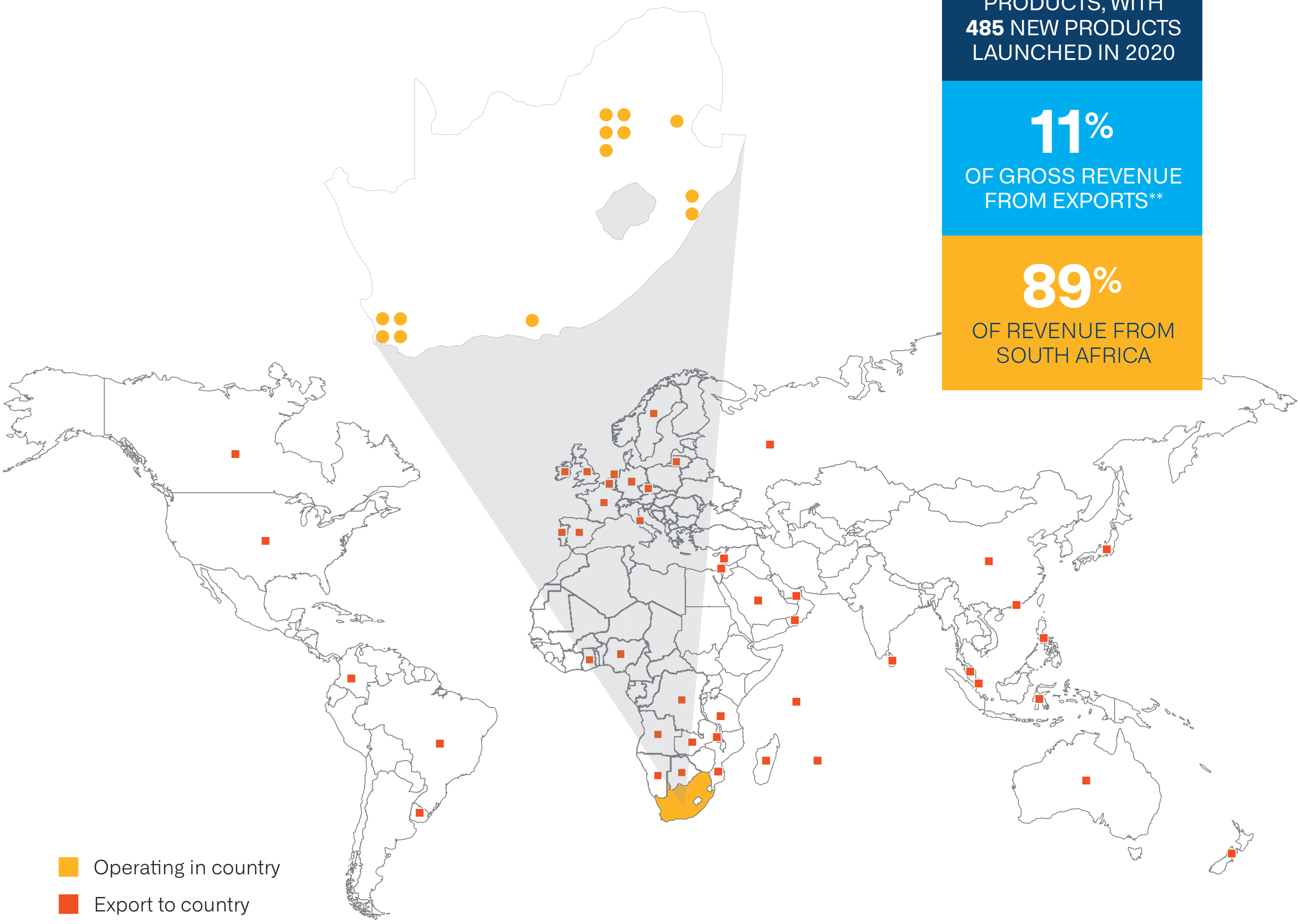
6 445
EMPLOYEES*

WE EXPORT TO MORE THAN **50 COUNTRIES** GLOBALLY

MORE THAN
9 000
PRODUCTS, WITH **485** NEW PRODUCTS LAUNCHED IN 2020

11%
OF GROSS REVENUE FROM EXPORTS**

89%
OF REVENUE FROM SOUTH AFRICA



CONTRIBUTION TO GROUP EXPORT REVENUE (R'000)

North America	Africa	Asia	Europe	Middle East	Oceania
R385 562	**R314 479**	**R236 537**	**R185 303**	**R77 557**	**R40 197**
31%	26%	19%	15%	6%	3%

* Permanent employees ** Before allowances and rebates

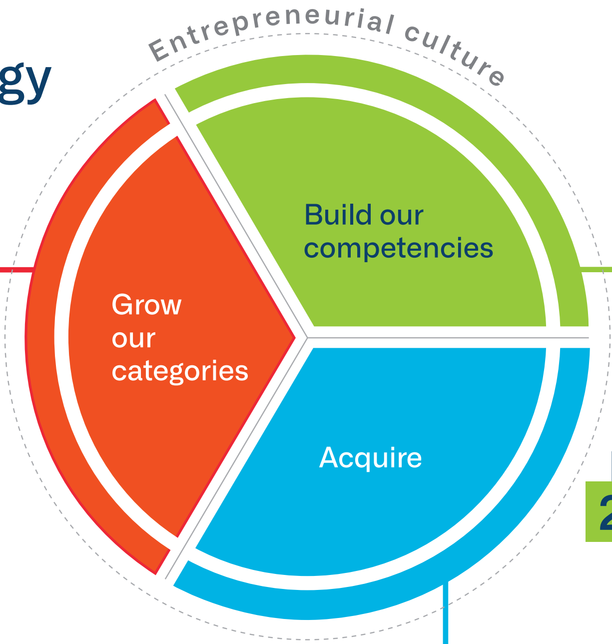
Libstar's strategy

The Group's diverse offering provides customers with a multi-brand and product portfolio across five product categories and a range of sales channels. This positions us strategically within the Consumer Packaged Goods sector and gives us the flexibility to capitalise on growth areas in the industry.

Our strategy has remained consistent since our brand relaunch in 2019, with our purpose of Enriching People's Daily Lives more relevant in these challenging times than ever before.

Although we gave precedence to the three key priorities of protecting our people, maintaining financial stability and superior customer service levels during the COVID-19 pandemic, we did not lose sight of continuing to deliver on our Group strategic goals.

Our strategy unpacked



1 Grow our categories

Commercial excellence

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

This is implemented through:

- Accelerated product development, innovation and speed-to-market.
- A focus on lifestyle trends, such as health, wellness, convenience and environmentally-friendly products.
- Innovating in fast-growing categories through private label, dealer-own brand and branded solutions.
- Unlocking value through functional category consolidation.

Operational excellence

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

This is implemented through:

- Cost-reduction plans, equipment upgrades and low-cost facilities.
- Creating resource-sharing opportunities.
- Supporting underperforming business units and streamlining supply chains.

2 Build our competencies

Strategic initiatives

We invest in strategic capital projects to introduce new technologies, efficiency improvements and capacity expansion in key growth categories.

This is implemented through:

- Focusing on processes, from sales management to customer relationships.
- Creating new channels and brand availability.
- Expanding our export-led growth strategy through strategic partners.
- Identifying quick-return capital projects.

3 Acquire

Strategic acquisitions

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.

This is implemented through:

- Proactively identifying strategic bolt-on acquisitions.
- Identifying and filling gaps in our existing food category offering.
- Building strategic alliances with international customers or suppliers.

Our strategy in action

1 Grow our categories

STRATEGY IN ACTION

Commercial excellence

A specialist category team is in place to ensure the continuation of our deep customer relationships through a customer-centric approach.

Annual category growth plans are implemented and rolled out through detailed customer-led growth strategies with key performance metrics.

93% of revenue is now on a standard enterprise resource planning system, with the remaining business units scheduled for 2021.

We invest in critical market insights to deliver growth plans for our key customers. Examples include the 2020 private label survey we commissioned Nielsen to conduct.

We consistently innovate through private label/dealer-own brand and branded solutions to meet changing consumer behaviours and requirements (such as health and wellness, convenience and environmentally-friendly products).
We launched 485 new products and renovated 139 products in 2020.

We continually explore opportunities for category consolidation and have a number of consolidation initiatives in place. For example, during the year we executed the functional consolidation of Millennium Foods into Lancewood. This will allow Millennium Foods to benefit from the extensive sales and marketing expertise of Lancewood. In addition, Libstar Household & Personal Care (HPC) continued to benefit from significant cost rationalisation in 2020 through the integration of Libstar's HPC business units into a single market-facing business. Full benefits are expected to be realised from the second half of 2021.

Operational excellence

Successful roll out and ongoing management of centralised logistics software across the business units (previously managed externally).

Lancewood is providing oversight to Millennium Foods and guidance to Denny Mushrooms. This is assisting with the implementation of best practice and operational efficiencies.

A regional sales agent strategy improved forward share, trade visibility and product availability.

The overall equipment effectiveness project roll-out is going well. Delivery against this is now a standard key performance indicator for business unit management.

We implemented a sales management forum to facilitate knowledge and best practice sharing, and to identify and collaborate on key customer opportunities.

2 Build our competencies

STRATEGY IN ACTION

We identified the dairy market within our Perishables category as a significant growth opportunity. At Lancewood, we invested R65 million in hard-cheese manufacturing and packaging upgrades at our Swellendam hard cheese facility to improve manufacturing efficiencies and service levels. In addition, the Lancewood Park distribution centre and the milk-receiving upgrades will be fully operational by mid-2021 and scaled to support growth prospects. The meaningful benefits expected from these projects include cost-savings, increased production capacity and the ability to service growing demand for Libstar's products. A key strategic priority is to convert the capital expenditure over the last two years into tangible returns for shareholders.

We continuously expand the channels we operate in to capitalise on market forces, including export, online retail, independent and food service channel strategies and synergies across Libstar.

We invested in local manufacturing capability in partnership with Bel Group International, as the first independent manufacturer of Bel's Laughing Cow and Kiri brands in South Africa.

3 Acquire

STRATEGY IN ACTION

A number of strategic bolt-on opportunities are being evaluated that will allow Libstar to widen its scope, grow its existing categories, enhance efficiencies, build capacity and open new growth markets. However, non-distressed opportunities have been limited and the valuation expectations of sellers have remained high.

Our strategic COVID-19 priorities

In accordance with the COVID-19 measures announced by the South African President during 2020, all business units within the Libstar Group were designated as essential service providers in their capacity as producers of food and cleaning products.

Most of our facilities therefore remained operational throughout the year.

We focused on three key priorities during the reporting period:

1 Protecting the health, safety and well-being of our people

- We incurred direct COVID-19-related expenses for the year totalling R65 million in pursuit of the protection of our people. This included registered on-site nurses, private COVID-19 testing, dedicated employee transport, incentives and the provision of personal protective equipment.
- We established business unit and Group COVID-19 steering committees to continuously monitor the unfolding situation, to ensure that the additional hygiene practices were and continue to be followed and that the required safety protocols were implemented.
- Critical safety information was constantly communicated to employees and other internal employee campaigns executed to improve morale.
- Despite the challenges faced and intermittent downtime caused by the adherence to COVID-19 best practice, the Group has managed to maintain high levels of employee attendance and production output.

2 Preserving the Group's financial stability

- Business units have undertaken operational reviews and have reprioritised capital expenditure and staffing requirements, resulting in an improved cash conversion ratio from 91% to 94%.
- Cash generation from operations has remained stable following the R145 million payment of the Group's dividend on 28 September 2020. Libstar complied with all lender financial covenants for the full year ended 31 December 2020.
- Several cost-rationalisation projects are underway throughout the Group, most notably within the Dickon Hall Foods, Lancewood and Libstar Household & Personal Care (HPC) divisions. These projects are expected to start yielding meaningful benefits from the second half of 2021.
- The net interest-bearing debt on term loans to normalised EBITDA remained at 1.3 times and falls within Libstar's stated optimal range.

3 Delivering superior service levels

- Major disruption to supply chains worldwide due to COVID-19 resulted in the need for higher inventory levels of certain products and raw materials to ensure product availability. The investment in working capital therefore increased to 15.1% of revenue (2019: 14.4%), above Libstar's working capital target range of 13.0%-15.0%.
- We also increased our focus on production efficiencies and staff attendance to ensure service delivery.
- Libstar's decentralised model enabled us to be agile. Each business unit improved processes to ensure optimal order fulfilment rates and deliver on new opportunities. Examples include:
  - Lancewood was able to redirect product, such as cream cheese, from the food service to the retail channel.
  - Lancewood added 50 new customers into its wholesale channel, in line with its strategy to further diversify the customer base.
  - Denny Mushrooms introduced a new canned mushroom product when lockdown restrictions influenced the demand for fresh mushrooms in the food service channel.
  - Rialto Foods was able to keep key retailer customer shelves stocked. This was particularly relevant in the second and third quarters, when significant pantry-stocking and in-home baking and cooking drove consumer demand. A total of 80 newly-launched or renovated products were introduced by Rialto Foods.
  - We also manufactured larger pack sizes across a number of business units, to meet shopper demands due to less frequent visits to retailers.
  - HPC was able to rapidly respond to our customers' needs and launch a range of household and personal cleaning and hygiene products.
- Ongoing engagement and support from the Department of Health and the Department of Labour regarding our stringent food safety and hygiene protocols contributed to our ability to continue operating safely and ensure product availability to our customers.

Commercial impact on our business

The effect of COVID-19 has been most apparent in our sales channels. While all channels were negatively impacted by lockdown restrictions, the food service channel was the most significantly affected following the closure of hospitality venues, including quick-service restaurants.

The graphic below outlines when the different channels were prevented from operating.

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.

Continuing operations (R'000)	2020	Change	2019
FINANCIAL MEASURES			
Total revenue	**10 285 881**	+4.0%	9 892 545
Organic revenue growth		+3.5%	
Normalised EBITDA	**1 115 255**	-5.0%	1 173 676
Normalised EBITDA (margin)	**10.8%**		11.9%
Normalised EPS (cents)	**36.8**	-55.3%	82.3
Normalised HEPS (cents)	**71.3**	-13.8%	82.7
Normalised operating profit decreased by 13.1% due to COVID-related extraordinary expenses and increased depreciation from the completion of capital projects. Normalised EBITDA decreased by 5.0% and normalised earnings decreased by 55.3%, mainly due to the impairment of goodwill attributable to Denny Mushrooms.			
Return on tangible invested capital (ROIC)	**13.0%**		15.6%
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 above the Group's weighted average cost of capital of 12.2%.			
Net gearing	**1.3x Normalised EBITDA**		1.3x Normalised EBITDA
The Group's net gearing ratio remains within the optimal target range of 1.0 – 2.0 times net debt to EBITDA.			

STRATEGY MEASURES

Awards
13 of Lancewood's products were rated number one in their respective categories at the 2020 SA Dairy Championships. Seven of these were for Lancewood-branded products.

Libstar brands, private label and principal brands
The total fast-moving consumer goods basket of retail products in which Libstar participates is valued at R28 billion, with 1.3 billion units sold annually. Of this total market, Libstar occupies a 12.6% value share. While the defined basket grew by 11.9%*, Libstar delivered 15.1% growth. As a result, Libstar's value share of the defined product basket increased by 0.4 percentage points to 12.6%.

EMPLOYEE MEASURES			
Number of employees**	**6 445**	+5.8%	6 089
Revenue per employee (R'000)	**1 596**	-1.8%	1 625
Normalised EBITDA per employee (R'000)	**173**	-10.2%	193

* Up to November 2020, which is the most recent data available .

** Permanent employees.


GOLDCREST
MANGO SLICES
IN LIGHT SYRUP
CHOICE GRADE
NET MASS
DRAINED MASS
228 g

Our environmental, social and governance strategy

The market increasingly requires information relating to material risks and growth opportunities associated with environmental, social and corporate governance (ESG). Libstar is at the start of its ESG journey and we are working on improving the reporting of these issues going forward.

We have, provided information on the relevant assurance measures relating to ESG for the last two years. Refer to page 72.

Introduction

The production of Consumer Packaged Goods products requires high levels of governance to meet stakeholder expectations and requirements relating to food quality and safety, occupational health and safety, environmental management and asset care.

How we are managed

Governance

Please refer to the detailed governance review at https://www.libstar.co.za/investors/governance/ and pages 92-101 for information on the governance of the Group.

The board, assisted by the social and ethics committee, provides strategic direction to Libstar to be a responsible corporate citizen and to respond appropriately to the economic, social and environmental outcomes of its activities. In addition to performing the duties required in relation to Regulation 43 of the South African Companies Act, the committee assists the board with monitoring and reporting on social, ethical and transformational practices that are consistent with good and responsible corporate citizenship.

We have implemented systems of internal control, which are designed to detect and minimise the risk of fraud, potential liability, loss and material misstatement. 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.

During the year under review, the Libstar board conducted its first formal review to assess the board's performance and effectiveness.

There were several actions taken following recommendations from the evaluation. These include the strengthening of the financial skills of the board through the appointment of Anneke Andrews CA(SA) to the board and as a member of the audit and risk committee, combining the remuneration and nomination committees and changing the membership and enhancing the role and functions of the social and ethics committee.

The board took note of the amendments to the JSE Listings Requirements implemented in 2019 for the promotion of broader diversity at board level. Libstar's board diversity policy was revised during 2020 to include the additional diversity elements.

Refer to page 94 for the board diversity breakdown.

Managing environmental and health and safety matters

We are guided by various agricultural, food safety, health and safety, environmental and labour regulations and legislations, including by the South African Bureau of Standards, the Department of Labour, the South African Revenue Bureau, the Department of Agriculture, Forestry and Fisheries, the Department of Customs and Excise, the South African Consumer Commission, the South African Competition Commission, the Department of Health and other South African national and local authorities and their agencies, as well as regulatory authorities of countries into which our products are exported.

Our operations are exposed to the risk of liabilities and claims with respect to food safety and environmental matters, including water use, effluent and pollution. We therefore have processes and policies in place to address this.

The Group maintains environmental, health and safety and product safety policies designed to monitor food safety risks. The production facilities where the Group manufactures food products are in possession of various certifications.

The team has an unwavering focus on ensuring that the food production facilities within the Group adhere to the necessary food safety and product safety standards.

Our production facilities are also subject to regular environmental, occupational health and safety, food safety and social and ethical compliance audits from a number of our major customers.

Refer to assurance measures on page 72.

Our regulatory environment

Please refer to the compliance and regulatory review at https://www.libstar.co.za/investors/governance/ and pages 96-101 in this report.

The Group operates in line with water use licences, waste management licences, effluent discharge and flammable substances permits. Legislation includes:

- The National Environmental Management Act, No 15 of 2009 which, amongst other things, imposes a general duty of care to take reasonable measures to prevent, minimise and rectify significant pollution and environmental degradation;
- The National Water Act, No 36 of 1998 which regulates the use of water and the need to obtain a water use licence;
- The National Environmental Management: Air Quality Act, No 39 of 2004 which regulates atmospheric emissions; and
- The Waste Act, No 59 of 2008, which regulates the storage, accumulation, transportation, treatment and disposal of waste.

In addition, municipalities are empowered to pass by-laws, which apply to activities in their areas of jurisdiction. Typically, these municipal by-laws regulate matters, such as waste storage and disposal, fire safety and emergency incidents, flammable liquid storage, electricity supply and sewage disposal.

The Occupational Health and Safety Act, No 85 of 1993 guides employers on providing for the health and safety of employees at work. This became particularly relevant during the year due to COVID-19 requirements. The Group worked closely with the National Institute for Communicable Diseases (NICD), the Department of Health (DOH) and the Department of Labour (DOL).

In addition to our existing stringent food safety and hygiene protocols, we implemented further rigorous hygiene practices and safety measures in all areas of the business. We took guidance from the World Health Organisation, the NICD and the DOH.

For information on the additional safety protocols and hygiene practices implemented, refer to page 18.

Managing our resources

As the Group's home market of South Africa continues to battle with resources, such as water and electricity, Libstar has proactively implemented a number of initiatives to more effectively manage its resources.

Electricity- and gas-saving initiatives have been put in place, with the installation of the first solar photovoltaic system at Finlar Fine Foods.

The system came on stream in April 2020 and is expected to generate approximately 612MWh per annum, which will be used to reduce grid power consumption. System performance is being carefully monitored as a case study for further installations in the Group.

We have also invested in additional generator capacity in a number of our operations, including within the Baking & Baking Aids category.

The Group uses boreholes where possible to reduce dependency on the municipal infrastructure.

Electricity cost increased by
↑8.6%

Gas cost decreased by
↓0.8%

Water cost increased by
↑23.7%

To address the increases, we invested in boreholes and grey-water systems and implemented initiatives to save electricity and fuel.

Carbon emissions

Libstar implemented systems to formally start measuring carbon emissions on 1 June 2019. We outline the first recorded seven-month period until 31 December 2019. Carbon emissions for the period 1 January 2020 to 31 December 2020 are being finalised.

Background

In South Africa, carbon tax was levied for the 2019 year of assessment at R120 per ton of carbon dioxide (CO_2) equivalent of greenhouse gas emissions (GHG). Taxpayers in the food processing, beverages and tobacco industry are required to exceed a threshold of 10MW before they become liable for registration in terms of the Carbon Tax Act. Once the threshold is exceeded, the CO_2 equivalent of the GHG emissions of the taxpayer is calculated by combining the emissions resultant from fuel combustion, fugitive emissions and industrial emissions.

Libstar's assessment

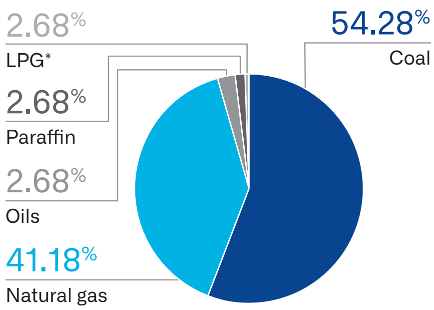
Libstar was assessed and while it does not emit GHG from fugitive emissions from its manufacturing processes, it is due for carbon tax based on fuel combustion and industrial emissions.

Key Libstar statistics

- Fuel combustion activities account for 99.7% of its carbon tax liability.
- The only business unit generating industrial emissions is Chet Chemicals due its usage of sodium carbonate (soda ash) in the production of certain chemicals and household cleaning goods.

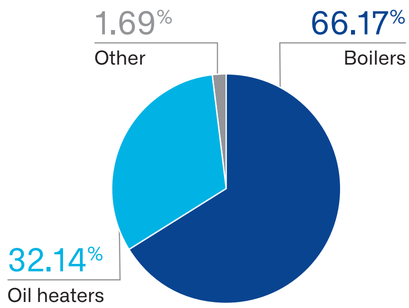
Libstar's fuel combustion activities which result in carbon tax use the following fuel:

Fuel types



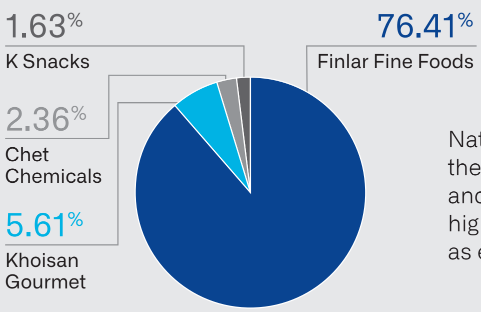
* Liquefied petroleum gas.

These fuels are utilised in:



Lancewood accounted for 50.09% of the coal used and Denny Mushrooms for 49.91%. These businesses use coal as a fuel source for boilers to generate steam for various food processing applications, such as cooking and cleaning. Steam is used in the food manufacturing industry, as it is one of the most reliable and efficient methods of transferring heat.

The following business units are the largest users of natural gas:



Natural gas is used as a fuel in the process of heating and is a good alternative to higher-cost fuel types, such as electricity.

Consumer requirements

There are increasing trends in terms of socially responsible operations, including packaging, the geographic origin of products, social and environmental standards and the sourcing of materials and production processes.

As outlined in the operational reviews from pages 56-69, the Group has a track record of tapping into changing consumer demands, with a number of product developments successfully rolled out to ensure more responsible products.

Responsible sourcing

The Group sources raw materials from over 500 South African and international suppliers.

Several supply arrangements have been developed over a number of years. In many cases, the business units purchase their raw materials from various sources and have developed strong relationships within available supply networks. This exposes the Group to less risk in the supply chain and enables us to identify our sources effectively.

The Group receives raw materials from a multitude of suppliers across the country and, where import is cost effective and/or required, from abroad.

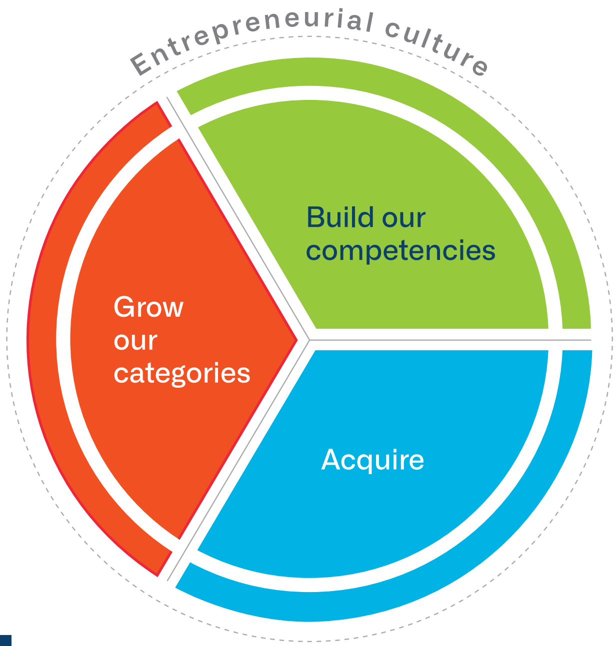
While the Group has a number of foreign suppliers (most notably in Rialto Foods, Multi-Cup and Lancewood), wherever possible, the business units source their raw materials from local South African suppliers.

A number of the Group's suppliers are regularly audited by the major customers of the Group. These audits include an assessment of the applicable suppliers against stringent criteria, including factory standards, ingredients, food safety, food quality, social and ethical compliance and packaging standards. Many of these customers also require that business units only purchase from a list of pre-approved suppliers.

The Group takes care to ensure that it sources its raw materials from suppliers who are able to meet the standards set by its customers.

Our strategy going forward

The Group has a robust strategy and a number of competitive advantages, which will assist us to manage what will remain a challenging year ahead.



Protection strategy

We will remain focused on protecting our people, preserving our financial stability and cash flow, and ensuring superior customer service levels in ongoing challenging COVID-19 conditions.

Grow our categories

Commercial excellence

We are well placed to continue accelerating our product development, innovation and speed-to-market. We have a strong foothold in the new market trends, such as health, wellness, convenience and environmentally-responsible options.

We will focus on ongoing consolidation within categories and functions to increase our efficiencies and service new customers and channels. These will include the combinations of:

- Multi-Cup and Rialto Foods in the food service offering
- Lancewood and Millennium Foods in Perishables
- Khoisan Gourmet and Cape Herb & Spice in Groceries

We will also continue to invest in efficiency-enhancing equipment, manage input costs and work closely with our customers to maintain margins.

Operational excellence

We will restructure where required to contain costs and improve overall efficiencies. A priority will be to continue our pre-COVID-19 business unit consolidation to reduce sales and merchandising duplication, as well as rationalise resources. This will yield greater collaboration, efficiency and growth opportunities.

Our strong management team, together with ongoing identification of talent and succession planning, will provide the strategic leadership required across the Group.

Build our competencies

We will implement and commission strategic capital projects by investing in expansionary and replacement capex.

These projects will focus on supporting growth opportunities.

Acquire

Our gearing levels provide sufficient headroom for us to continue to make bolt-on or standalone acquisitions.

We will continue to evaluate opportunities that enable us to enter new categories and grow our capabilities.

Our competitive advantages

- An adaptable and diversified portfolio and a relatively more resilient customer profile, which have been crucial in weak economic conditions.
- Value-added products that tap into evolving consumer lifestyles and dietary changes.
- Strong customer relationships in niche product categories, with proven category management insight and capabilities.
- An entrenched culture of entrepreneurship and innovation.
- Exposure to the fast-growing private label and dealer-own brands market, with a growing market share through new products and category demand.

  This market is growing faster than branded products and is driven by changing demand, consumer behaviour and rising supply.

Libstar brands

Private label and dealer-own brands

Principal/licensed brands

Product diversity and innovation in 2020

Greater flexibility to weather negative market conditions.

485	139	624
New products	Renovated products	Total

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
- Industrial and contract manufacturing markets

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-added 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 and brands in partnership with them.

How we create value

The Group's business model draws on various capital inputs. These capitals are affected or transformed by our activities and outputs to create value over time.

FINANCIAL CAPITAL

Inputs

- Market capitalisation of R4.3 billion*
- R45 million interest earned
- R1.3 billion in unutilised funding facilities

Activities to create value

- Focus on resilient target markets and growing private label/dealer-own brand, Libstar brand and principal brand market share.
- Cost-containment initiatives and functional consolidation.
- Supply-chain optimisation, system standardisation and procurement practices to maintain and improve margins.

Outcomes of our activities in 2020

- Revenue increased by 4.0%.
- 13% return on tangible invested capital (ROIC).
- Group operating cash conversion ratio increased from 91% to 94%.
- Net interest-bearing debt gearing of 1.3 times to normalised EBITDA.
- Market share growth achieved, as outlined on page 50.

Balancing resources

The Group has to constantly monitor the trade-offs between short-term and long-term investment to ensure optimal benefits and financial performance.

For example, higher than usual expansionary capex was necessary over the last two years to capitalise on the key growth opportunities available to us in the market.

Although we re-prioritised capex spend to maintain a stronger cash position during 2020, capex still temporarily exceeded the Group's target range of 2%-3% of net revenue. This was to enable us to continue to capitalise on key growth opportunities in the market.

* As of 31 December 2020.

MANUFACTURED CAPITAL

Inputs

- **COVID-19-related costs of R65 million to ensure safe manufacturing operations.**
- **R345 million spent on capex projects to improve our manufacturing operations.**

Activities to create value

- Ongoing expansion of internal capacity and capability.
- Review of production processes, manufacturing facility design and automation techniques.
- In line with guidance from the Department of Health, National Institute for Communicable Diseases and the World Health Organisation, we implemented additional rigorous hygiene protocols and safety measures in all areas of the business to protect our people.
- Flexible procurement practices, which involve the substitution of imports for locally produced inputs.

Outcomes of our activities in 2020

- Successful manufacturing during the year, with no supply interruptions to customers even in COVID-19 conditions.
- 39 accredited 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.

Balancing resources

Investing in our operations requires significant financial, human and intellectual capital inputs. However, these are crucial for us to continue producing market-leading products and maintaining our entrenched customer relationships and accredited facilities.

We also use a number of natural capital resources, such as water and electricity and generate waste. We have implemented a number of initiatives to limit our impact, as outlined in the natural capital section on page 31.

HUMAN AND INTELLECTUAL CAPITAL

Inputs

- **6 445 permanent employees.**
- **R65 million invested in the Group to keep our Libstar family safe against COVID-19.**
- **Experienced executive team and board.**
- **R23.6 million invested in training.**

Activities to create value

- Stringent focus on safe operations, with more than 2 000 COVID-19 tests performed.
- Significantly increased internal communication and engagement campaigns to motivate, build morale and recognise employees.
- Improved focus on culture development and transformation.
- Ongoing organisational initiatives to support living Libstar's values.
- Talent development programme rollout to identify new talent and manage the succession process.
- Ongoing successful engagement with customers.

Outcomes of our activities in 2020

- High employee attendance levels.
- Ongoing transformation, with 52% female employees and 92% black* employees.
- Talent identified for leadership positions from within the Group.
- Salaries and wages of R1 398 million.

Balancing resources

Investing in attracting, retaining and developing talent comes at a high financial cost to the business. Although this impacts our short-term financial position, the benefits of having an experienced team in place has proven to be crucial during the challenging COVID-19 year, with our teams able to act decisively to address new market dynamics.

The extraordinary COVID-19 expenses impacted our results this year, but ensured uninterrupted production and supply to customers.

* Black, Indian and Coloured.

SOCIAL AND RELATIONSHIP CAPITAL

Inputs

- **R15.5 million invested in social programmes.**
- **R5 million spent in COVID-19-related donations.**
- **Engagement with customers to ensure product availability of our more than 9 000 products.**
- **Constructive engagement with regulators.**
- **Positive supplier engagement.**
- **Brand development.**

Activities to create value

- Product and financial donations made to needy communities during COVID-19.
- Continuous investment in market insights and product innovation.
- Adherence to all regulations and required payments.
- Stringent focus on supplier relationships.

Outcomes of our activities in 2020

- 485 new products launched and 139 products renovated, focusing on key growth market categories.
- Libstar's value share of the defined product basket increased by 0.4 percentage points to 12.6%.
- Several market awards, such as 13 of Lancewood's products winning first place in their respective categories.

Balancing resources

Maintaining effective relationships with a range of stakeholders, including suppliers, communities and regulatory bodies, require a careful balance between stakeholder interests. Libstar has significant experience with managing a variety of stakeholders, with supplier and customer relationships stretching back as far as 20 years or longer in many cases.

As our operations are often in smaller towns where we are a key employer, maintaining conducive relationships with communities around our operations is crucial. Time and financial capital spent on those relationships are always beneficial and contribute to uninterrupted operations and being seen as an employer of choice.

NATURAL CAPITAL

Inputs

- **R142 million invested in electricity use.**
- **R66 million invested in gas use.**
- **R26 million invested in water use.**

Activities to create value

- Electricity- and gas-saving initiatives in place.
- Use of boreholes where possible to reduce dependency on municipal infrastructure.
- Implemented the measurement of our CO_2 carbon emissions/output.
- Growing focus on environmentally-friendly offerings, such as Denny Mushrooms' fully compostable punnets, and Multi-Cup's extensive Precious Planet range of compostable packaging.

Outcomes of our activities in 2020

- Carbon tax liability in relation to 2019* of R1.1 million.
- Electricity cost increased by 8.6%, gas cost decreased by 0.8% and water cost increased by 23.7%.
- Additional generators installed within Baking & Baking Aids.
- First solar photovoltaic system completed at Finlar Fine Foods. The system came on stream in April 2020 and is expected to generate approximately 612MWh per annum, which will be used to reduce grid power consumption.

Balancing resources

Using natural resources is a key trade-off to generate value across the other capitals. As a responsible organisation, Libstar is committed to minimise its impact on the environment and decrease its use of natural capital, as outlined under the outcomes.

* First year of measurement.

Year under review

Our stakeholder engagement

The challenges posed by COVID-19 have increased our engagement with stakeholders to ensure ongoing support and partnerships.

We worked especially closely with suppliers and our retail partners to ensure continuous product supply. We also provided more regular market updates to our financial stakeholders on the impact of the pandemic on our Group.

Ensuring the safety, health and well-being of our employees remains our core priority.

This summary outlines our main stakeholders and the actions taken to address their key concerns.

Providers of financial resources
(Including debt providers and equity shareholders)

Reason for engagement

Providers of debt and equity are core to our existence and growth. The Group's financial strength is generated from the initial backing of equity from shareholders and financial support from financiers and insurance companies.

Expectations

- Sustainable return on investment.
- Meeting debt covenants and debt agreements.
- Meeting all interest payments as a minimum target.
- Optimising the Group's debt position without excessive risk.
- Sound and experienced management team.
- Good corporate governance.
- Strategic growth strategy.
- Talent acquisition, retention and succession planning.
- Transparency and accountability.
- A strong focus on cash generation and financial risk management.
- Dividend policy in the context of protecting balance sheet and liquidity.

Our response

- Compliance with covenants throughout the year.
- Ongoing assessment of governance structures and regulations.
- Commitment to continuing our culture of innovation. This includes our multi-brand strategy approach, a specialist category team and investment in critical market insights.
- A dynamic succession plan with an emphasis on talent development.
- Further developing a culture of regular engagement with investors and lenders:
  - All communication is expected to be, at minimum, transparent and honest, providing as much information as possible without negatively impacting Libstar's competitive position in the market.
  - Direct access was provided to the remuneration committee to engage shareholders on the 2019 remuneration policy and implementation report.

Analysts and media

Reason for engagement

Analysts and media provide other stakeholders, especially providers of equity capital (shareholders) and providers of debt capital (bankers), with research and information on the Group, its performance and challenges.

Expectations

- Transparency and accountability.
- Access to leadership and information.
- Operational performance.

Our response

- Ongoing contact with analysts and media.
- With site visits not possible due to COVID-19 restrictions and adherence to safety protocols, a dedicated educational media campaign was executed in 2020.

Sample of media feedback

"Just a quick thanks for the information and for the products delivered on Friday. I'm looking forward to Libstar's results to follow progress with these innovative products."

"The package arrived safely - thank you so much. The blueberry salad dressing looks amazing, can't wait to try it; and the mushroom snacks are delicious! Where are they retailing - I want to get some more..."

"My fabulous Libstar parcel arrived on Friday afternoon....thank you! The Denny mushroom chips are WOW! And Lancewood continues to impress with quality and innovation not seen elsewhere in the dairy category."

- Participation in investor conferences, Group investor meetings hosted by sell-side analysts, one-on-one meetings with key shareholders and sell-side analysts and at least two results presentations per year with the wider investing community.
- Appointed an in-house communications and investor relations officer.

Customers and consumers

Reason for engagement

We assist our customers to deliver on their brand promises through the private label, dealer-own brands, Libstar brands and principal brand offering.

These valuable partnerships assist our customers to grow their categories and stay relevant to their consumers.

Expectations

- Market-leading products that deliver growth in categories.
- Ongoing innovation.
- Exceptional customer service levels and product availability.
- Ability to maintain competitive pricing.
- Food safety.

Our response

- We invest in critical market research and insights to deliver growth plans for our customers.
- All categories invest extensively in new product development.
- Increased customer engagement levels during the year to mitigate pandemic-related disruptions and continually meet changing demand.
- Regional sales agent strategy implementation ensured better trade visibility and availability.
- Strategic and collaborative forward-planning through steering committees across all business units avoided stock-outs due to the pandemic.
- Strategic category consolidation and operational efficiencies contributed to cost management.
- Product testing throughout our manufacturing sites, with stringent food safety protocols in place.
- Internal audits conducted by independent auditors and independent verifications performed by customers.

Employees and employee representative bodies
(including unions)

Reason for engagement

Employees drive our business through their enterprise, skills and commitment. We engage with employee representative bodies to ensure a constructive working environment.

Expectations

- Employee safety, especially during the COVID-19 pandemic.
- Being compensated appropriately.
- Protection of labour and human rights.
- Employee relations and inclusive engagement.
- Career progression opportunities.

Our response

- Extensive safety protocols and hygiene practices implemented across the Group.
- Industry-benchmarked, competitive total remuneration of employees, to retain talent.
- Ongoing and transparent engagement with unions.
- Increased employee engagement during 2020, with informative newsletters, recognition and motivational campaigns.
- Several opportunities for career progression across the Group.

Suppliers

Reason for engagement

Working closely with suppliers to ensure uninterrupted material supply is crucial to our business.

Expectations

- Sustainable, beneficial relationships.
- Honouring contractual terms and agreements.
- Revenue growth.

Our response

- Increased engagement levels with suppliers to stay abreast of COVID-19-related changes in demand.
- Leveraging procurement database to evaluate input costs, bolster buying power as a Group and ensure continuity of suppliers.

Communities and non-profit organisations

Reason for engagement

We engage with communities and non-profit organisations to provide financial and physical assistance.

Expectations

- Support, especially during COVID-19.
- Employment opportunities.

Our response

- Donated R5 million in financial and food assistance through support for numerous NGOs, including Gift of the Givers and Food Forward.
- We employ from the communities close to our operations. For example, most of the Montagu Foods workforce of 200 people is from the local community.

Government and regulators

Reason for engagement

Effective communication with relevant government bodies and regulators is critical for compliance with legislation.

Expectations

- Compliance with regulatory and legal requirements.
- Strict compliance with regulations pertaining to the safety of our manufacturing operations, products and employees.
- Employment equity, broad-based black economic empowerment (B-BBEE) and transformation.
- Compliance with consumer protection and national disaster management regulations.

Our response

- Cultivating a culture of regulatory compliance across the Group through regular information campaigns.
- Governance system implementation and assessments.
- Mandatory FSSC 22000 certification for food manufacturing sites in place.

Refer to assurance measures on page 72.

- Close engagement with the Department of Health and the Department of Labour throughout the year.
- The Group maintained B-BBEE compliance during the year. A successful B-BBEE transaction remains a challenge at the current share price, with an estimated 10% equity deal envisaged. We are engaging various parties and will approach the market for approval in due course.

Material issues and key risks

Material issues in the year

ISSUES	CORRECTIVE ACTIONS
The impact of COVID-19, especially on Libstar's workforce.	▪ Implemented rigorous health and safety protocols and processes across the Group to keep our people safe. ▪ Group and divisional steering committees met on a continuous basis throughout lockdown to closely monitor the situation and implement additional processes where necessary. ▪ Significantly ramped up communication and engagement with employees through dedicated campaigns to boost morale.
Delay in capital expenditure projects and expected returns for shareholders.	We are focusing on unlocking further value from capital projects, such as: ▪ Leveraging the upgrade to Millennium Foods' convenience meal plant by targeting the expansion of our geographic footprint and identifying new customers with our own branded offering. This is set to launch during 2021. ▪ Further optimising capacity at Amaro Foods' par-bake facility by targeting the food service channel.
The underperformance of Denny Mushrooms despite corrective action taken since 2019. The contributing factors impacting this business's recovery were exacerbated by the COVID-19 pandemic.	Corrective actions include: ▪ Significant restructuring to reduce costs. ▪ Driving retail channel market share recovery. ▪ Launching value-added meat alternatives, in line with the growing health-conscious trend. ▪ Improved production yields through composting methods.
The ability to supply the market despite significant supply chain disruption.	▪ We increased our raw materials and inventory to ensure product availability. ▪ We were able to respond to the significant change in Group sales mix by shifting Denny Mushrooms and Lancewood product from food service to retail. ▪ We worked closely with customers and suppliers to meet changing consumer demand.

Key risks

TOP FIVE GROUP RISKS

Refer to pages 99-101 for a more detailed risk register.

1. Operating in a weak macro-economic environment
2. Impact of COVID-19, including operational challenges, supply chain disruption and changing consumer behaviour
3. Loss of key customers and skilled labour
4. Food safety
5. Business interruption due to supply chain infrastructure, IT or labour-related factors

Key challenges in 2021

The biggest challenges facing us in the coming year are growing input cost inflation and pricing in the market.

With additional costs, it will become increasingly difficult to protect our margins. We will also incur ongoing COVID-19 expenses, albeit at a reduced rate compared to 2020. We estimate R1 million a month for at least the first half of the year.

We are acutely aware that pricing alone will not sustain margins going forward. To address this, we will continue to invest in capacity and equipment to increase efficiencies.

As COVID-19 is set to continue to challenge our markets and country, the recovery to pre-pandemic levels will be slow, especially within the food service channel.

There could also be potential supply chain disruption and raw material shortages. In addition, the economic impact on consumers has not fully run its course, which will lead to continued weakening consumer confidence.

Please refer to the chief financial officer's review for additional information.

Our board

WENDY LUHABE (63)

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 and nomination*

Wendy has been a serial social entrepreneur for 25 years, with a focus on the economic empowerment of women. She pioneered B-BBEE of women in 1993 through the creation of WIPHOLD before B-BBEE became legislation. WIPHOLD is an investment portfolio company that enabled thousands of women to become investors in South Africa's economy for the first time. In 2003, she established the Women Private Equity Fund to provide growth capital to female-owned enterprises. She is currently involved in mobilising women to participate in infrastructure opportunities through the establishment of Women in Infrastructure Development and Energy (WINDE). She currently serves on the boards of the Social Justice Initiative, Richemont and is the chairman of Pepkor.

* The remuneration and nomination committees were combined in November 2020. Prior to this, Wendy was the chairman of the nomination committee until 24 November 2020.

JP LANDMAN (65)

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

The Economies of the BRICS countries – Oxford University, Continuing Education

Date of board appointment: 2018

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

JP is an independent analyst, 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 Thabo Mbeki's economic advisory panel and was a member of the National Planning Commission. This in-depth knowledge of the economy 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.

* The remuneration and nomination committees were combined in November 2020. JP is the chairman of the nomination-related aspects of the combined committee.

SIBONGILE MASINGA (54)

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. This enables her to offer relevant perspectives to the board of Libstar.

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

As the chairman of the audit and risk committee, Sibongile has provided valuable advice on the formulation of Libstar's risk management framework. She also serves on the boards of Botshilu Private Hospital, PetroSA and is the chairman of PetroSA Ghana. She is currently interim CEO of Delta Property Fund Limited.

SANDEEP KHANNA (47)

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, remuneration and nomination* (chairman)

Sandeep is a seasoned investor and pioneer of private equity, with over 25 years of investing and fund management in Africa. His experience ranges from venture capital and early-stage investing to management buyouts and building of companies in sub-Saharan Africa across several sectors.

His track record of investing in Africa through direct investing, investment committee membership and senior key leadership positions held at two leading emerging market 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 committee.

* The remuneration and nomination committees were combined in November 2020. Sandeep remains the chairman of remuneration-related aspects of the combined committee.

ANNEKE ANDREWS (52)

INDEPENDENT NON-EXECUTIVE DIRECTOR

BCom Accounting (Honours), CTA – University of Pretoria

CA(SA)

Date of board appointment: November 2020

Committees: Audit and risk

Anneke is a chartered accountant who served as a partner and director for 19 of 28 years at Deloitte where she held several leadership roles within the consulting practice. She served as a Deloitte lead client service director on a number of key clients. Her diverse experience spans audit, risk and governance, finance, human capital, business management and leadership, across a wide spectrum of industries. She has extensive experience in assisting management in achieving their goals by mobilising the appropriate strategies and allocating the required resources in a prioritised manner.

Her ability to find creative solutions, coupled with innovative thinking and a keen interest in the opportunities future trends and technologies offer are valuable in challenging existing paradigms.

ANDRIES VAN RENSBURG (66)

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, and Premier Foods, where he fulfilled the role of chief executive officer from 2001 to 2005.

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.

CHARL DE VILLIERS (36)

CHIEF FINANCIAL OFFICER

BAcc LLB (Cum Laude) – University of Stellenbosch

BAcc (Honours) – University of Stellenbosch

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. 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 and a central Group treasury function.

As the Group's new CFO, Charl brings strategic insight and strong conceptual abilities that enable him to design strategies and prioritise efficiency.

ROBIN SMITH (62)

GROUP COMMERCIAL DIRECTOR

BCompt (Honours) – UNISA

CA(SA)

Date of board appointment: 2014

Robin left the accounting profession for a financial management position in commerce and industry. He served as shareholder and financial director of the Sherwood Export group for ten years and as financial director for the African operations of South African Breweries (SAB). He was the commercial director for SAB International, a director at Brait South Africa and a shareholder and director at Metier Investment and Advisory Services.

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.

Wendy Luhabe
Chairman

Chairman's review

The far-reaching effects of the COVID-19 pandemic were felt by every nation across the globe and the challenges facing governments, businesses and people were a universally shared experience.

Constrained household budgets drove shoppers to compare brands, with more shoppers opting for private label alternatives. According to a Nielsen report, private label market share increased by 1.2% year-on-year to 20.4% by the end of June 2020. Libstar's innovation and entrepreneurial culture were a key advantage and enabled the business to leverage the trends.

Taking stock of the myriad challenges we faced, many of which still prevail, is important. By analysing and acknowledging our responses and how we adapted to a changed world, we are able to apply our invaluable learnings in navigating the uncertainty that lies ahead. To quote acclaimed author, Gail Sheehy, "To be tested is good. The challenged life may be the best therapist."

Organisational strength is truly effective when leadership can inspire and energise its people. As an essential services provider in the wake of the COVID-19 pandemic, our people across the business continued to work throughout the lockdown period. Whilst this has been a privilege, on a professional and personal level, many of Libstar's workforce have grappled with the challenges. Adapted work and home environments and the risk of infection contributed to a year that tested us all. I would like to acknowledge the resilience that has been demonstrated throughout the Group. Passion for our people, a commitment to maintaining superior service levels with our customers and a spirit of collaboration among all stakeholders, have and will continue to play a defining role in Libstar's journey.

As a board and management team, we identified the fundamental need for the business to demonstrate resilience. As the COVID-19 pandemic caused an unprecedented change in the demand for products and services globally, the need for strategic decision-making, adaptability and decisive leadership was immediate. As Libstar's chairman, I commend the leadership that has been evidenced across the Group.

Our foundation of resilience already embedded within the business allowed us to successfully navigate these challenging times. From Libstar's decentralised model that enables each business unit to operate with agility, to the diversity in category, product portfolio and sales channels across the Group, resilience has been demonstrated. As outlined in the CEO's review, the management team worked tirelessly to monitor the unfolding situation and responded swiftly and appropriately.

Our heartfelt thoughts remain with those across our extended Libstar family who sadly lost loved ones to COVID-19.

Our market

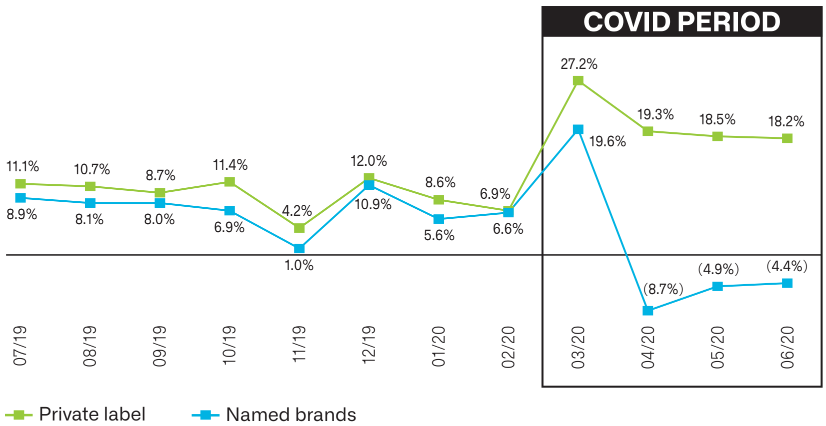
According to the World Bank's Global Economic Prospects report released in January 2021, the global economy is estimated to have contracted by 4.3% in 2020. Against the backdrop of a deep global recession, South Africa's economy contracted 7.0%, from 0.6% in 2019, its deepest downturn in 100 years.

Despite the challenging macro-environment, Libstar Group revenue increased by 4%. Normalised EBITDA decreased by 5% and excluding the extraordinary COVID-19 expenses of R65 million, normalised EBITDA increased by 0.5%.

The COVID-19 pandemic has indeed had a profound effect on the South African economy. The lockdown measures brought many industries to a complete standstill during lockdown levels 4 and 5, with limited activity when restrictions were eased. Rising unemployment levels and constrained household expenditure due to shrinking incomes resulted in reduced household spend as consumers remained cautious. This was confirmed by data released by Stats SA, indicating that retail sales fell by 6.9% overall for 2020. The average annual inflation rate for 2020 was 3.3%, the lowest annual average since 2004. This further exacerbated a highly challenging pricing environment for food producers, with additional COVID-19-related production costs, coupled with the costs of a record number of power outages during the year.

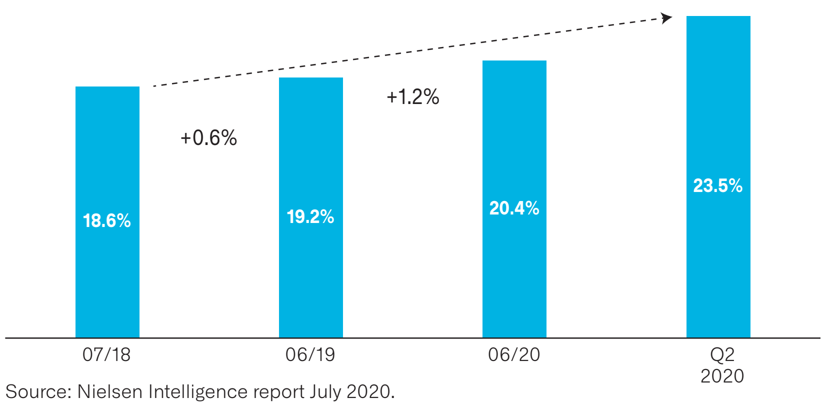
The pandemic resulted in significant changes in consumer behaviour and shopper patterns, with some of these trends set to continue into 2021. The lockdown resulted in a surge in in-home cooking and baking, less frequent visits to retail stores, pantry-stocking and an increase in bulk purchases. Constrained household budgets drove shoppers to compare brands for competitive pricing, with more shoppers opting for private label alternatives, which is largely seen as offering competitive pricing. According to a Nielsen report, private label sales rose by a significant 27.2% amid pre-lockdown stockpiling in March 2020, compared with the same period in 2019. Private label market share increased by 1.2% year-on-year to 20.4% by the end of June 2020, and was recorded at 23.5% for the second quarter.

Significant shift towards private label as we entered COVID-19 and the resulting impact on consumer behaviour (% value change vs year before)



Source: Nielsen Intelligence report July 2020.

Private label market share 20.4%. Up 1.2% yoy. Q2 2020 up 23.5%.



Source: Nielsen Intelligence report July 2020.

Sustainability approach

Environmental, social and governance factors are key areas over which we can influence positive outcomes. At Libstar, we constantly seek to improve our sustainability efforts according to these three pillars. This year we have improved our disclosure on these matters.

Refer to pages 23-25.

Environmental

As a food manufacturer, we are keenly aware of the importance of protecting our environment to ensure sustainable availability of product now and into the future. From an operational perspective, we have grown our sustainable practices during the reporting period to reduce our energy and water usage and invest in sustainable packaging.

Social

We are committed to investing in our people to enable them to advance their careers and ultimately their lives. We continued the talent and succession planning initiatives commenced during 2018 and 2019. This included working across the Group to analyse succession plans and existing talent pools and identify leadership skills development requirements. The focus for 2021 will be the implementation of these programmes.

Governance

Governance is fundamental to ensuring that a business operates both ethically and sustainably. To navigate the changes brought about by COVID-19, most of which were unquantifiable at the outset of the pandemic, as a board we resolved to oversee the Group's response to its impacts on Libstar's people, operations and financial stability. This was and continues to be a key focus area for the board.

We further strengthened a number of important governance structures and processes. These included the formalisation of the board's evaluation process and completion of a board effectiveness assessment, the enhancement of the board committees, the refinement of the internal control and risk management framework, and further development of the Group's stakeholder engagement processes.

Transformation

The impact of COVID-19 was not only apparent in the Group's operating activities, but also delayed some of the progress made to improve Libstar's broad-based black economic empowerment (B-BBEE) rating. The Group was, however, able to maintain its compliant status during 2020, through a focus on procurement elements of the scorecard. Libstar remains committed to the achievement of sustainable transformation in the spirit of the applicable B-BBEE requirements, and Group ownership will be a key priority as we engage advisors and stakeholders to progress this element of the scorecard.

Outlook

The extremely difficult operating environment in which we found ourselves last year looks set to continue in 2021. While the rollout of the COVID-19 vaccine is expected to bring some relief in terms of curbing infection rates, this will take time to take effect in South Africa.

The macro-economic consequences of a global recession and contracted growth will also be felt for some time.

The true test of any organisation's strength is during times of adversity. Libstar weathered the COVID-19 storm last year and will need to remain prepared and energised to continue growing the categories in which we operate, through strategic leadership and operational excellence. Our key stakeholder relationships will continue to be of utmost importance as we look to both meet and exceed our customers' expectations and grow market share in the products and brands we manufacture.

Our brand promise of 'enriching people's daily lives' is more relevant than ever and will provide a sound compass for the year ahead. The Group's COVID-19 response will remain a key strategic priority, including Libstar's response to the broader economic impacts of the pandemic. We will continue to capitalise on the flexibility afforded by our decentralised model.

Appreciation

I would like to thank my fellow board members for another rewarding year working together to further mature Libstar as a key listed player in the food producer sector.

The collaboration and leadership demonstrated by the management team during a particularly difficult year has been inspiring and bodes well for this new decade in Libstar's journey.

I would also like to extend a warm welcome to Anneke Andrews, who joined the board as an independent non-executive director from 1 November. Anneke has also been appointed as a member of the audit and risk committee. As a chartered accountant who has served as a partner and director for 19 of her 28 years with Deloitte, her diverse experience spans audit, risk and governance, finance, human capital, business management and leadership.

As a board, we will continue to assess the composition of the various committees with a view to further optimise diversity of skills and experience.

To our valued customers and suppliers, we thank you for your ongoing partnership. While the year ahead remains unclear, we look forward to continuing to deliver superior service levels. To the Libstar workforce, without whom we would not be able to ensure our customers' shelves remain stocked, a sincere thank you for your commitment and dedication to the Libstar family.

In closing, I would like to quote the inspiring words of composer and social activist, Bernice Johnson Reagon, "Life's challenges are not supposed to paralyse you, they're supposed to help you discover who you are."

W Luhabe

Wendy Luhabe
Chairman

Chief executive officer's review

Andries van Rensburg
Chief executive officer

As I reflect on 2020, I am both humbled and proud of what we as a Group have achieved during the COVID-19 pandemic. From early on, our leadership team worked resolutely to focus on the three most impactful strategic priorities to meet the challenges, namely: protecting our people, preserving our financial stability and delivering superior service levels to our customers.

COVID-19 had a significantly profound impact on our already weak economy. The hard lockdown restrictions resulted in the complete shutdown of many economic sectors in South Africa and abroad.

As a food producer, Libstar was designated as an essential services provider and our businesses were able to operate throughout the lockdown period.

Swift adaptation to changing operating conditions was required to keep our extended Libstar family safe. We experienced large-scale disruption to our supply chain, particularly in relation to our import- and export-facing business units. Our businesses also needed to adjust swiftly to significant changes in shopper and consumer behaviour. As a result, agility became a key requirement in responding to these rapid changes. Our decentralised model, our deeply entrenched entrepreneurial culture, our agility in meeting the challenges head-on and our diverse range of brands and products assisted us greatly in weathering the significant challenges during the year.

Libstar's diverse portfolio of products and sales channels, strategically steered by our focused category approach, enabled the business to demonstrate resilience in the face of unprecedented volatility. We collaborated with stakeholders for optimal outcomes and improved operating efficiencies that will live beyond COVID-19.

Resilience in action

The resilience of the Libstar family has been extraordinary. During the year we coined a phrase – Focused Fearless Family – to describe our people who collectively contributed to this, from the boardroom to the factory floor. Our people are and continue to be our greatest asset. A total of R65 million was invested to ensure the safety, health and well-being of our employees, which included more than 2 000 private COVID-19 tests, dedicated transportation, incentives and donations to needy communities where we operate.

Through Group and business unit steering committees that met daily during much of 2020, we were able to keep a close eye on the well-being of our teams and on the diligent application of our stringent hygiene protocols and safety processes implemented across the Libstar family.

We managed our cash position through a relentless focus on cash preservation, which delivered an improved cash conversion ratio and maintained our gearing at 1.3 times EBITDA. This stable cash flow performance allowed us to declare a dividend of 25 cents per share, during a year where many companies withheld dividends.

We continued to roll out standardised systems that allow us to monitor production efficiencies and service levels to customers. We have seen pleasing results from leveraging these systems and were able to strengthen our customer relationships even further by doing so.

Agility to respond to a changing market

Our diversified portfolio of brands and products across five distinct categories contributed to our resilience. Changes in demand included strong retail growth in some categories, such as the Groceries category, with increased demand for meal ingredients and condiments. Weaker demand was experienced in others, such as the Perishables category due to the significant decline in the food service channel. The Snacks & Confectionery category was also impacted by the sharp decline in snacking and out-of-home consumption.

Despite the challenges, our category approach enabled us to identify compelling opportunities for our retailer partners in line with market development. Our wide product and brand offering caters to a broad socio-economic demographic that we successfully leveraged to respond to changes in shopper behaviours during the year. The lockdown period saw consumers willing to try different brands, and thanks to our private label and dealer-own branded offering, we were able to capture significant opportunities as demand shifted.

Our commitment to innovation did not waver during the year and we successfully leveraged key consumer trends with new product development. Using Libstar's multi-brand strategy, we launched a total of 485 products and renovated 139 products. This included an environmentally-friendly range of household and personal hygiene products, including hand and surface sanitisers from the Household & Personal Care category and an extensive range of compostable food packaging products from Multi-Cup called Precious Planet.

We also introduced numerous products that cater to the growing trend towards healthier food choices and lifestyles. This included Lancewood's health-focused yoghurt range, Lancewood No Added Sugar, Denny Mushrooms' 100% meat alternative range of sausages, patties, mince and biltong, as well as Amaro Foods' expanding gluten-free range, including mince pies and cakes.

Focus areas

Uncertainty around the COVID-19 pandemic is set to continue and will contribute to ongoing trading volatility during 2021.

Going forward, we anticipate that the trading environment in which we operate will continue to change at an accelerated pace. Our strong entrepreneurial culture will remain in place and positions us well to adapt to the shifts in the market.

Under reduced lockdown levels, we have been observing some recovery in the channels and categories formerly most affected by the pandemic, albeit at a slow pace.

During 2021, we will focus on our core strategic pillars of growing our categories, enhancing our competencies and strategic acquisitions. While the current merger and acquisition space remains muted, we will consider opportunities as they present themselves.

We are also seeking to unlock shareholder value through the implementation of functional consolidation within our categories. Each is unique and offers a range of benefits, from the sharing of deep market knowledge and sales synergies, to more efficient deployment of operational and capital costs.

We will look to implement further projects such as those executed in 2020, which included the functional consolidation of:

- Four manufacturing sites into one within the Household & Personal Care category;
- Rialto Foods and Multi-Cup food service channel operations within the Groceries category;
- Tea manufacturing and sales force functions between Khoisan Gourmet and Cape Herb & Spice; and
- Lancewood and Millennium Foods' merchandising processes within the Perishables category.

To execute successfully and unlock value, we need strong business leadership and diverse sets of skills. Through our talent development programme, we have during the last number of years successfully identified talent from within the Group and deployed several employees into leadership positions during 2020. This has enabled us to actively manage the succession process, as well as fill opportunities from within the Group.

Conclusion

The Group anticipates further cost inflation in 2021, as well as subdued volume growth as the impact of COVID-19 is expected to continue to negatively influence some of the Group's various sales channels. However, these impacts are expected to be compensated, in part, by the increasing returns from capital projects completed since 2019, as well as the Group's diverse product capabilities.

As we look ahead, we are under pressure, but positive. We have clarity of purpose in serving the market more efficiently to unlock value. We remain well positioned to take advantage of market trends and consumer behaviour shifts, such as the growth in in-home cooking with our diverse product portfolio in the Groceries category, including pasta, pasta sauces, tomato products, and wet and dry condiments.

Our category and customer growth plans are designed to leverage key opportunities to grow the market shares of the world-class products we produce. While any further impact of the COVID-19 pandemic remains both uncertain and unquantifiable, we will continue our quest to seek better ways of enriching people's daily lives.

Appreciation

To the board, thank you for your valued and continued support during a challenging year.

To the management team and all our people, thank you for your dedicated contribution to our resilience.

The coming year will continue to demand a lot from us, but I know we have a strong family bond.

Andries van Rensburg
Chief executive officer

Charl de Villiers
Chief financial officer

Chief financial officer's review

The 2020 year tested companies with extraordinary trading conditions due to the COVID-19 pandemic.

As outlined in the chief executive officer's review, we remained agile to ensure ongoing service delivery and the protection of our people and our financial position.

Key highlights and challenges

Despite volatile operating conditions, we managed to progress various strategic initiatives. However, we were also faced with several new challenges.

HIGHLIGHTS

1 OPERATING RESILIENCE

Libstar's business model proved its resilience in 2020, limiting the reduction in normalised earnings before interest, tax, depreciation and amortisation (EBITDA) to 5% despite the pressures exerted on its sales channels.

The main contributors were:

Our decentralised model, which enabled us to respond swiftly as market conditions changed.

Our culture of entrepreneurship and innovation.

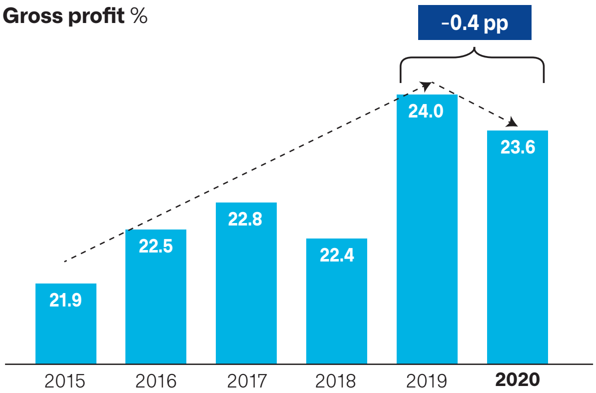
Our diversified portfolio and multi-channel approach, which enabled us to shift product to the retail channel when the food service channel suffered its downturn due to lockdown restrictions.

Our growing private label/dealer-own market share, which allowed us to increase our market participation, as well as drive category demand in a particularly fast-growing area of the market.

A portfolio geared to value-added products that are able to meet evolving consumer lifestyle and dietary changes.

2 LONG-TERM MARGIN IMPROVEMENT

Gross profit %



Libstar has increased its gross margin by 1.7 percentage points since 2015.

From a category perspective, four of the Group's five product categories delivered normalised EBITDA margins within or above our stated target ranges. Although the Group's largest category by revenue, Perishables, performed below target, it carries the Group's largest exposure to the food service channel. This channel was most affected by COVID-19 and contributed to the small reduction in 2020 Group gross profit margin.

For the second year running, the Groceries category, the Group's second largest contributor to revenue and largest contributor to normalised EBITDA, has performed above its target range of 11%-14%. This performance was bolstered by improving export channel performance and strong demand for meal ingredients, particularly within the retail channel. Given the positive outlook for the category, we are revising the Groceries' EBITDA margin target upwards from its current 11%-14% to 13%-16% in the coming year.

The Household & Personal Care (HPC) category performance was supported by strong retail channel demand and benefits from the cost restructuring undertaken in 2019. Whilst additional benefits should be forthcoming from the plant integration project in the second quarter, we do not expect the exceptional retail channel performance to be repeated. We therefore consider the current target range of 5%-8% to be appropriate.

The Perishables category is likely to have the most positive impact on Group margins in 2021 due to slowly improving food service channel recovery and as benefits start to flow from recent capital expenditure (capex) projects.

Underlying margin performance against targets

Normalised EBITDA margin^

		2020 achieved	2019 achieved	Near-term target*	**2020 Performance against target**
Food Categories: **12.0%**	Perishables	**8.7%**	11.7%	10%-13%	Below target
	Groceries	**15.8%**	15.4%	11%-14%	Above target, increasing target to 13%–16% from 2021
	Snacks & Confectionery	**15.6%**	16.8%	14%-17%	On target
	Baking & Baking Aids	**12.8%**	14.8%	12%-15%	On target
Other Category: **9.0%**	Household & Personal Care	**9.0%**	7.0%	5%-8%	Above target

^ Before allocation of central costs.
* As stated in March 2019.

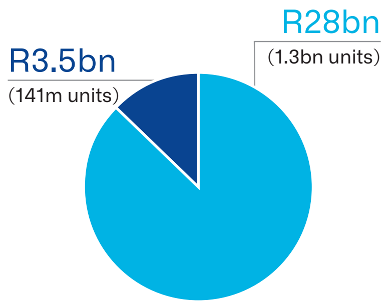
3 MARKET SHARE GROWTH

Libstar has continued to outperform the market in the retail channel during the year under review.

Product used in-home, such as meal ingredients from the Perishables and Groceries categories, outperformed the market, whilst snack products lagged as a result of changing consumer behaviour.

LIBSTAR CONTINUES TO OUTPERFORM THE MARKET

DEFINED BASKET (Retail)



GROWTH

Defined basket growth
↑11.9%

Libstar growth
↑15.1%

Libstar value share up from 12.2% to
↑12.6%
(+0.4pp)

CATEGORIES

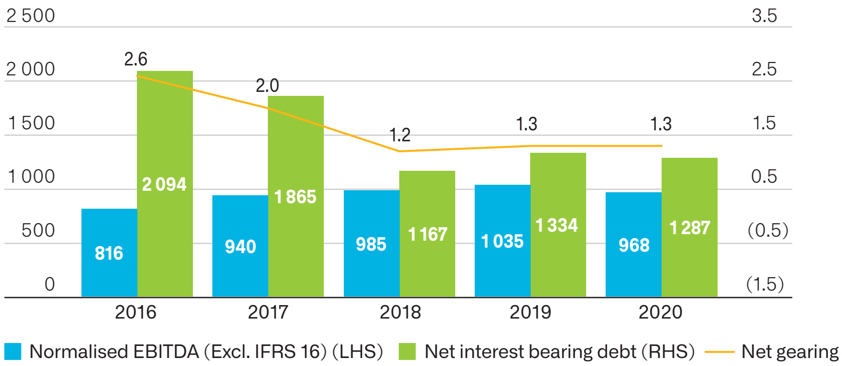
Products used in-home outperformed the market (Perishables, Groceries, HPC)

Snacking products tracked slightly behind market performance

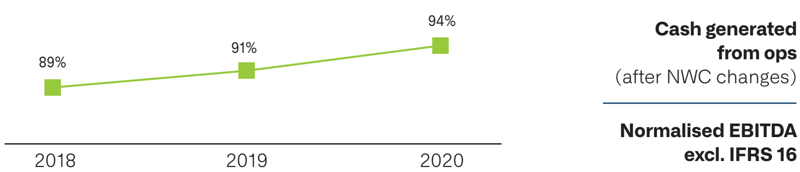
* The latest available data set.

4 STRONG CASH AND STABLE DEBT POSITION

The Group preserved its financial stability during the year under review, despite the impact of extraordinary COVID-19 expenses and a significant shift in Group sales mix. This was achieved through continuous cost-rationalisation, the re-prioritisation of capex and an overall focus on the preservation of cash. The Group continued to invest in capacity and efficiency enhancing projects whilst maintaining its gearing ratio at 1.3 times net interest-bearing debt to normalised EBITDA. This is well within the Group's target ratio of 1.0 to 2.0 times normalised EBITDA. The Group also has R1.3 billion in unutilised funding facilities which provide adequate headroom for further expansion and execution of the Group's bolt-on acquisition strategy.



Cash flow conversion is strong and has improved from 89% two years ago to 94% in 2021.



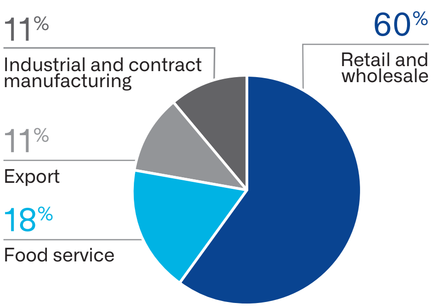
CHALLENGES

1 THE SEVERE IMPACT OF LOCKDOWN RESTRICTIONS ON FOOD SERVICE CHANNEL DEMAND

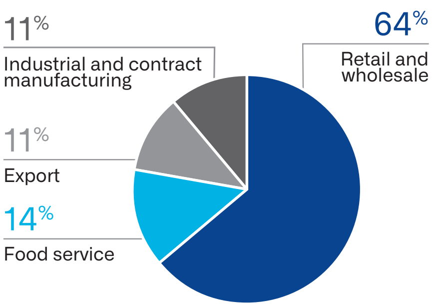
The increase of in-home consumption of products gave rise to stronger demand across multiple categories within the retail and wholesale channel. This channel delivered 12.3% gross revenue growth for the year. In contrast, the level 4 and 5 lockdowns and subsequent lower occupancies of hospitality venues substantially impacted the food service channel. Revenue from this channel declined by 23.8% for the year.

The impact of the significant change in Group sales mix can be seen in the pie charts. Retail and wholesale channel contribution to Group revenue increased by 4 percentage points, whilst food service channel representation reduced by the same percentage.

2019 Gross* revenue contribution (%)



2020 Gross* revenue contribution (%)



* Before allowances and rebates.

2 INPUT COST INFLATION

We are increasingly seeing upward pricing pressure brought about by volatile exchange rates, supply chain disruptions and rising costs of critical labour, utilities and raw materials. We see input price inflation as the greatest risk facing the Group in 2021.

Refer to page 39.

3 DENNY MUSHROOM IMPAIRMENT

The food service channel slowdown had a particularly pronounced impact on the total mushroom market, requiring mushroom production to be shifted to other sales channels. Some, but not all, mushroom production could be utilised within the retail and wholesale sales channel and as part of the launch of value-added meat-alternative products.

Denny Mushrooms' profitability was significantly affected by a number of factors. These included a 3% decline in annual sales volumes, an average Rand-per-kilogram price realisation of 2%, which was well below long-term internal cost inflation of 7%, and the innately high fixed-cost nature of its farming operations.

Following the actions taken during the last few years, we continued to implement substantial corrective measures focused on regaining retail market share, improving price realisation, expanding the unit's value-added product basket with innovative new products, improving our farming practices to enhance yields and the continuous reduction of operating costs. Although these have made some impact, it could not compensate for lower production yields at the division's Phesantekraal and Deodar facilities due to operational challenges, the prevailing competitive market conditions, and negative operating leverage brought about by declining sales volumes and limited 2020 price realisation.

Considering these factors and the slow recovery of Denny Mushrooms' food service channel due to COVID-19, the Group applied a downward revision to this business's five-year growth forecasts. In following this conservative approach, an impairment loss of R198 million was recognised in relation to goodwill attributable to Denny Mushrooms.

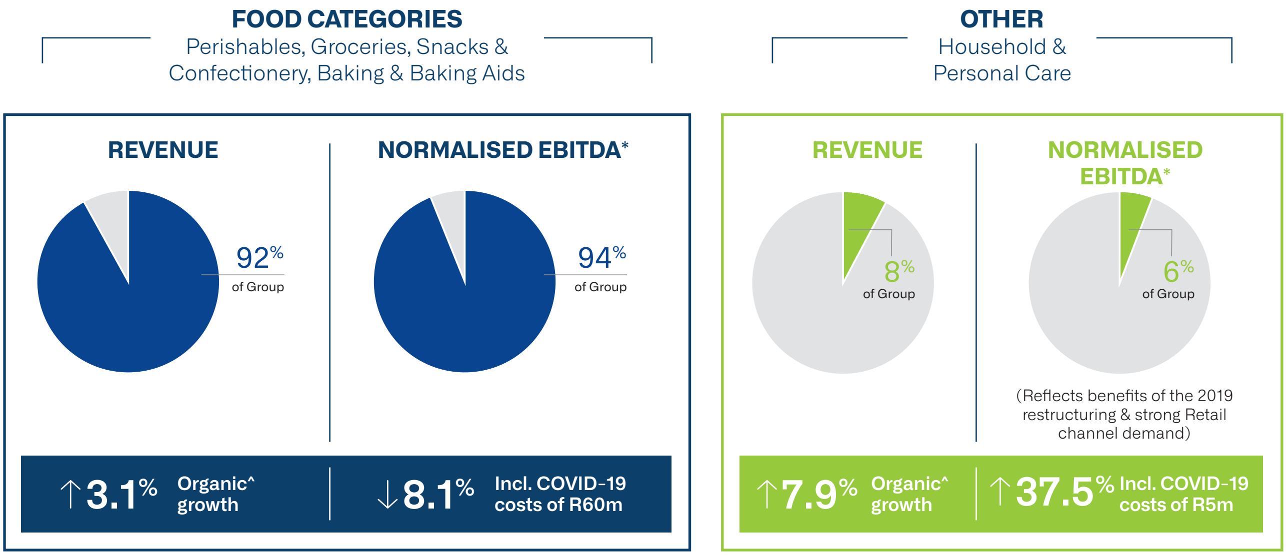
We continue to take substantial corrective actions focused on regaining retail market share, improving price realisation, expanding the business unit's value-added product basket, improving our farming practices to enhance yields and reducing operating costs.

RESULTS OVERVIEW

Operating performance

The Group uses normalised EBITDA, normalised earnings per share (EPS) and normalised headline earnings per share (HEPS) from continuing operations, which exclude non-recurring, non-trading and non-cash items, as the key measures to indicate its true operating performance.

Group normalised EBITDA decreased by 5.0% at a margin of 10.8% (2019: 11.9%). Normalised EBITDA before corporate costs from the Group's food categories decreased 8.1% over the comparative period, contributing 94% of Group EBITDA, whilst the Household & Personal Care (HPC) category's normalised EBITDA before corporate costs increased by 37.5% relative to the prior year. This reflects the benefits of the restructuring undertaken in 2019, as well as strong retail channel product demand.



* Excluding allocation of corporate costs.

^ Excluding Healthwise, K Snacks & Elvin.

A number of factors adversely impacted the Group's gross profit margins, which reduced by 0.4 percentage points. These included:

- **The change of sales mix between the retail and food service channels.**
- **Lower plant utilisation, specifically within the food service-facing units during level 4 and 5 lockdowns.**
- **The higher cost of manufacturing brought about by R65 million extraordinary COVID-19 expenses.**
- **Cost inflation due to increased pricing of freight, critical ingredients, utilities and services.**

Normalised EPS from continuing operations decreased by 55.3%, mainly due to the impact of the R198 million impairment of goodwill attributable to Denny Mushrooms.

Normalised HEPS from continuing operations, which excludes the impact of impairments, declined by 13.8%.

(R'000)	F2020	% change	F2019
Continuing operations			
Total revenue	**10 285 881**	+4.0%	9 892 545
Gross profit margin	**23.6%**	-0.4pp	24.0%
Normalised operating profit	**774 093**	-13.1%	890 336
(margin)	**7.5%**		9.0%
Normalised EBITDA	**1 115 255**	-5.0%	1 173 676
(margin)	**10.8%**		11.9%
Diluted EPS (cents)	**12.3**	-79.3%	59.4
Diluted HEPS (cents)	**46.8**	-21.7%	59.8
Normalised EPS (cents)	**36.8**	-55.3%	82.3
Normalised HEPS (cents)	**71.3**	-13.8%	82.7
All operations			
Diluted EPS (cents)	**12.3**	-73.5%	46.5
Diluted HEPS (cents)	**46.8**	-15.8%	55.6

Working capital

Net working capital increased from 50 days to 54 days, ending the year at 15.1% of revenue. This was slightly above the Group's targeted 13%-15% of revenue range by 0.1%.

The increase in net working capital was predominantly due to a decline in creditor days resulting from the exit of the Group's dairy and groceries logistics arrangements late in 2019, and the higher inventory levels of raw materials and finished goods held throughout the year. Whilst these higher inventory levels enabled the Group to maintain superior service levels to customers and counteract the impact of supply chain disruptions, it adversely influenced the Group's cash flow position.

The impact of COVID-19 remains unquantifiable and the Group expects net working capital levels to remain above 15% of revenue during the first half of 2021. We have not adjusted the target working capital holding upward, as we expect the position to normalise in due course.

Capital expenditure

Our expansionary capital expenditure (capex) has exceeded maintenance capital in the last two years, in the ratio of approximately 60:40.

Higher than usual expansionary capex has been necessary over the last two years to capitalise on the key growth opportunities available to us in the market. Although we re-prioritised capex spend to maintain a stronger cash position during 2020, capex still temporarily exceeded the Group's target range of 2%-3% of net revenue.

The largest amount of capital was invested in the Perishables category. This category represents the Group's largest contributor to revenue.

Plant upgrades and line improvements within the Groceries and Snacks & Confectionery categories have performed in accordance with the Group's pre-project estimations.

Unfortunately, projects within the Perishables and HPC categories were delayed during 2020 due to the impact of COVID-19. The significant capital investment at Lancewood to upgrade milk-reception areas and its distribution centre, as well as to improve its hard-cheese manufacturing and packing facilities, will only start to deliver the expected returns from H2 2021.

The upgrade to Millennium Foods' convenience meal plant and the par-bake facility within the Amaro Foods business unit have not performed in line with expectations. The full commissioning of the Millennium Foods' plant took longer than anticipated due to technical engineering challenges and the expansion of the project scope to include frozen meal capabilities. In addition, the increase of in-home cooking during the pandemic saw demand for convenience meals reduce significantly. We are targeting the expansion of our geographic footprint and new customers with our own branded offering to be launched during 2021.

The roll-out of par-bake products by a customer of Amaro Foods was significantly slower than expected. Sales of these products during the pandemic further suffered due to weakened demand in favour of products used for in-home cooking. We are actively targeting the food service channel with these products.

% of net revenue 2019: 4.1% / 2020: 3.4%

Category & business	Project description	Rm	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
Perishables		**201**						
Millennium Foods	Convenience meal plant upgrade and frozen capabilities	37					Geographic expansion	
Lancewood	Milk reception upgrade	30						
	Distribution centre upgrade	23						
	Hard-cheese manufacturing	33						
	Hard-cheese packing	72			COVID-19 delay			
	Bel manufacturing	6						
Groceries		**47**						
Cape Herb & Spice	Tea plant upgrades	13						
Cecil Vinegar	Plant upgrade	12						
Montagu Foods	Line improvements	22						
Baking & Baking Aids		**37**						
Amaro Foods	Par-bake facility	37					New channels	
Snacks & Confectionery		**46**						
Ambassador Foods	Bar-line upgrades	22						
	Facility upgrades and relocation of confectionery operations	24						
HPC		**43**						
Chet Chemicals	Plant integration	43			COVID-19 delay			

Project in progress ■ Project performing below expectation ■ Positive contribution ■ Project performing at expectation

The delivery of an acceptable return on capital projects remains a key priority for the Group. We expect the approximate 60:40 trend in expansion versus maintenance capital projects to continue in 2021, as we spend around R70 million on completing the Lancewood project, around R20 million to R30 million on a high-speed meat slicing line at Rialto Foods and around R30 million on the HPC integration project.

Key financial ratios

Management monitors a number of key financial measures to track our progress. It is pleasing that all these ratios, save for working capital investment, were on target. As outlined, working capital investment was higher due to a strategic decision to increase our investment in inventory to ensure continuous supply to our customers, as well as due to the decline in creditor days following the exit of the Group's dairy and groceries logistics arrangements late in 2019.

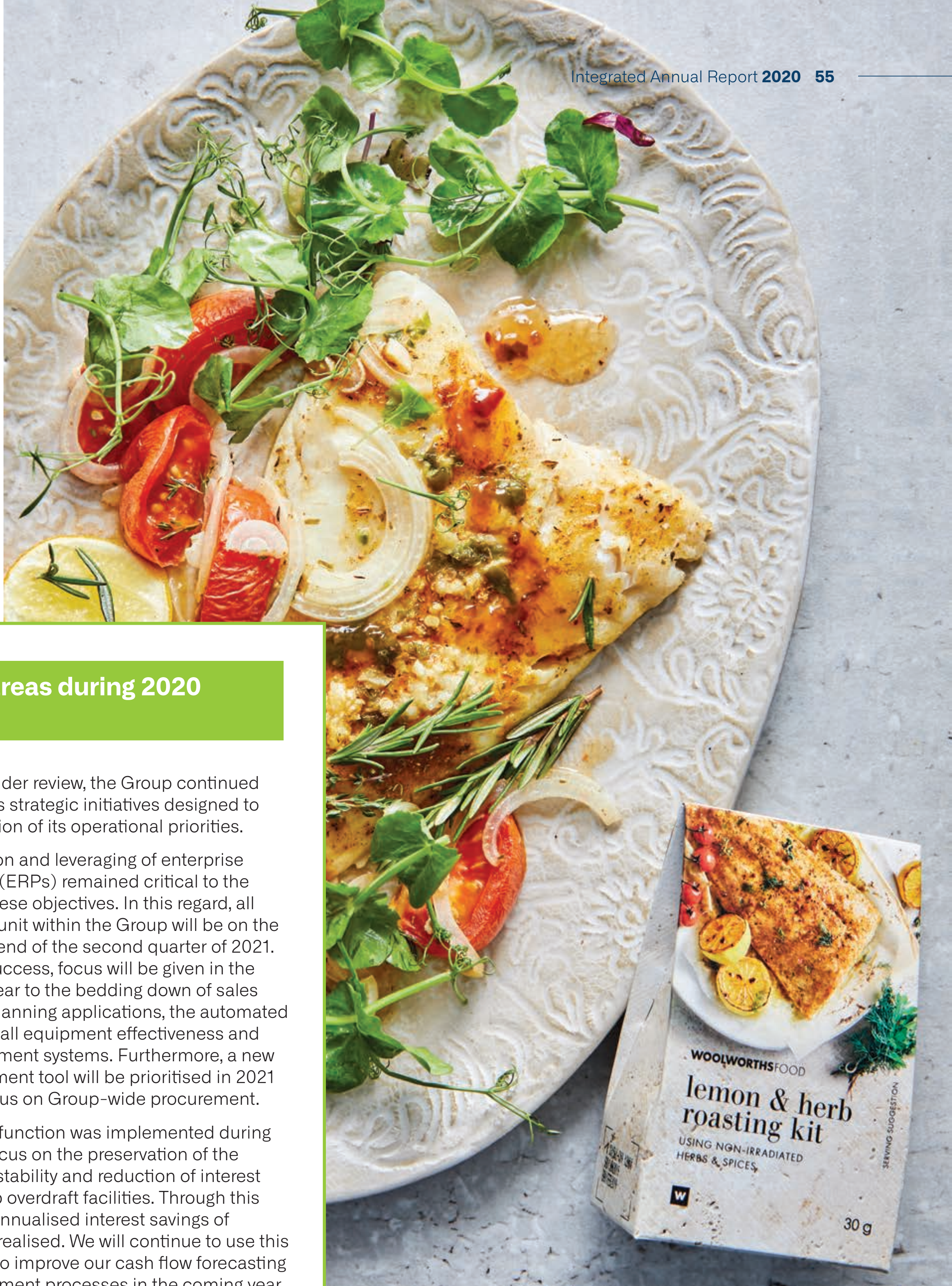
	2020	2019	**Targets**
Gearing ratio (net debt to normalised EBITDA)	**1.3x**	1.3x	Within 1–2x optimal range
Cash from operations before working capital changes	**R1 027m**	R1 115m	Cash generative
Cash generated from operations	**R909m**	R945m	Cash generative
Cash conversion ratio	**94%**	91%	Above 90% minimum
Net working capital (as percentage of revenue)	**15.1%**	14.4%	13.0%-15.0%
Return on tangible invested capital*	**13.0%**	15.6%	Above 12.2% WACC

* Excluding only those intangible assets created during the 2014 restructuring of the Group prior to listing. The 2019 ratio excluded all intangible assets. The return for 2019 shown here has been restated accordingly.

Enhancing our disclosures

As part of our commitment to continuous disclosure improvement, we engaged with our stakeholders and addressed a number of their disclosure requirements this year.

1. Provided market share information for the first time.
2. Amended the cash conversion ratio formula in response to investor requests.
3. Provided detail on how each capital project over the last two years is performing.
4. Provided breakdowns of revenue by category, as well as by sales channel.
5. Improved guidance through more regular market updates.



Key focus areas during 2020 and 2021

During the year under review, the Group continued to progress various strategic initiatives designed to enable the execution of its operational priorities.

The standardisation and leveraging of enterprise resource systems (ERPs) remained critical to the achievement of these objectives. In this regard, all but one business unit within the Group will be on the same ERP by the end of the second quarter of 2021. Building on this success, focus will be given in the latter part of the year to the bedding down of sales and operational planning applications, the automated monitoring of overall equipment effectiveness and inventory management systems. Furthermore, a new expense management tool will be prioritised in 2021 with a specific focus on Group-wide procurement.

A central treasury function was implemented during 2020 with a key focus on the preservation of the Group's financial stability and reduction of interest incurred on Group overdraft facilities. Through this implementation, annualised interest savings of R2.4 million were realised. We will continue to use this treasury function to improve our cash flow forecasting and cash management processes in the coming year.

Lastly, we have strengthened our internal audit capabilities at the start of 2021 through the appointment of an additional team member. We will continue to drive improved financial disciplines through a rigorous internal audit programme.

Appreciation

I give thanks to a small team of dedicated financial and business system professionals who have worked tirelessly during the year under review to deliver on the Group's financial and system priorities.

Charl de Villiers
Chief financial officer

Operational reviews

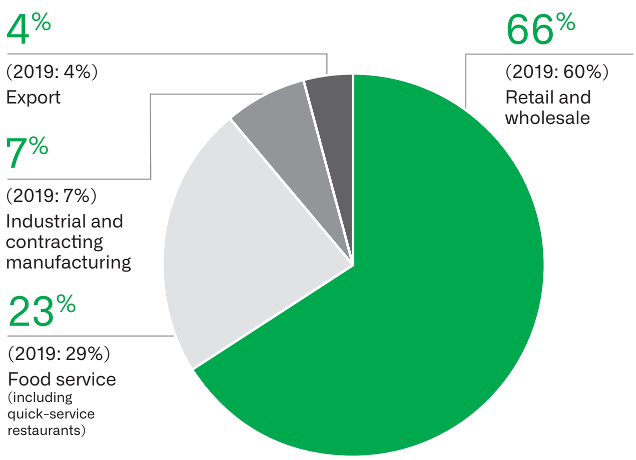
PERISHABLES

These are products that are refrigerated.

The Perishables category contributed:

46%	34%
OF GROUP REVENUE	OF GROUP NORMALISED EBITDA BEFORE CORPORATE COSTS
2019: 47%	2019: 44%

The Perishables category supplied our sales channels as follows:



Lancewood and Finlar Fine Foods contributed **84%** of Perishables revenue and **90%** of the category's normalised EBITDA. This review therefore mainly focuses on their performance as the key drivers of the results of the category.

Libstar's key strengths within the Perishables category

The business units within the Perishables category have deep, long-standing customer relationships, with several spanning decades. Our ability to find new and improved ways of working with our customers during this challenging year is testament to our partnership approach. We have also successfully collaborated with new customers across the category, in line with our strategy of diversifying our customer base.

Lancewood added
50 new customers
to its wholesale channel

Lancewood partnered with Bel Group International as the first local, independent manufacturer of Bel's Laughing Cow brand. In addition to Laughing Cow, this principal brand partnership means Lancewood now also manufactures Kiri, Babybel, Boursin, Lurpak and Castello in South Africa.

The Perishables category invests significantly in innovation and new product development each year to meet consumer demands and address changing shopper habits.

Lancewood launched
25 new products
during the year under review, consisting of Lancewood-branded, private label and principal brand products. In addition, Lancewood renovated **29 products.**

Finlar Fine Foods launched
24 new products
during 2020, including private label crumbed chicken ranges for three leading retailers.

The category has successfully leveraged key lifestyle trends through industry-leading product launches:

Millennium Foods' expanding its convenience meals offering to meet growing demand for convenience foods.

Denny Mushrooms' fully compostable punnets deliver an environmentally-friendly product to meet the growing trend for sustainable packaging solutions.

Lancewood's no sugar added yoghurt range and **Denny Mushrooms'** new 100% vegan-friendly plant-based range (including mince, patties, sausages, mushroom crisps and biltong) both meet the growing trend for healthy eating.

The Perishables category is known for its best-in-class products

Lancewood awarded

13 first place positions

at the 2020 SA Dairy Championships, seven of these for Lancewood-branded products

Denny Mushrooms is South Africa's

No 1 mushroom brand.

The business is responsible for more than 40% of the country's mushrooms

Category year under review

The Perishables category delivered muted revenue growth of 0.2% for the year, due to significantly lower sales of beef, cheese and mushroom products within the food service channel. The channel therefore experienced a 21.4% decline for the full year. The complete shutdown of hospitality venues, including all restaurants and quick-service restaurants during lockdown levels 5 and 4, and subsequent lower restaurant occupancy rates during H2, resulted in the significant decline in food service channel demand.

Despite a tough operating climate, our Perishables business units have continued to grow market share during 2020. Lancewood achieved market share gains of 3.5% for cream cheese, due in part to increased in-home cooking and baking brought about by COVID-19 lockdown restrictions. Finlar Fine Foods achieved strong revenue growth in relation to value-added poultry and frozen poultry products.

Maintaining optimal customer service levels continued to be a key focus during the reporting period.

An emphasis was placed on increased engagement with customers and suppliers to closely monitor and address the various impacts of the COVID-19 pandemic.

> The largest contributor to category revenue and profitability, Lancewood, had to respond quickly to lower food service channel demand by shifting product to the retail channel. This was done successfully, albeit at lower margins due to the impact of increased raw milk input costs during H2 2020.

We also continued to roll out our focused category approach, with Lancewood providing strategic operational oversight and sharing best practice across the category, with a focus on Millennium Foods and Denny Mushrooms.

During 2019 and 2020, significant capital expenditure projects were launched to increase Lancewood's hard-cheese manufacturing capacity, upgrade its milk-receiving area, automate its hard-cheese packaging and increase its warehousing capabilities. Whilst some benefits from the increased hard-cheese manufacturing project were realised in 2020, the remaining phases of the project are expected to be completed in H2 2021.

The milk-receiving and hard-cheese packaging upgrades at Lancewood involved the demolition of existing structures on the Lancewood site to make way for a new building. As a result, an impairment of R5.8 million in respect of the existing building was recognised. Costs incurred in the amount of R31 million have been capitalised in respect of the new building, with a further R23 million expected to follow in 2021.

Value-added meat and cheese products from this category continued to trade at 80% to 85% of prior year levels within the food service channel during the second half of the year. The slow recovery in this channel was largely offset by strong retail channel demand for value-added chicken and dairy products, albeit at lower overall gross profit margins.

> Finlar Fine Foods implemented several capacity-enhancing initiatives to enable the business to harness the growth opportunities identified within frozen foods.

This includes investment in machinery for high speed and high precision quantitative weighing of product.

In Denny Mushrooms, the drastic drop in demand for mushrooms in the food service channel due to the impact of lockdown restrictions resulted in mushroom production needing to be shifted to other sales channels.

As reported, whilst some, but not all, mushroom production could be utilised within the retail sales channel and through the launch of value-added meat-alternative products, Denny Mushrooms' profitability was significantly affected.

This was due to the combination of a decline in annual sales, an average Rand-per-kilogram price realisation well below internal cost inflation and the innately high fixed-cost nature of its farming operations.

Corrective actions taken within this business since 2019 include the containment of costs and the significant recovery of its retail channel market share from previous lows. Despite these efforts, lower production yields at the business unit's Phesantekraal and Deodar facilities, the prevailing competitive market conditions, high operating cost structure, declining sales volumes and limited 2020 price realisation, impacted its recovery. This resulted in the Group recognising an impairment loss of R198 million in relation to goodwill attributable to Denny Mushrooms.

Category outlook

Cost rationalisation and consolidation of functions within the category will remain a strategic priority going forward, as we look to streamline the category to facilitate further value for stakeholders. Consolidation initiatives have already been earmarked within Finlar Fine Foods and Millennium Foods for 2021, to enable the category to benefit from sales force and back-office cost efficiencies.

Healthy lifestyles are becoming more important and globally, category growth in the meat-alternative and plant-based market has boomed*. The COVID-19 pandemic has exacerbated the growing focus on healthy living, albeit from a small base of higher-earning consumers in the South African context.

As an important source of nutrients, we have identified significant growth opportunities in the dairy market, which currently accounts for more than 25% of the Group's revenue.

In addition, mushrooms are a rich source of Selenium, protein and vitamins B_2 and B_3. Consumption of mushrooms in South Africa is however still low, with penetration of the market taking place in higher LSM groups (8-10). This presents an opportunity to target new consumer groups. A significant restructuring is underway within Denny Mushrooms to preserve the longer-term sustainability and drive the profitability of the business unit.

Frozen poultry and beef products have also been identified as a fast-growing segment.

Finlar Fine Foods' world-class production facility will therefore continue investing in new packaging formats and equipment that will increase the product offering. We will continue to expand our meat exports by building customer relationships with key retailers and distributors in new markets.

The COVID-19 pandemic has precipitated a growing emphasis on hygiene and food safety. Our monitoring of market developments and trends means that, as an example, we anticipate an increased demand for single serve, individually wrapped portions for hotels, restaurants and the catering industry. We are geared to capitalise on this trend due to the investment already made in new packaging formats.

A key priority is to convert the capital expenditure across the category over the last two years into tangible returns.

Key focus projects include:

- Utilisation of the additional capacity available at Lancewood and realisation of planned cost savings. This will be complemented by product rationalisation and range adaptations.
- Improved utilisation of Millennium Foods' fresh and frozen convenience meal and dessert capabilities through focused category planning in partnership with our core retail customer.
- Improved utilisation of Finlar Fine Foods' fully-cooked chicken capabilities and enhanced production efficiencies and inventory planning following the system implementation in 2020.

* The Good Food Institute: https://www.gfi.org/.


WOOLWORTHSFOOD
LIGHTLY DUSTED CHICKEN BREAST STRIPS
CHICKEN BREAST STRIPS IN A
CHEESE AND HERB FLAVOURED
IDEAL FOR ENTERTAINING
UNCOOKED • KEEP FROZEN

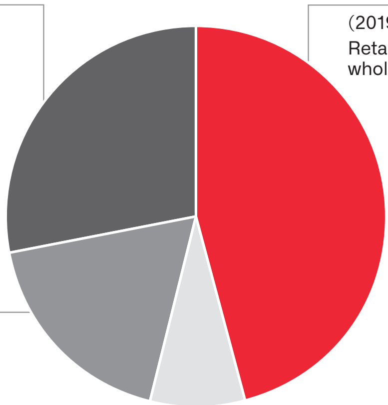
GROCERIES

These products are stored and preserved at room temperature.

The Groceries category contributed:

32% OF GROUP REVENUE 2019: 32%	44% OF GROUP NORMALISED EBITDA BEFORE CORPORATE COSTS 2019: 38%

The Groceries category supplied our sales channels as follows:



Cape Herb & Spice, Rialto Foods (the largest importer in the Group) and **Dickon Hall Foods** (one of three wet condiments manufacturers in the Group) contributed **65%** of revenue and **76%** of normalised EBITDA in this category. This review therefore mainly focuses on their performance as the key drivers of the results of this category.

Libstar's key strengths within the Groceries category

The businesses in this category are market leaders with strong, well-established customer relationships across all of our sales channels. The category comprises a diverse range of products that align with our multi-brand strategy.

A number of **Libstar brands,** such as Goldcrest and Cape Herb & Spice, have become pantry staples and are manufactured by businesses within this category.

Spices and seasonings from Cape Herb & Spice constitute the largest contribution, by revenue, to **Libstar's private label** and **dealer-own brands** product offering. Cecil Vinegar is the main private label vinegar supplier for most major South African retailers, and Montagu Foods is the largest private label supplier in South Africa in the wet condiments category.

Rialto Foods has grown its **principal brand offering** from five brands in 2019 to 13 brands in 2020. This business sources, imports, packs and sells these products from a number of European, Asian and American food manufacturers. The popular brands include Kikkoman soy sauce, Tabasco and Granoro pasta.

Our businesses continually conduct market research to gain key insights into new and emerging lifestyle trends and changing shopper and consumer behaviour. This enables ongoing product innovation at our world-class facilities.

Cape Herb & Spice launched **57 new products** including a vegan-friendly private label seasoning range.

Montagu Foods launched **31 new products** including a range of private label soups and a range of chutneys.

Rialto Foods renovated **88 products** including a plant-based pasta sauce range.

Cecil Vinegar launched **21 new products** including vinegar ranges for two different retailers. The business also expanded its range of Safari brand vinegars.

The Groceries category is the largest contributor to our export channel, with Cape Herb & Spice responsible for **56%** of the Group's export revenue in 2020.

The business continues to grow its dry condiment private label offering in this channel by leveraging its strong customer relationships.

Category year under review

Revenue from Groceries, the Group's second largest contributor to revenue and largest contributor to normalised EBITDA, increased by 5.3% for the year.

> **Cape Herb & Spice continued to lead Group export volumes, with solid growth in the retail sector during 2020. This contributed to an exceptional year for the business.**

While supply chain disruptions caused by the COVID-19 pandemic during the first half of the year (mostly in Q2) impacted performance, the business recovered well from the start of the second half. The improved performance was mainly attributable to ongoing strong demand for exported private label dry condiments in various markets, such as Asia and the US, as well as significantly improved shipment completion rates from July onwards. This marks the second year in a row that Cape Herb & Spice has experienced exceptional growth. This business remains a core pillar to the performance of the category as a whole.

As the largest importer in the Group, the broader effects of the COVID-19 pandemic on Rialto Foods were evident across its value chain. The business had to contend with the temporary shutdown of suppliers, shipping delays and port congestions, as well as changing consumer demand for its products.

> **Whilst second quarter import delays impacted Rialto Foods' H1 2020 revenue, it was able to more than compensate for these lower sales by increasing its import quantities and delivering critical products to its customers to ensure product availability during the festive season.**

The category therefore benefited during the third quarter from the timing effects of the sale of imported value-added meal ingredients in July, after the major port delays in June. Despite the challenging environment, Rialto Foods' strong performance was as a result of a drastic increase in retail demand for groceries due to pantry stocking and in-home cooking and baking during the lockdown periods. By working closely with our customers and increasing our stock cover, we were able to meet the changes in customer demand and keep shelves stocked.

> **The food service channel not only underperformed locally due to South African COVID-19-related restrictions, but also from global impacts. This was evident in the significantly lower demand from foreign customers for Khoisan Gourmet's bulk Rooibos tea during the year under review, as these products are consumed within the hospitality and quick-service restaurant industries.**

The Healthwise tea business, which sells value-added tea products in Japan and South Korea, delivered a strong performance during 2020, which was similar to the robust retail sales channel performance in South Africa.

Three business units within the category are focused on the production of wet condiments:

Montagu Foods delivered an excellent performance despite the challenging year. We restructured the business previously by consolidating a number of factories into one, which yielded improved efficiencies and cost savings. Following the integration of Denny Mushrooms into the Montagu Foods factory during 2019, we launched Denny-branded soups, as well as private label soups during 2020. These have performed very well. The business continued to innovate, launching a range of Goldcrest-branded pestos during the year.

Dickon Hall Foods experienced a weaker year. The business contract manufactures chutney and other wet condiments for national and multinational brand owners. Following reduced demand for these products, we embarked on a considerable cost rationalisation exercise in the second quarter. In the third quarter of the year, we successfully concluded a contract manufacturing agreement to manufacture the full Knorr salad dressing range.

Cecil Vinegar also experienced an exceptional year, bolstered by significant retail and wholesale channel growth during lockdown levels 4 and 5 in the second quarter. This was due to the increase in in-home cooking and baking and the use of vinegar as a household cleaning agent. However, growth did normalise in the fourth quarter of the year. While the increased demand initially placed significant pressure on filtration capacity, the business installed a new filtration unit that increased capacity by approximately 40%.

Category outlook

Cape Herb & Spice is expected to continue on its growth trajectory, by continuing to build a resilient supply chain and manufacturing capabilities. The business will continue to identify new target markets to expand customers, channels, regions and offerings. The ongoing focus on innovation is expected to deliver a number of new ranges to meet changing lifestyle trends, including health-conscious consumers and a renewed focus on sustainable operating practices.

Rialto Foods will remain focused on optimising integrated business planning to successfully leverage efficiencies to the benefit of the Group. These include cost-savings and growth opportunities across the value chain through the Libstar Multi-Cup that will be onboarded into Rialto Foods' distribution model during 2021.

The business is also well positioned to meet the changing needs of shoppers and leverage a larger basket purchase. Plant-based and health food products remain some of the biggest global food trends. By partnering with key suppliers, innovation in this space will be a priority for Rialto Foods in 2021.

We expect our wet condiments businesses to benefit from new product launches and cost-saving programmes initiated during 2020.

The consolidation at Montagu Foods has expanded its capabilities and enabled a highly versatile factory, which can accommodate a wide variety of packaging formats and manufacturing processes. Montagu Foods will focus on further developing and innovating the Libstar brands that it manufactures, such as Goldcrest. The restructuring initiative at Dickon Hall Foods, which included improved shift utilisation during the year, together with the acquisition of new customers during the third quarter of 2020, has positioned the business for solid growth in 2021.

Following the growing demand for vinegar in 2020, we foresee the continuation of strong growth in apple cider vinegar, value-added vinegar products and specialty vinegar products, such as pickling vinegars and Prosecco vinegar.

The increased pressure on household spend suggests that customers are looking to replace higher-value vinegar items that are typically imported, such as Balsamic and organic apple cider vinegar, with locally manufactured alternatives. The upgrade and increased capacity of Cecil Vinegar's vinegar filtration system during 2020 means the business can successfully leverage the growth trend in 2021.


SAFARI
White Spirit
Vinegar
PRESERVATIVE FREE

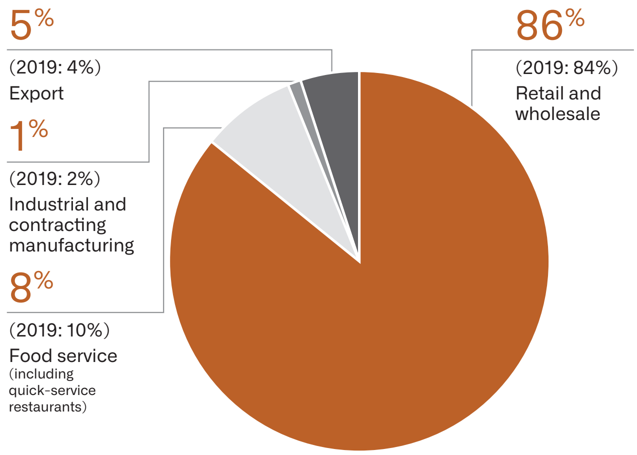
BAKING & BAKING AIDS

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

The Baking & Baking Aids category contributed:

8% OF GROUP REVENUE 2019: 7%	9% OF GROUP NORMALISED EBITDA BEFORE CORPORATE COSTS 2019: 8%

Products from the Baking & Baking Aids category supplied our sales channels as follows:



Amaro Foods accounts for the bulk of the Baking & Baking Aids category EBITDA and contributes **43%** of this category's revenue.

Libstar's key strengths within the Baking & Baking Aids category

The businesses within the Baking & Baking Aids category manufacture private label/dealer-own brand, Libstar brand and principal branded products.

Amaro Foods is an award-winning bakery, which has produced premium-quality baking products for more than **45 years,** including artisanal breads, rolls and wraps. This business produces and supplies baked goods to a leading retailer nationally, as well as to various quick-service restaurants.

Amaro Foods has **four highly-skilled bakeries** specialising in artisanal, par-baked, gluten-free and flatbread production lines respectively. Flexible production capabilities across this category enable all three businesses to leverage market insights to develop a world-class product offering.

For 26 years, **Retailer Brands** has been specialising in kitchen and household products, including baking powder, food colourants and essences, dry yeast, domestic chemicals, spices, jellies, salad dressings and non-stick cooking sprays. Major brands include Robertsons baking aids and NCP Yeast (both under licence), Cartwrights, Sheridans and Cook & Bake.

Retailer Brands also **manufactures private label and dealer-own brands** for leading retailers across South Africa.

Cani Artisan Bakers has been producing home-style rusks using natural ingredients for more than **20 years.** The business manufactured just under 2 000 tons of rusks in 2020.

Innovation is a cornerstone of this category and all of the business units have teams and laboratories dedicated to new product development and testing, aimed at meeting changing consumer demands and shopper habits.

Amaro Foods launched **15** new products, including a range of rye breads and a range of danishes. The business also **renovated 13 products.**

Cani Artisan Bakers launched a **range of private label** crunchies and shortbreads.

Retailer Brands launched a Robertsons dessert sauce range and **renovated 28 products,** including the Robertsons essences and colourants ranges.

Category year under review

Revenue from Baking & Baking Aids increased by 16.5% to R816 million, mainly as a result of increased in-home baking during the COVID-19 lockdown period from March 2020. Demand in the retail and wholesale channels for baked goods, rusks and baking aids remained strong.

Revenue from essences and colourants within Retailer Brands increased by 32% during the reporting period, household chemicals and yeast revenue increased by 18% and baking powder revenue increased by 11%. The 2019 cost-restructuring efforts within Retailer Brands, in conjunction with strong retail and wholesale channel demand, contributed to an exceptional 2020.

As a number of products from the Baking & Baking Aids category are supplied to quick-service restaurants in the food service channel, the heightened retail demand for baking aids was offset by significantly lower revenue from this channel due to lockdown restrictions during levels 4 and 5.

As these restrictions continued to ease from level 3 onwards, the food service channel experienced a gradual improvement in performance, with trade between 80% and 85% of prior year levels during the fourth quarter.

The R37 million investment in a new par-bake bread roll facility, commenced in 2019, is yet to deliver meaningful returns. This is due to lockdown restrictions and reduced in-store visits, which hampered the roll-out of planned launches by Libstar's customer.

While the rapidly-changing consumer environment brought about by the pandemic and associated supply chain disruptions impacted the category during the year, we were able to deliver superior service levels. As an example, periodic shortages of baking ingredients were met with an agile procurement response to ensure product availability at all times. In addition, to meet customer demand for rusks, we increased the strategic holding of finished rusks and refined rusk production processes to reduce drying times and improve plant utilisation rates.

Category outlook

The targeting of opportunities for par-bake products remains a strategic priority for the year ahead. This, in addition to continued innovation within the baked-goods sub-category, as well as the gradual recovery and growth of the food service channel, will drive 2021 performance.

The unusual demand experienced during Q2 2020 for baking aid products is not expected to be repeated in 2021 following the normalisation to pre-COVID levels.

Within this context, price management on shelf is expected to remain important as consumers continue to seek value-for-money alternatives. The increase in private label market share that was evidenced during the lockdown period, with shoppers willing to trial more competitively-priced products, is expected to continue on its growth trajectory. According to a 2020 Nielsen report, sales of private label products grew by 27.2% during March, with the positive performance continuing throughout April (19.3%), May (18.5%) and June (18.2%). New entrants are anticipated to test market shares and compete on price.

While these changing market conditions are expected to be met with a proliferation of brands, the Baking & Baking Aids category is well placed to meet consumer demands, through the Group's multi-brand strategy.

Product innovation will continue to be a key focus, as will growing and marketing the Libstar brand offerings, such as Cani and Cook 'n Bake.

While the long-term impact of a changing environment remains unquantifiable, foresights include:

As consumers seek more natural products as part of a healthier lifestyle, new artisanal players are expected to enter the market. The category will continue its established focus on clean recipes using quality, natural ingredients with reduced sugar and sodium.

The need for convenience by time-pressed consumers means shoppers will be looking to continue shopping in smaller stores that are closer to home. While the businesses in this category already have a national footprint, there are opportunities to fill distribution gaps.

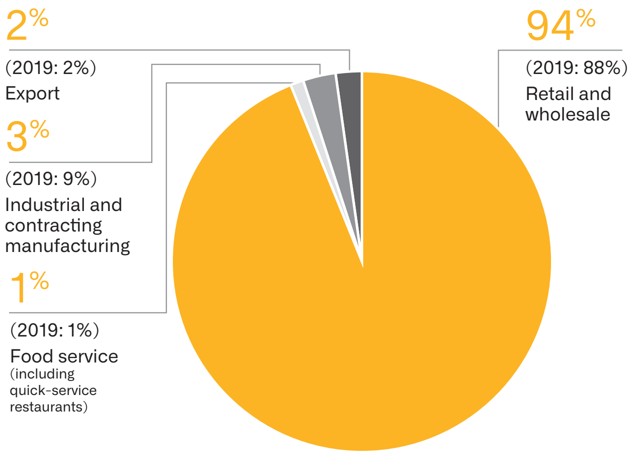
SNACKS & CONFECTIONERY

These products respond to the consumer's demand for convenience and "on-the-go" snacking.

The Snacks & Confectionery category contributed:

6% OF GROUP REVENUE	7% OF GROUP NORMALISED EBITDA BEFORE CORPORATE COSTS
2019: 6%	2019: 7%

The Snacks & Confectionery category supplied our sales channels as follows:



Ambassador Foods accounts for the bulk of the Snacks & Confectionery category EBITDA and contributes **86%** of the category's revenue. This review therefore mainly focuses on this business's performance as the key driver of this category.

Libstar's key strengths within the Snacks & Confectionery category

Ambassador Foods is the main business in this category, producing 370 different products from its state-of-the-art facilities.

Established in 1990, **the business specialises in the processing and packaging** of a wide range of raw, roasted and flavoured nuts, granolas, health and energy bars, confectionery, spreads and more. Ambassador Foods is a category leader in private label and dealer-own brands and has established local and international retailer relationships. Through the current private label manufacturing stream, we supply **40%** of the South African nut market.

The other business in the Snacks & Confectionery category is **K Snacks,** which established the first Pringles potato snack facility in South Africa in 2019 through its manufacturing agreement with Kellogg's South Africa.

Innovation is a key part of the category's DNA and a number of product ranges were launched for leading retailers during 2020:

A range of convenient breakfast granola pots, ideal for quick, yet **healthy snacking.**

A range of rice pop cereals and bars, targeting the **younger demographic.**

A **vegan cheese range** that meets the growing demand for plant-based alternatives.

Ambassador Foods also developed **two new private label granolas** for a UK customer and K Snacks launched a 42g Pringles can – a **new, smaller format** ideal for on-the-go snacking.

Category year under review

Revenue from the Snacks & Confectionery category grew by 6.7% to R574 million, mainly as a result of the full-year inclusion of service revenue from the contract manufacturing of Pringles potato snacks. This plant commenced production in June 2019. We became significantly more efficient in H2 and increased throughput by reducing waste and costs for our customer. As a result of our cost-plus operating model with K Snacks' customer, our service revenue has normalised to a more sustainable level and, as guided, this contributed to a weaker H2.

Other efficiencies and cost management initiatives implemented include the consolidation of the Ambassador Foods Paarl confectionery facility into the White River facility in Mpumalanga, which is yielding rental savings. To mitigate downtime from loadshedding, we installed a generator at the White River facility.

> The sale of cereals, nuts and snack bars was higher in H1 than the prior year, mainly driven by strong retail channel demand during lockdown levels 4 and 5.

However, the category was impacted by weaker demand for these products in H2. We believe this was due to various factors, including fewer store visits by consumers and changing shopper basket composition given COVID-19 disruptions to workplace and school calendars. However, despite these challenges, the diversity of Ambassador Foods' product range, which includes packets of peanuts and raisins sold at an affordable price point, assisted it in responding to the rapidly-changing consumer environment. Value-added assorted nuts, granolas and cereals performed at weaker than prior year levels.

Cost-saving initiatives launched in 2019 assisted Ambassador Foods to weather the impact of weaker gross profit margins brought about by the increased weighting to lower-value products during the year. To ensure the availability of products for its key retail customer in the wake of import disruptions as a result of the COVID-19 pandemic, the business unit increased its import quantities in H1 2020 and continued to hold higher inventory levels at year-end.

Category outlook

Increasingly busy lifestyles and growing demand for convenience will contribute to the rise in on-the-go snacking. The Snacks & Confectionery category is in a strong position to capitalise on this trend and deliver growth through an ongoing focus on innovation and promotions.

HOUSEHOLD & PERSONAL CARE

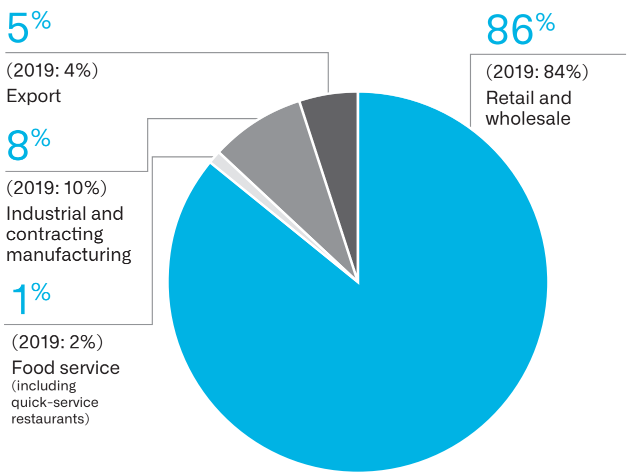
This category meets the requirements of an increasingly hygiene-focused consumer. Household and personal care cleaning and sanitising products and accessories include hand and surface sanitisers, tissues and cotton wool, bleach, dishwashing, all-purpose cleaners and bath and shower products.

The Household & Personal Care category contributed:

8%
OF GROUP REVENUE
2019: 8%

6%
OF GROUP NORMALISED EBITDA BEFORE CORPORATE COSTS
2019: 6%

Products from the Household & Personal Care category supplied our sales channels as follows:



The category grew ahead of the market by **1.2%** and **grew market share from 7.1% to 7.2%** for the reporting period.

Libstar's key strengths within the Household & Personal Care category

With a national distribution network, the Household & Personal Care (HPC) category partners with leading retailers in South Africa to develop, design and maintain their private label and dealer-own brands, with strong customer relationships spanning decades. HPC has well-established contract manufacturing relationships with prominent brand owners, for whom we manufacture selected products.

Innovation is a cornerstone of HPC's operations. The category delivered on the growing focus on household and personal hygiene and **successfully launched 168 new products** during the reporting period.

New products included an **earth-friendly range** of hand and surface sanitisers.

Category year under review

The category continued its pleasing performance, growing revenue by 7.9% and normalised EBITDA by 37.5% at a margin of 9.0%, which was higher than the category target. This is due in part to the strategic product rationalisation process we commenced during the 2019 financial year. This process involved shifting the HPC product basket away from lower-margin items, such as washing powders and liquids, to more niche, value-added products which include a range of environmentally-friendly household and personal care products. The resultant discontinuation of certain products adversely impacted revenue growth, but positively affected gross margin and bottom-line profitability. This theme has carried forward into the 2021 year and we expect to continue seeing the benefits going forward.

> The positive performance of the HPC category can also be attributed to robust retail demand for cleaning products as a result of COVID-19.

In the wake of the pandemic, with people spending more time in their homes and stockpiling products, we were able to respond to our customers' demands and launched a range of both Libstar brand and private label household and personal care products, including hand and surface sanitisers. These were very successful.

The further consolidation of the businesses in this category, which will include the finalisation of the restructuring and physical integration of four manufacturing facilities, commenced early in 2020. The integration was scheduled for completion during the reporting period. However, due to the disruption caused by the COVID-19 pandemic, we expect the full year of benefits to be reflected from the second half of 2021.

Category outlook

We expect the HPC category to continue its strong recovery and growth in 2021, bolstered by facility consolidation benefits, which include rental, distribution and security savings.

> Whilst the exceptional stockpiling benefits experienced in Q2 2020 are not expected to be repeated in the forthcoming year, we anticipate that the overall demand for household and personal care cleaning and sanitising products will remain buoyant, with a growing focus on products that are environmentally-friendly. HPC will continue to introduce innovation to the household and personal care market in 2021.

Measures and compliance

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 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 ■ 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 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 45000 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, which comprise the condensed consolidated statement of financial position as at 31 December 2020, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated changes in equity and the condensed consolidated statement of 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 2020.

In our opinion, the accompanying condensed consolidated financial statements as set out on pages 104 to 134, are consistent, in all material respects, with the audited consolidated financial statements of Libstar Holdings Limited, with the requirements of the JSE Limited Listings Requirements for preliminary reports, the 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 audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 16 March 2021. 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. 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.

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

08 April 2021

2nd Floor Block 2
Northgate Park
Paarden Eiland
7406

Sandeep Khanna
Chairman of remuneration committee

Remuneration committee chairman's review

The remuneration committee* supported the board and management team with a number of key issues this year due to challenging operating conditions resulting from the COVID-19 pandemic.

As a committee, we focused on ensuring that people are remunerated fairly while preserving our cash flow and financial stability due to the uncertainty presented by COVID-19. In light of the uncertainty and due to the related postponement of the payment of the Group's 2019 dividend, senior management elected, on a voluntary basis, to also postpone the payment of the balance of their 2019 short-term incentives from April 2020 to September 2020. In addition, the board elected to implement no increases in fees for the 2021 year.

As outlined in the chief financial officer's review, the Group incurred a number of extraordinary costs to ensure Libstar's people were kept safe. This included more than 2 000 private COVID-19 tests, the provision of dedicated employee transport and supportive incentives.

As the chairman of the remuneration committee, I would like to commend the team on how they handled the challenges presented in an unprecedented year.

The remuneration committee also worked with Libstar to progress implementation of the Group's talent and succession management plan. 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.

At our last AGM, shareholders expressed concern over:

1. The metrics with regard to payment of short-term incentives.
2. Long-term incentive stretch targets.
3. Composition of the remuneration mix and payment of the short-term incentive bonus prior to the publication of the audited financial results.

We take our shareholders' views seriously and have engaged with them to better understand their concerns. We outline our plans to address these issues on page 85. We will continue to canvas a sample of our shareholders ahead of each AGM in an attempt to address concerns timeously.

The voting results at the 2020 AGM were:

	Vote % in favour
Remuneration policy	**74.50%**
Remuneration implementation	**75.58%**

* The remuneration and nomination committees were combined in November 2020. As the committees operated independently for the year, this review only focuses on the activities of the remuneration committee.

Key focus areas during the year

Focus areas	What this means
1 Preserve cash by postponing 30% balance of short-term incentive (STI) payments.	As outlined, senior management elected to postpone the payment of the balance of their 2019 STI payments from April 2020 to September 2020.
2 Actively manage the Group's succession planning process.	Libstar identified talent from within the Group and has deployed a number of key individuals into leadership positions.
3 Engagement with shareholders on remuneration matters raised at the AGM held in May 2020.	Libstar engaged its institutional shareholders, which included dissenting shareholders, and which collectively hold the majority of the company's shares in issue. The results were documented and considered. Information regarding this process is set out on page 85.
4 Review and approval of executive salary increases for January 2021 and STI payments for 2020.	Individual salary increases and STI payments for executive directors, group senior management and CEOs of business units, as well as summarised salary increases and STI payments for business unit executives and Group office senior management were reviewed.
5 Reviewed fee levels for non-executive directors.	Non-executive director fee levels were benchmarked against companies in the Consumer Packaged Goods sector on the JSE for approval by shareholders at the upcoming AGM.

Looking ahead

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

Focus areas	What this means
1 Ongoing shareholder engagement with regard to remuneration policy and related matters.	Discussions with shareholders to ensure our remuneration policies and disclosures are understood and supported, as well as being aligned to changing trends in remuneration to address any ongoing concerns.
2 Talent management, including succession planning at executive and senior management levels.	Monitor talent pool and leadership development initiatives, review succession plans, and continue with formal talent review process across the business.
3 Attract new talent by being an employer of choice.	Attract new talent by being competitive in the market through benchmarking against industry peers to ensure a competitive offering.
4 More efficient governance processes.	Continue to explore opportunities for improvement.

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. We 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

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 2021.

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.

As outlined in the chairman's introduction, we have engaged with dissenting shareholders to discuss their concerns. Our responses are detailed on page 85.

SECTION 1 – BACKGROUND STATEMENT

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.

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 and are not entitled to vote at such meetings.

The remuneration committee chairman during the year was Sandeep Khanna. The members of the remuneration committee were Wendy Luhabe and JP Landman (appointed on 1 January 2020).

Meetings held during 2020

	1 Apr	24 Nov	2 Dec
Sandeep Khanna (Chairman)	✓	✓	✓
JP Landman	✓	✓	✓
Wendy Luhabe	✓	✓	✓
Attending by invitation:			
Chief executive officer	✓	✓	–
Chief financial officer	✓	✓	–
Executive director	✓	✓	–
HR executive	✓	✓	–
Remuneration committee external adviser	✓	–	–
HR manager	–	✓	–

(-) = not invited to these meetings

Prior to 25 November 2020, Wendy Luhabe was the chairman of the nomination committee.

On 25 November 2020, the board resolved to combine the remuneration and nomination committees. A combined committee is in line with market practice and will lead to more efficient governance processes.

From 25 November 2020 onwards, for remuneration-related matters the remuneration committee chairman, Sandeep Khanna, chairs the meetings and for nomination-related matters, the nomination committee chairman, JP Landman, chairs the meetings.

The terms of reference of the two committees were combined. The remuneration-related mandate remains the same as before, with additional duties and responsibilities included for nomination-related matters.

As the committees operated separately for most of the year, this report addresses the activities of the remuneration committee as a stand-alone committee for the last time.

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; and
- Administration of the short-term and long-term incentive plans.

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 strategic priorities 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:

				Who is eligible?	What are the objectives?	How is the pay level set?
Total reward	Total remuneration	Variable pay	**Long-term incentives** (Share Plan and long-term incentive plan (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 total guaranteed pay and/or STI achievement, subject to financial performance
			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 guaranteed pay (TGP)	**13th cheque** (at levels where applicable)	Employees not participating in STI	Motivation	Guided by employment agreements
			Benefits (pension/provident fund, medical aid, death benefits)	Facilitated by business units	Motivation	Linked to market practices
			Allowances (cars, phones)	Where appropriate	Attraction/motivation	Linked to market practices
			Basic (monthly salary, weekly/hourly wage)	All employees		
	Non-financial benefits		**Recognition**	All employees	Motivation	Linked to market practices
			Personal growth			
			Positive workplace			
			Career progression			

Our executive remuneration

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

1 TOTAL GUARANTEED PAY (TGP)

Description

- 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 of the JSE, external market conditions, internal equity and the performance of the individual.

In 2020, executive director salaries were increased by an average of 5.0%. This is aligned with the 5.0% annual executive salary increases, as reported in the Willis Towers Watson South African Remuneration and Benefits 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

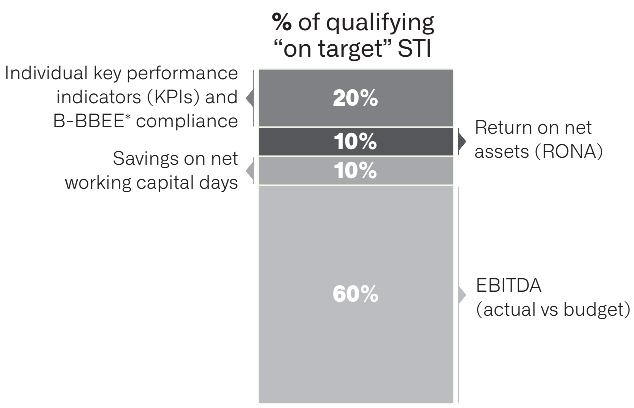
2 SHORT-TERM INCENTIVES (STIs)

Description

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 earnings before interest, tax, depreciation and amortisation (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%-45%
- Senior management – 20%-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.



Shareholders expressed their concern around the payment of STI bonuses prior to the publication of audited financial statements. This concern was noted and debated at remuneration committee and board level. Considering the clawback provisions, prior payment practice and 30% of the bonus payable being withheld subject to the publication of audited financial statements, the remuneration committee and board are satisfied that potential risks are mitigated and have elected to keep the STI payment practice unchanged.

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

- 70% payable in December, based on October business forecasts; and
- 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 and board.

Link to business strategy

Attraction/ retention of key employees

Reward for individual and company performance

* Broad-based black economic empowerment.

3 LONG-TERM INCENTIVES (LTIs)

Description

- 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 current 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. It is settled in shares and focuses on Group performance; and
  2. The **Libstar Long-Term Incentive Plan (LTIP)** is offered to key operational executive and senior management. It is settled in cash and focuses 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.

Link to business strategy

Reward for individual and company performance

Recognition of individual contribution to company success

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

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

How ROAA vs WACC is calculated

$$\frac{(\text{Normalised EBIT} - \text{amortisation of customer relationships created during the 2014 restructuring of the Group}) \times (1 - 28\%)}{\text{Average invested capital}^{*}\ \text{(current and preceding financial year)}}$$

* (total equity + total debt − cash and cash equivalents − intangible assets and goodwill created during the 2014 restructuring of the Group)

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 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 1.0% of issued share capital at 31 December 2020. The allocation for any participant in terms of the Share Plan and any other plan will not exceed 1 364 000 shares. This represented 0.2% of issued share capital at 31 December 2020.

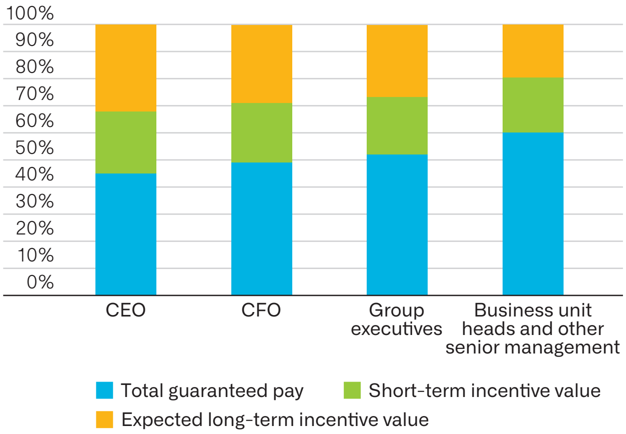
In the application of the above limits, shares which have been acquired through the market on behalf of participants will not be taken into account. Any shares which are not subsequently issued or transferred to any participant, for example, as a result of a forfeiture, shall revert back to the Share 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 2019.



The potential total remuneration outcomes for executive directors

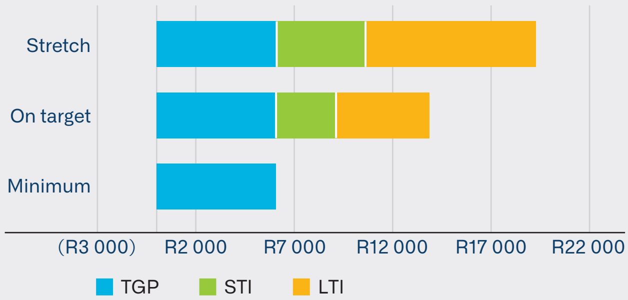
The variable pay arrangements set out on this page may have various potential outcomes. These outcomes could be from zero (minimum), to the expected level of performance outcomes (on target), to the maximum potential pay outcomes (maximum).

It should be noted that:

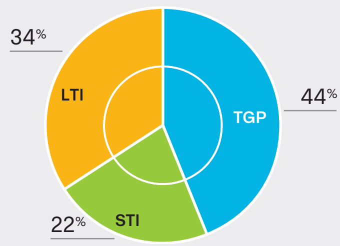
- TGP is as at 31 December 2020.
- The STI component is the cash bonus component, where:
  - "Minimum" equals performance below 90% of EBITDA budget;
  - "On-target" equals performance at EBITDA budget; and
  - "Stretch" equals performance at 15% above EBITDA budget.
- The LTI component is the face value 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.

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

CEO (R million)

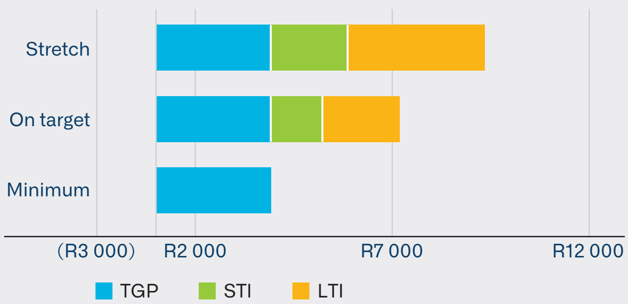


On-target remuneration mix (%)

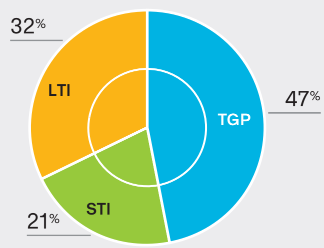


Remuneration mix (%)	CFO		
	Minimum	On target	Stretch
TGP	100	47	35
STI	–	21	23
LTI	–	32	42
TOTAL	**100**	**100**	**100**

CFO (R million)

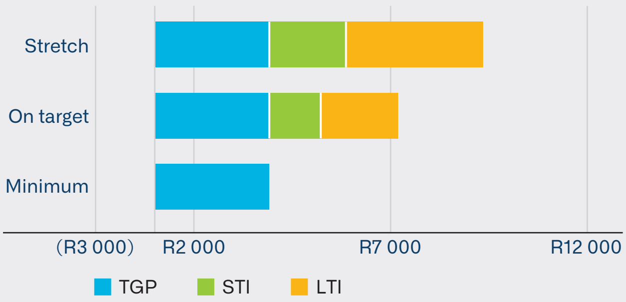


On-target remuneration mix (%)

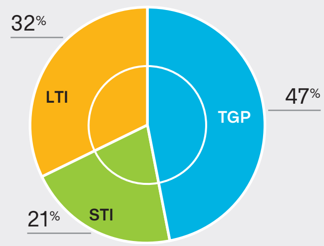


Remuneration mix (%)	Executive director		
	Minimum	On target	Stretch
TGP	100	47	35
STI	–	21	23
LTI	–	32	42
TOTAL	**100**	**100**	**100**

Executive director (R million)



On-target remuneration mix (%)



Clawback and malus

The directors of Libstar may, in their 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 board chairman is not present when 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 her participation on the board and board committees. 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 Consumer Packaged Goods sector on the JSE, which include Tiger Brands, RCL Foods, AVI, Oceana Fishing and Rhodes Food Group.

SECTION 3 – IMPLEMENTATION OF THE REMUNERATION POLICY

Shareholders holding more than 25% of shares in issue did not vote in favour of the 2019 remuneration policy, as presented.

In an effort to identify and address shareholders' concerns, Libstar engaged institutional shareholders, which included dissenting shareholders, and who collectively hold the majority of the company's shares in issue. The outcomes of this consultation process are outlined on this page.

Voting outcomes at the 2020 AGM

% vote in favour of	May 2020
Remuneration policy	**74.50%**
Remuneration implementation	**75.58%**

KEY MATTERS IDENTIFIED BY SHAREHOLDERS

Shareholder feedback	Libstar's response
Reducing the weighting of EBITDA in the determination of STIs and the addition of HEPS and cashflow performance metrics.	2021 STIs will be calculated in accordance with EBITDA and EBIT targets. The Group is considering the introduction of HEPS and cashflow metrics as additional metrics.
The inclusion of disclosure pertaining to the actual historic budgeted STI performance criteria.	Disclosures have been improved to indicate historical budgeted and actual STI targets. Refer to page 87 in this report.
The reduction of TGP and increase of performance-based remuneration in calculating executive management remuneration.	The remuneration committee and board have conducted extensive benchmarking of the executive remuneration mix and are satisfied that the TGP is aligned to peers in the market.
Increasing the stretch target for top-end vesting of the LTIP and Group Share Plan.	The remuneration committee and board have considered the shareholder feedback and in light of the consideration of the macro-economic environment in which the Group operates, the target band is considered appropriate.

Salary increases

Executive directors

In 2020, the salaries of executive directors were increased by an average of 5.0% in line with the Willis Towers Executive Staff survey.

	2021 %	2020 %	2019 %	2018 %
Executive directors*	**5.0**	5.0	–	19.0
Group office executives and CEOs of business units	**2.5**	3.8	4.5	7.1

* Charl de Villiers was appointed as an executive director in 2020. Executive directors increased from two to three during 2020.

STI payments*

In light of the uncertainty surrounding the duration and extent of the impact of COVID-19 on the Group, the board and management considered it prudent and in the best interests of Libstar, our employees and stakeholders to preserve our financial liquidity to the fullest extent. With this in mind, executive directors, members of the executive team and senior executives agreed on a voluntary basis to postpone the payment of the 30% balance of 2019 STI payments due. Whilst, in accordance with the STI rules, these payments were payable in April 2020, the payments were postponed to September 2020. This ensured that STI payments coincided with the timing of the dividend payment to shareholders in September 2020, as announced on SENS.

% of TGP	2020	2019	2018	2017
Executive directors				
Executive directors: STI	**17.6**	36.6	15.0	39.2
Executive directors: Discretionary bonus	**–**	18.3	–	–
Total	**17.6**	54.9	15.0	39.2
Group office executives and CEOs of business units	**21.5**	25.8	11.9	27.1

Rand value R'000	2020	2019	2018	2017
Executive directors				
Executive directors: STI	**2 428**	3 592	1 473	3 235
Executive directors: Discretionary bonus	**–**	1 796	–	–
Total	**2 428**	5 388	1 473	3 235
Group office executives and CEOs of business units	**11 742**	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 2020 were set out in the 2019 remuneration review. These are summarised here again:

Performance measure	Normalised EBITDA	Net working capital saving days	RONA[1]	B-BBEE
Description	Budget (threshold: 90% of budget)	Improvement from prior year	Improvement from prior year	Compliant
Target for 2020	1 217 million	48	17%	Compliant
Actual for 2020	1 115 million	54	14%	Compliant
Results	Threshold achieved	Not achieved	Not achieved	Achieved
Weighting	60%	10%	10%	20%

* Return on net assets (RONA) targets are established at business unit level, whilst the Group aims to achieve RONA/return on invested capital (ROIC) in excess of its weighted average cost of capital (WACC). During 2020, the Group achieved ROAA/ROIC of 13.0% (2019: 15.6%) against a WACC of 12.2% (2019: 12.5%).

Based on these results, and the remuneration committee and board's consideration of the Group's performance during the year under review, the executive directors received STI payments in the amount of 17.6% of TGP compared to 54.9% in 2019.

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 2017 in terms of the former long-term incentive (LTI) plan to 53 employees vested on 1 January 2020, amounting to R3.1 million.

The current 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 page 79 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	Date of award	Vesting date	Expiry date (SARs only)	SARs strike price/ LTIP & 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 R'000
CEO									
LTI	Jan 2018	Jan 2021	Jan 2021	12.92	**411 242**	–	–	**411 242**	R5 313 250
LTIP									
SARs	Apr 2019	Apr 2022	Apr 2026	8.08	**273 713**	–	–	**273 713**	R2 211 600
Performance shares	Apr 2019	Apr 2022	Apr 2022	8.08	**229 775**	–	–	**229 775**	R1 856 580
Forfeitable shares	Apr 2019	Apr 2022	Apr 2022	8.08	**57 264**	–	–	**57 264**	R462 690
SARs	Apr 2020	Apr 2023	Apr 2027	6.33	**366 853**	–	–	**366 853**	R 2 322 180
Performance shares	Apr 2020	Apr 2023	Apr 2027	6.33	**307 964**	–	–	**307 964**	R 1 949 409
Forfeitable shares	Apr 2020	Apr 2023	Apr 2027	6.33	**76 750**	–	–	**76 750**	R 485 825
Libstar Group Share Plan									
SARs	Jul 2019	Jul 2022	Jul 2026	8.65	**249 898**	–	–	**249 898**	R2 211 600
Performance shares	Jul 2019	Jul 2022	Jul 2022	8.65	**209 783**	–	–	**209 783**	R1 856 580
Forfeitable shares	Jul 2019	Jul 2022	Jul 2022	8.65	**52 281**	–	–	**52 281**	R462 690
SARs	Apr 2020	Apr 2023	Apr 2027	6.33	**366 853**	–	–	**366 853**	R 2 322 180
Performance shares	Apr 2020	Apr 2023	Apr 2027	6.33	**307 964**	–	–	**307 964**	R 1 949 409
Forfeitable shares	Apr 2020	Apr 2023	Apr 2027	6.33	**76 750**	–	–	**76 750**	R 485 825
CFO									
LTI	Jan 2018	Jan 2021	Jan 2021	12.92	**112 810**	–	–	**112 810**	R 1 457 500
LTIP									
SARs	Apr 2019	Apr 2022	Apr 2026	8.08	**108 391**	–	–	**108 391**	R 875 800
Performance shares	Apr 2019	Apr 2022	Apr 2022	8.08	**85 965**	–	–	**85 965**	R 694 600
Forfeitable shares	Apr 2019	Apr 2022	Apr 2022	8.08	**21 529**	–	–	**21 529**	R 173 952
SARs	Apr 2020	Apr 2023	Apr 2027	6.33	**193 523**	–	–	**195 523**	R 1 225 000
Performance shares	Apr 2020	Apr 2023	Apr 2027	6.33	**144 313**	–	–	**144 313**	R 913 500
Forfeitable shares	Apr 2020	Apr 2023	Apr 2027	6.33	**36 078**	–	–	**36 078**	R228 375
Libstar Group Share Plan									
SARs	Jul 2019	Jul 2022	Jul 2026	8.65	**98 960**	–	–	**98 960**	R 875 800
Performance shares	Jul 2019	Jul 2022	Jul 2022	8.65	**78 486**	–	–	**78 486**	R 694 600
Forfeitable shares	Jul 2019	Jul 2022	Jul 2022	8.65	**19 656**	–	–	**19 656**	R 173 952
SARs	Apr 2020	Apr 2023	Apr 2027	6.33	**193 523**	–	–	**195 523**	R 1 225 000
Performance shares	Apr 2020	Apr 2023	Apr 2027	6.33	**144 313**	–	–	**144 313**	R 913 500
Forfeitable shares	Apr 2020	Apr 2023	Apr 2027	6.33	**36 078**	–	–	**36 078**	R228 375

Date of grant	Date of award	Vesting date	Expiry date (SARs only)	SARs strike price/ LTIP & 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 R'000
EXECUTIVE DIRECTOR									
LTI	Jan 2018	Jan 2021	Jan 2021	12.92	**252 283**	–	–	**252 283**	R3 259 500
LTIP									
SARs	Apr 2019	Apr 2022	Apr 2026	8.08	**173 267**	–	–	**173 267**	R1 400 000
Performance shares	Apr 2019	Apr 2022	Apr 2022	8.08	**129 208**	–	–	**129 208**	R1 044 000
Forfeitable shares	Apr 2019	Apr 2022	Apr 2022	8.08	**32 302**	–	–	**32 302**	R261 000
SARs	Apr 2020	Apr 2023	Apr 2027	6.33	**232 227**	–	–	**232 227**	R 1 470 000
Performance shares	Apr 2020	Apr 2023	Apr 2027	6.33	**173 175**	–	–	**173 175**	R 1 096 200
Forfeitable shares	Apr 2020	Apr 2023	Apr 2027	6.33	**43 294**	–	–	**43 294**	R 274 050
Libstar Group Share Plan									
SARs	Jul 2019	Jul 2022	Jul 2026	8.65	**158 192**	–	–	**158 192**	R1 400 000
Performance shares	Jul 2019	Jul 2022	Jul 2022	8.65	**117 966**	–	–	**117 966**	R1 044 000
Forfeitable shares	Jul 2019	Jul 2022	Jul 2022	8.65	**24 492**	–	–	**29 492**	R261 000
SARs	Apr 2020	Apr 2023	Apr 2027	6.33	**232 227**	–	–	**232 227**	R 1 470 000
Performance shares	Apr 2020	Apr 2023	Apr 2027	6.33	**173 175**	–	–	**173 175**	R 1 096 200
Forfeitable shares	Apr 2020	Apr 2023	Apr 2027	6.33	**43 294**	–	–	**43 294**	R 274 050

Single figure remuneration

The following tables disclose total remuneration received by executive directors since 2017:

R'000	Basic salary	Bonuses and incentives	Retirement fund contributions	Gains on exercise of share options	Total remuneration
31 December 2020					
A van Rensburg	**6 111**	**1 528**	**–**	**–**	**7 639**
C de Villiers*	**3 500**	**900**	**–**	**–**	**4 400**
R Smith	**4 200**	**–**	**–**	**–**	**4 200**
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

* Appointed as CFO from 1 January 2020.

Non-executive directors' fees

The total proposed fees for 2021 are set out below and are subject to approval by shareholders at the AGM in June 2021.

	2021 Proposed fee 1 January 2021 to 31 December 2021 Rand	2020 1 January 2020 to 31 December 2020 Rand
Board of directors		
Chairman	**735 000**	735 000
Independent director	**283 500**	283 500
Audit and risk committee		
Chairman	**273 000**	273 000
Committee member	**147 000**	147 000
Remuneration and nomination committee		
Chairman - Remuneration	**262 500**	262 500
Committee member - Remuneration	**115 500**	115 500
Chairman - Nomination	**210 000**	210 000
Committee member - Nomination	**105 000**	105 000
Social and ethics committee		
Chairman	**210 000**	210 000
Committee member	**105 000**	105 000
Investment committee		
Chairman	**210 000**	210 000
Committee member	**105 000**	105 000

In light of ongoing challenging operating conditions resulting from the COVID-19 pandemic, the remuneration and nomination committee proposed not to increase directors' fees for the period 1 January 2021 to 31 December 2021. The board has accepted the recommendations of the committee.


cook'n bake
non-stick spray
for cooking & baking
conventional & microwave cooking

Governance review

SECTION 1

Libstar's values focus on 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.

Please refer to the detailed Governance review at https://www.libstar.co.za/investors/governance/ for additional information.

Board focus areas

2020 focus areas	2021 focus areas
Overseeing the Group's response to the impact of COVID-19 on Libstar's people, operations and financial stability.	Protect the business and its people and work with management to continue managing the impacts of COVID-19 on the Group.
Formalisation of the board's annual evaluation process and completion of a board effectiveness assessment.	Following action taken to address a number of the requirements outlined in the evaluation, additional improvements in relation to strategy development and performance monitoring, information technology and sustainability governance will be addressed.
Governance of measures and strategy to improve the Group's broad-based black economic empowerment (B-BBEE) rating.	Improving the Group's B-BBEE rating in the coming year.
Refinement of the Group's existing internal control and risk management framework.	Additional internal resourcing to execute on the Group's risk management framework.
Further maturing of the Group's stakeholder engagement processes, including: ■ Appointment of an in-house communications and investor relations officer; ■ Direct access to the remuneration committee to engage Libstar's shareholders on the 2019 remuneration policy and implementation report; and ■ A number of new disclosures in line with requests from financial stakeholders.	Ongoing reinforcement of existing stakeholder communications. A number of new disclosures were made this year in line with requests from stakeholders.
Enhancements to the board committees, including: ■ Combining the remuneration and nomination committees to improve governance efficiency; and ■ Changes to the membership of the social and ethics committee and broadening its role and function.	■ Ongoing assessment of board committee composition in terms of diversity of skills and experience. ■ Further refinement of the committees' agendas, the content of meeting packs and the finalisation of certain policies.
Execution of the Group's talent management programme continued, with ongoing training of employees and management and a succession framework finalised.	Ongoing reassessment of succession framework and continued development of talent.

Governance during the year

Governance structure

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

GROUP BOARD

COMMITTEES

Audit and risk	Remuneration and nomination*	Social and ethics	Investment

* The remuneration and nomination committees were combined in November 2020.

The board

The board comprises eight directors, which include five independent non-executive directors and three executive directors. During the year, the board was strengthened through the appointment of Anneke Andrews as an independent non-executive director and as a member of the audit and risk committee. Her profile is on page 41.

The board is responsible for ensuring that the company complies with its statutory obligations specified in the memorandum of incorporation (MoI) of the company, the Companies Act, 71 of 2008 (Companies Act), JSE Listings Requirements and other regulatory requirements.

Libstar is satisfied that during the year under review, the company has in all material respects complied with its MoI, the Companies Act and other relevant laws applicable to the company.

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 absolve 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. She 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 ad hoc meetings held to consider special business.

The board has a board charter in place to regulate, 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 remuneration and nomination committee. This committee scrutinises and identifies suitable candidates.

Board effectiveness review

During August 2020, the Libstar board conducted a review to assess the board's performance and effectiveness. The evaluation comprised a questionnaire, based on various best practice criteria, and one-on-one interviews with all directors.

There were several actions taken following recommendations from the evaluation, including the strengthening of the financial skills of the board through the appointment of Anneke Andrews CA(SA) to the board and as a member of the audit and risk committee, combining the remuneration and nomination committees and changing the membership and enhancing the role and functions of the social and ethics committee. Other minor areas for improvement are receiving attention.

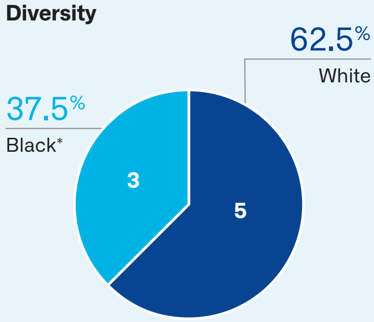
Board diversity and skills

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 to ensure an appropriate mix of gender, race, qualifications, skills and experience on the board.

The board took note of the amendments to the JSE Listings Requirements implemented in 2019 for the promotion of broader diversity at board level. During 2020, a revised board diversity policy was put in place. This includes additional diversity criteria, namely culture, age, field of knowledge, skills and experience (in addition to gender and race), as required by the JSE Listings Requirements.

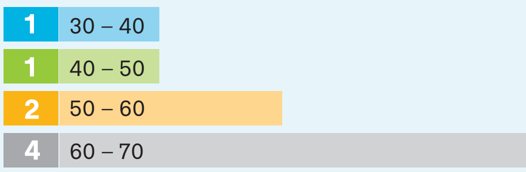
A voluntary target of 30% female representation by the end of 2020 was set. This was achieved, with three female directors currently on the board, which represent 37.5% female representation. We also remain committed to improve our race and gender diversity at executive level.

Diversity

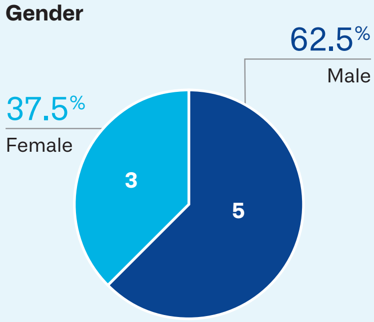


* Black, Indian and Coloured.

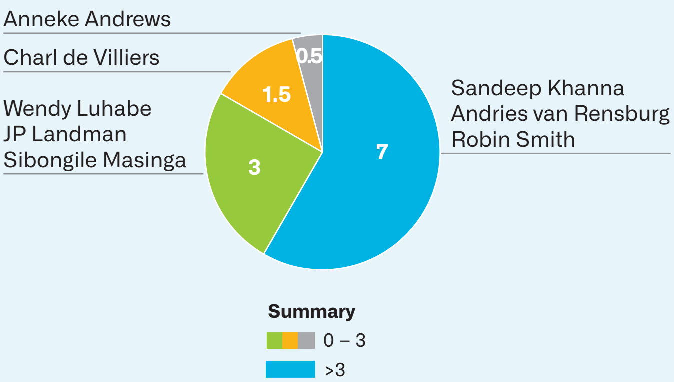
Age profiles



Gender



Tenure of directors



Appointment and rotation of directors

No director is appointed for an indefinite period. At each annual general meeting (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 are those who have been in office the longest since their last re-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. Disclosure of interests is a standard agenda item at all board and committee meetings.

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 selected employees for a designated period preceding the announcement of the Group's 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 the half-year and year-end periods and is lifted upon publication of the results on SENS. The dealing in securities policy is circulated prior to a closed period to remind the affected persons. Before dealing in Libstar shares, all directors must obtain prior written clearance to transact in line with the Group's dealing in securities and insider trading policy.

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.

1st LINE OF DEFENCE
Management

2nd LINE OF DEFENCE
External assurance providers

3rd LINE OF DEFENCE
Internal and external audits

4th 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 https://www.libstar.co.za/investors/governance/ for the King IV register.

SECTION **2**

Compliance and regulatory

The board ensures that Libstar complies with its statutory obligations specified in the memorandum of incorporation of the company, the Companies Act, the JSE Listings Requirements and other regulatory requirements.

Relevant legislation	Primary responsibility
Companies Act, JSE Listings Requirements, King IV	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.

Legislative and regulatory compliance

Libstar manages its business responsibly and in compliance with statutory and regulatory requirements. Compliance to laws and regulations 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.

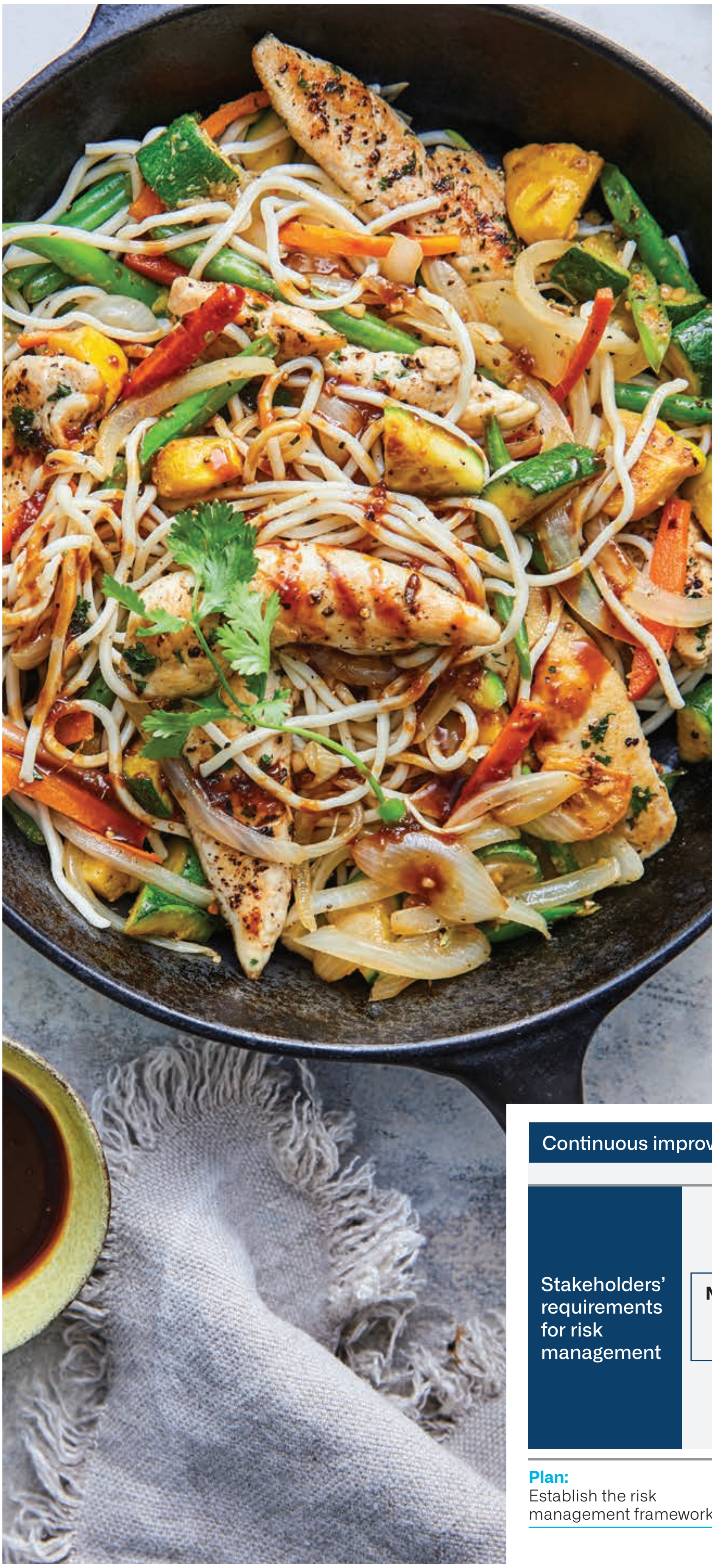
This involves the adoption of an anti-bribery policy and the introduction of a whistle-blowing line.

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 board recognised the need for a confidential reporting mechanism (whistle-blowing hotline) covering fraud and other risks. A 24-hour fraud and ethics hotline, with an anonymous toll-free number, provides an impartial facility for all stakeholders to report fraud, statutory malpractice, crime and deviations from policy. This was introduced during the year.

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



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. Libstar is required to not only mitigate negative consequences of actions, but to also seek out opportunities.

The board has responsibilities across multiple lines of defence.

These include the executive leadership team, management and the overall workforce.

The Group has established a risk management framework.

The process involved:

- Defining an operating model, in line with strategic and operational objectives;
- Defining external and internal factors that might result in the Group not meeting 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.

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)

Company's risk management

Plan: Establish the risk management framework

Do: Implement and operate

Check: Monitor and review its effectiveness

Adjust (Act): Maintain and continuously improve

Risk assessment

The risk assessment process consists of three steps:

1 Risk identification

2 Risk analysis

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 address risks. The key financial risk management aspects are outlined in more detail.

Financial risk management

The business units 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 board-approved policies which provide written principles on foreign exchange risk. Compliance with policies and exposure limits is 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. The Group continues to monitor the impact of COVID-19 on its operations and its financial position to take timeous action where required.

Market risk

Our activities expose us primarily to the financial risk 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. The Group's exposure to market risks or the manner in which these risks are managed have remained the same during the year, except that the Group has applied hedge accounting from 1 January 2019.

Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, 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. Most of the Group's customers have been transacting with the Group for over three years and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, ageing profile, maturity, existence of previous financial difficulties and the existence of current financial difficulties due to the impact of COVID-19 or otherwise. Trade and other receivables relate mainly to the Group's retail and wholesale channel and food service customers. Customers that are graded as "high risk" are placed on a restricted customer list, and future sales are made on a prepayment basis.

The Group establishes a credit loss allowance for expected credit losses in respect of trade receivables and other receivables, consisting of sundry debtors, by applying the simplified approach of IFRS 9, measuring the credit loss allowance based on lifetime expected credit loss. The Group first establishes whether any specific customers may be impaired and raises a credit allowance in respect thereof. Further to this, as a practical expedient, the Group applies a provision matrix to the remaining debtors by assessing historical credit losses per aged bucket of debtors. In addition, a risk-of-default factor has been added to each aged bucket based on management's expectation of credit losses.

The Group's credit exposure, in respect of its customer base, is represented by the net aggregate balance of trade receivable amounts. The majority of debtors not past due relate to credit extended to large South African retailers and wholesalers, considered to be of a high credit grade.

Based on historical default rates, the Group believes that a nominal credit loss allowance is appropriate in respect of debtors not past due.

Management has considered forward-looking information (macro-economic forecast data such as the five-year CPI forecast) to evaluate the impact on expected future default rates, in particular with regards to debtors exposed to the food service channel. In light of the current economic environment and the potential future impact of COVID-19, management increased the risk-to-default factor per each aged bucket. The Group does not hold any collateral in respect of its customers.

The Group's credit exposure in respect of other financial assets at amortised cost are considered to be limited. Specific consideration has been given to the impact of COVID-19 on the default rate and a zero default rate is still considered reasonable for the foreseeable future.

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.

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 Group risks were identified during this year's risk reviews:

Risk category	Issue	Risks identified	Mitigating controls
Strategic	**Reliance on key customers and competition from local and multinational companies**	Stringent competition could impact profitability.	The Group leverages 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.	Where possible, the Group's business units maintain contingency plans which cater for the sourcing of key inputs from at least two alternative suppliers.
External and financial	**COVID-19**	The safety of our workforce, as well as the impact on volumes, financial performance, cost management, supply and exports.	Group and business unit steering committees were established to continuously monitor the unfolding situation. Hygiene practices were intensified across all sites, dedicated transport was provided and remote working practices were implemented where possible. We are maintaining close communication with our trading partners, suppliers and landlords and continue to find mutually beneficial solutions and address the extraordinary circumstances in which we operate. The protection of Libstar's cash position remains a key priority.
	Foreign currency risk	Exchange rate fluctuations may adversely affect Group import cost, 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.

Risk category	Issue	Risks identified	Mitigating controls
External and financial	**Interest rate risks, import tariffs, general taxes and utility costs**	Changes in these rates could impact the profitability of the Group.	Agreements have been renegotiated. The impact of swap covers and forward covers is 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 in South Africa and potentially defaulting on loans. ■ Increased cost of raw material input costs. ■ Reduction of consumer's ability to spend. ■ Potential downgrading by credit rating agencies. ■ Electricity supply constraints due to Eskom's loadshedding programme.	The Group has a sustainable business model that is able to manage negative impacts, such as downgrades in the ratings of the economy, as well as economic pressure and electricity supply issues. There is reduced reliance on electricity due to the use of green energy.
	Port delays	Port delays including strikes may compromise the availability of raw materials and impact on the profitability of the Group.	Contingency stock levels are maintained to reduce the impact.
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 qualified outsourced bodies to ensure appropriate fire prevention plans are developed for each site. Staff communication and training is also done.
	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 risk	**Cyber crime 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 in the information systems or systems integrations may compromise the integrity of the financial and non-financial results, including loss of data and the recovery thereof.	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.

Risk category	Issue	Risks identified	Mitigating controls
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 to deal with potential product recalls. 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 requirements can result in a 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 engage with the unions on a regular basis.
	Loss of skilled labour	Loss of skilled labour can impact productivity and the overall profitability of the company.	We have skills development and training programmes, as well as succession planning, in place.

Abridged annual financial statements

The abridged annual financial statements for the year ended 31 December 2020 of Libstar Holdings Limited have been audited in compliance with section 29 of the Companies Act No 71 of 2008, as amended, and have been prepared under the supervision of Charl de Villiers CA(SA), the Libstar Group chief financial officer.

The consolidated annual financial statements for the year ended 31 December 2020 is available at the following link: https://www.libstar.co.za/wp-content/uploads/2021/03/Annual-Financial-Statements-2020.pdf

Condensed consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2020

	Notes	2020 Audited R'000	2019 Audited R'000
CONTINUING OPERATIONS			
Revenue		**10 285 881**	9 892 545
Cost of sales		**(7 856 448)**	(7 513 655)
Gross profit		**2 429 433**	2 378 890
Other income	6	**47 172**	52 725
Operating expenses		**(2 111 168)**	(1 729 857)
Operating profit	7	**365 437**	701 758
Investment income		**44 720**	54 025
Finance costs		**(230 130)**	(262 774)
Profit before tax		**180 027**	493 009
Income tax expense		**(106 496)**	(136 325)
Profit for the year from continuing operations		**73 531**	356 684
DISCONTINUED OPERATIONS			
Loss for the year from discontinued operations		**–**	(77 057)
Profit for the year		**73 531**	279 627
Other comprehensive income for the year, net of tax		**3 340**	7 735
Items that may be reclassified to profit or loss			
Gains on hedging reserves		**10 241**	8 067
Hedging gains reclassified to profit or loss		**(8 067)**	–
Items that will never be reclassified to profit or loss			
Defined benefit plan actuarial gains/(losses)		**1 166**	(332)
Total comprehensive profit for the year		**76 871**	287 362
Profit attributable to:			
Equity holders of the parent		**73 713**	278 395
Non-controlling interest		**(182)**	1 232
		73 531	279 627
Total comprehensive income attributable to:			
Equity holders of the parent		**77 053**	286 130
Non-controlling interest		**(182)**	1 232
		76 871	287 362
Basic earnings per share (cents)			
From continuing operations	8	**12.4**	59.5
From continuing and discontinued operations	8	**12.4**	46.6
Diluted earnings per share (cents)			
From continuing operations	8	**12.3**	59.4
From continuing and discontinued operations	8	**12.3**	46.5
Headline earnings per share (cents)			
From continuing operations	8	**46.9**	59.9
From continuing and discontinued operations	8	**46.9**	55.7
Diluted headline earnings per share (cents)			
From continuing operations	8	**46.8**	59.8
From continuing and discontinued operations	8	**46.8**	55.6

Condensed consolidated statement of financial position

as at 31 December 2020

	Notes	2020 Audited R'000	2019 Audited R'000
ASSETS			
Non-current assets		**6 445 545**	6 685 881
Property, plant and equipment	10	**1 507 815**	1 392 678
Right-of-use assets	11	**649 533**	655 596
Goodwill		**2 337 192**	2 534 656
Intangible assets		**1 938 095**	2 092 060
Other financial assets		**11 402**	5 824
Deferred tax assets		**1 508**	5 067
Current assets		**4 089 453**	4 141 076
Inventories		**1 314 971**	1 199 619
Trade and other receivables		**1 752 824**	1 763 463
Biological assets		**31 294**	29 407
Other financial assets		**37 962**	31 593
Current tax receivable		**16 189**	16 742
Cash and bank balances		**936 213**	1 100 252
Total assets		**10 534 998**	10 826 957
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders of the parent		**5 357 635**	5 424 601
Share capital	12	**4 727 314**	4 727 314
Defined benefit plan reserve		**(923)**	(2 089)
Share-based payment reserve		**7 798**	2 211
Retained earnings		**688 373**	764 266
Premium on acquisition of non-controlling interests		**(75 168)**	(75 168)
Hedging reserves		**10 241**	8 067
Non-controlling interests		**9 711**	9 893
Total equity		**5 367 346**	5 434 494
Non-current liabilities		**3 446 977**	3 490 774
Other financial liabilities		**2 073 079**	2 087 970
Lease liabilities	11	**692 372**	677 674
Deferred tax liabilities		**659 191**	707 000
Employee benefits		**8 400**	9 583
Share-based payments	14	**13 935**	8 547
Current liabilities		**1 720 675**	1 901 689
Trade and other payables		**1 456 852**	1 462 502
Other financial liabilities		**171 325**	111 737
Lease liabilities	11	**90 596**	75 712
Share-based payments	14	**–**	4 156
Current tax payable		**1 717**	1 945
Bank overdraft		**185**	245 637
Total liabilities		**5 167 652**	5 392 463
Total equity and liabilities		**10 534 998**	10 826 957

Condensed consolidated statement of changes in equity

for the year ended 31 December 2020

	Share capital R'000	Defined benefit plan reserve[1] R'000	Share-based payment reserve[2] R'000	Premium on acquisition of non-controlling interests[3] R'000	Retained earnings R'000	Hedging reserves[4] R'000	Non-controlling interests R'000	Total R'000
Balance at 1 January 2019 (including adoption of IFRS 16)	4 818 884	(1 757)	–	(75 168)	617 560	–	8 661	5 368 180
Total comprehensive income for the year	–	(332)	–	–	278 395	8 067	1 232	287 362
Profit 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**
Total comprehensive income for the year	**–**	**1 166**	**–**	**–**	**73 713**	**2 174**	**(182)**	**76 871**
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**73 713**	**–**	**(182)**	**73 531**
Other comprehensive income for the year	**–**	**1 166**	**–**	**–**	**–**	**2 174**	**–**	**3 340**
Transactions with owners of the Company								
Contributions and distributions	**–**	**–**	**–**	**–**	**(149 606)**	**–**	**–**	**(149 606)**
Dividends paid	**–**	**–**	**–**	**–**	**(149 606)**	**–**	**–**	**(149 606)**
Share-based payment expenses	**–**	**–**	**5 587**	**–**	**–**	**–**	**–**	**5 587**
Group share plan	**–**	**–**	**5 587**	**–**	**–**	**–**	**–**	**5 587**
Balance at 31 December 2020	**4 727 314**	**(923)**	**7 798**	**(75 168)**	**688 373**	**10 241**	**9 711**	**5 367 346**
Notes	**12**		**14**					

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. Share-based payment reserve is used to recognise the grant date fair value of the Group's equity settled share-based payments (GSP) over the vesting period of GSP.
3. 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.
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 2020

	Notes	2020 Audited R'000	2019 Audited R'000
NET CASH FLOW FROM OPERATING ACTIVITIES		**637 218**	579 769
Cash generated from continuing operations	15	**908 679**	944 777
Finance income received		**44 720**	54 025
Finance costs paid		**(165 760)**	(207 689)
Taxation paid		**(150 421)**	(191 404)
Cash utilised by discontinued operations		**–**	(19 940)
NET CASH FLOW FROM INVESTMENT ACTIVITIES		**(322 189)**	(394 730)
Purchase of property, plant and equipment and computer software		**(328 042)**	(400 902)
Proceeds on disposal of property, plant and equipment and computer software		**8 085**	7 155
Proceeds from sale of discontinued operations		**–**	46 716
Other loans repaid to the Group		**4 772**	2 301
Other loans granted by the Group		**(8 200)**	–
Loans repaid by shareholders to the Group		**1 812**	–
Acquisition of business		**(616)**	(50 000)
NET CASH FLOW FROM FINANCING ACTIVITIES		**(233 616)**	(159 764)
Share repurchase		**–**	(91 570)
(Repayment of)/proceeds from other loans payable		**(2 235)**	2 235
Proceeds from/(repayment of) related party loans payable		**614**	(846)
Capital portion of lease payments	11	**(149 132)**	(127 547)
Proceeds from term loans and asset based financing		**156 727**	270 765
Repayment of term loans and asset based financing		**(89 984)**	(81 112)
Dividend paid		**(149 606)**	(131 689)
Net increase in cash and cash equivalents		**81 413**	25 275
Cash and cash equivalents at the beginning of the year		**854 615**	829 340
Cash and cash equivalents at the end of the year		**936 028**	854 615
Continuing operations		**936 028**	854 615

Condensed consolidated segmental information

Basis of segmentation

The executive management team of the Group, the chief operating decision maker, 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
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 & CONFECTIONERY
Premium snacks and confectionery products.

BAKING & BAKING AIDS
Baked goods, specialised gluten free offerings and baking aids.

HOUSEHOLD & PERSONAL CARE
Detergents and household cleaning products as well as personal care products.

	Year ended 31 December 2020 R'000	Year ended 31 December 2019 R'000
INFORMATION ABOUT REPORTABLE SEGMENTS		
Revenue from contracts with customers		
Perishables	**4 698 998**	4 688 126
Groceries	**3 345 616**	3 177 811
Snacks & Confectionery	**574 257**	537 972
Baking & Baking Aids	**815 584**	699 841
Household & Personal Care	**851 426**	788 795
	10 285 881	9 892 545
Revenue comprised as follows:		
Total revenue for reportable segments	**10 323 980**	9 917 389
Elimination of inter segment revenue	**(38 099)**	(24 844)
Perishables	**(7 552)**	(8 328)
Groceries	**(23 965)**	(12 141)
Snacks & Confectionery	**(3 203)**	(722)
Baking & Baking Aids	**(3 179)**	(3 434)
Household & Personal Care	**(200)**	(219)
	10 285 881	9 892 545
Operating profit (EBIT)		
Perishables	**13 383**	402 686
Groceries	**344 019**	313 249
Snacks & Confectionery	**53 538**	60 666
Baking & Baking Aids	**55 710**	60 916
Household & Personal Care	**17 028**	(6 364)
Corporate	**(118 241)**	(129 395)
	365 437	701 758
Reconciliation of operating profit per segment to profit before tax		
Operating profit	**365 437**	701 758
Investment income	**44 720**	54 025
Finance costs	**(230 130)**	(262 774)
Profit before tax	**180 027**	493 009

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.

CONDENSED CONSOLIDATED SEGMENTAL INFORMATION CONTINUED

	Year ended 31 December 2020 R'000	Year ended 31 December 2019 R'000
Normalised EBIT and EBITDA		
GROUP – CONTINUING OPERATIONS		
Operating profit	**365 437**	701 758
Amortisation of customer contracts and brands with definitive useful lives	**150 172**	150 172
Due diligence costs	**286**	2 884
Expenses relating to share based payments	**13 990**	6 948
Government grants	**(840)**	(155)
Impairment losses on goodwill and other assets	**203 820**	–
Loss on disposal of property, plant and equipment	**2 683**	466
Retrenchment and settlement costs	**16 758**	16 646
Securities transfer tax	**–**	281
Strategic advisory fees	**–**	301
Unrealised loss on foreign exchange	**21 787**	11 035
Normalised EBIT	**774 093**	890 336
Amortisation of software	**12 031**	10 913
Depreciation of property, plant and equipment and right-of-use assets	**329 131**	272 427
Normalised EBITDA (including effect of IFRS 16)	**1 115 255**	1 173 676
Less: lease payments and lease modifications	**(149 133)**	(138 927)
Normalised EBITDA (excluding effect of IFRS 16)	**966 122**	1 034 749
PERISHABLES		
Operating profit	**13 383**	402 686
Amortisation of customer contracts	**43 610**	43 610
Due diligence costs	**–**	797
Government grants	**(72)**	(155)
Impairment losses on goodwill and other assets	**203 820**	–
(Profit)/loss on disposal of property, plant and equipment	**(1 261)**	45
Retrenchment and settlement costs	**5 128**	6 610
Unrealised loss on foreign exchange	**6 488**	2 094
Normalised EBIT	**271 096**	455 687
Amortisation of software	**4 146**	2 090
Depreciation of property, plant and equipment and right-of-use assets	**133 626**	90 160
Normalised EBITDA (including effect of IFRS 16)	**408 868**	547 937
Less: lease payments and lease modifications	**(44 069)**	(37 502)
Normalised EBITDA (excluding effect of IFRS 16)	**364 799**	510 435

	Year ended 31 December 2020 R'000	Year ended 31 December 2019 R'000
GROCERIES		
Operating profit	**344 019**	313 249
Amortisation of customer contracts	**71 239**	71 239
Government grants	**(607)**	–
Loss on disposal of property, plant and equipment	**3 006**	371
Retrenchment and settlement costs	**4 341**	357
Unrealised loss on foreign exchange	**14 525**	8 578
Normalised EBIT	**436 523**	393 794
Amortisation of software	**1 897**	2 404
Depreciation of property, plant and equipment and right-of-use assets	**90 494**	93 161
Normalised EBITDA (including effect of IFRS 16)	**528 914**	489 359
Less: lease payments and lease modifications	**(50 209)**	(54 317)
Normalised EBITDA (excluding effect of IFRS 16)	**478 705**	435 042
SNACKS & CONFECTIONERY		
Operating profit	**53 538**	60 666
Amortisation of customer contracts	**4 402**	4 402
Loss/(profit) on disposal of property, plant and equipment	**564**	(4)
Retrenchment and settlement costs	**2 109**	790
Strategic advisory fees	**–**	118
Unrealised loss on foreign exchange	**666**	589
Normalised EBIT	**61 279**	66 561
Amortisation of software	**2 099**	3 821
Depreciation of property, plant and equipment and right-of-use assets	**26 283**	19 957
Normalised EBITDA (including effect of IFRS 16)	**89 661**	90 339
Less: lease payments and lease modifications	**(12 450)**	(7 383)
Normalised EBITDA (excluding effect of IFRS 16)	**77 211**	82 956
BAKING & BAKING AIDS		
Operating profit	**55 710**	60 916
Amortisation of customer contracts	**6 870**	6 870
Loss on disposal of property, plant and equipment	**458**	98
Retrenchment and settlement costs	**391**	–
Unrealised loss/(gain) on foreign exchange	**55**	(61)
Normalised EBIT	**63 484**	67 823
Amortisation of software	**986**	876
Depreciation of property, plant and equipment and right-of-use assets	**39 537**	35 091
Normalised EBITDA (including effect of IFRS 16)	**104 007**	103 790
Less: lease payments and lease modifications	**(16 833)**	(17 029)
Normalised EBITDA (excluding effect of IFRS 16)	**87 174**	86 761

CONDENSED CONSOLIDATED SEGMENTAL INFORMATION CONTINUED

	Year ended 31 December 2020 R'000	Year ended 31 December 2019 R'000
HOUSEHOLD & PERSONAL CARE		
Operating profit/(loss)	**17 028**	(6 364)
Amortisation of customer contracts and brands with definitive useful lives	**24 051**	24 051
Profit on disposal of property, plant and equipment	**(139)**	(27)
Retrenchment and settlement costs	**1 009**	8 655
Strategic advisory fees	**–**	183
Unrealised loss/(gain) on foreign exchange	**53**	(163)
Normalised EBIT	**42 002**	26 335
Amortisation of software	**23**	23
Depreciation of property, plant and equipment and right-of-use assets	**34 280**	29 140
Normalised EBITDA (including effect of IFRS 16)	**76 305**	55 498
Less: lease payments and lease modifications	**(21 716)**	(19 165)
Normalised EBITDA (excluding effect of IFRS 16)	**54 589**	36 333
CORPORATE		
Operating loss	**(118 241)**	(129 395)
Due diligence costs	**286**	2 087
Expenses relating to share based payments	**13 990**	6 948
Government grants	**(161)**	–
Loss/(profit) on disposal of property, plant and equipment	**55**	(17)
Retrenchment and settlement costs	**3 780**	234
Securities transfer tax	**–**	281
Unrealised gain on foreign exchange	**–**	(2)
Normalised EBIT	**(100 291)**	(119 864)
Amortisation of software	**2 880**	1 699
Depreciation of property, plant and equipment and right-of-use assets	**4 911**	4 918
Normalised EBITDA (including effect of IFRS 16)	**(92 500)**	(113 247)
Less: lease payments and lease modifications	**(3 856)**	(3 531)
Normalised EBITDA (excluding effect of IFRS 16)	**(96 356)**	(116 778)
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	**1 239 636**	1 220 092
Major customers		
During the period under review, revenue from certain customers exceeded 10% of total revenue.		
Customer A	**22%**	19%
Customer B	**16%**	13%
Customer C	**10%**	10%

Notes to the condensed consolidated financial statements

for the year ended 31 December 2020

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 summarised consolidated financial statements of the Group for the year ended 31 December 2020 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 16 March 2021 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 used in the preparation of the summarised consolidated financial statements were derived from and are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

The Group has applied the following standards and amendments for the first time for their annual financial statements commencing 1 January 2020:

- Definition of Material – amendments to IAS 1 and IAS 8
- Definition of a Business – amendments to IFRS 3
- Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39 and IFRS 7
- Revised Conceptual Framework for Financial Reporting

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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 consistent with those applied in the prior year.

The effects of COVID-19 have resulted in certain judgements and estimates being significant in the current period when they had not been in the past. This is due to the uncertainty introduced by the effects of the pandemic, such as collection risk for customers and the cash flows included in estimates of recoverable amounts. Refer to note 18 for further information related to the impact of COVID-19 on the Group.

5. Normalised EBIT and normalised EBITDA

The Group adopts normalised earnings before interest and tax ("Normalised EBIT"), normalised earnings before interest, tax, depreciation and amortisation ("Normalised EBITDA"), normalised earnings per share ("Normalised EPS") and normalised headline earnings per share ("Normalised HEPS") as financial measures to review, measure and benchmark the operational performance of the individual divisions (that consolidate into the Group) as well as for strategic planning and other commercial decision-making purposes relating to each division.

To arrive at the normalised EBIT and normalised EBITDA measures, respectively, the following adjustments are made to EBIT (operating profit from continuing operations as disclosed in the financial statements)

	Adjustment included in calculation of:	
	Normalised EBITDA	Normalised EBIT
Add back: amortisation of intangible assets in relation to customer contracts and brands with definitive useful lives	Yes	Yes
Add back: amortisation of intangible assets in relation to computer software and website costs	Yes	No
Add back: depreciation on property, plant and equipment and right-of-use assets	Yes	No
Add back: impairment losses on property, plant and equipment, goodwill and intangible assets	Yes	Yes
Add back or deduct: unrealised foreign exchange translation gains or losses	Yes	Yes
Add back: non-recurring items of an operating nature including government grants, due diligence costs in respect of business acquisitions, strategic advisory fees, retrenchment and settlement costs and restructuring costs including amounts payable in respect of onerous contracts.	Yes	Yes
Add back: securities transfer tax paid	Yes	Yes
Add back or deduct: gains and losses on disposal of property, plant and equipment, gains and losses on disposals of assets or disposal groups (businesses) held for sale.	Yes	Yes
Add back: the cost of the long-term management incentive scheme (LTI Scheme), the long-term incentive plan (LTIP) and the Group Share Plan (GSP).	Yes	Yes

Normalised EPS and Normalised HEPS

To arrive at normalised EPS, the after-tax earnings from continuing operations (as disclosed in the financial statements), is adjusted for the after-tax impact of the normalised EBIT adjustments shown above.

To arrive at Normalised HEPS, the normalised EPS is adjusted for the after-tax impact of the Headline Earnings Re-measurements, the most common examples of which are (i) impairment losses on property, plant and equipment, goodwill and intangible assets and (ii) gains and losses on disposal of property, plant and equipment, excluding the after-tax impact of separately identifiable re measurements as defined in accordance with circular 1/2019 Headline Earnings, read with IAS 33 Earnings per share.

6. Other income

	2020 R'000	2019 R'000
Bad debts recovered	**315**	–
Commissions received	**40**	38
Gain on foreign exchange	**2 917**	26 927
Realised gain on foreign exchange	**24 704**	37 962
Unrealised loss on foreign exchange	**(21 787)**	(11 035)
Government grants[1]	**1 253**	206
Insurance claims received	**532**	385
Discounts and incentives received	**–**	871
Rental income	**4 103**	5 577
Sundry income[2]	**38 012**	18 721
	47 172	52 725

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

2 Included in current year are two loans payable that were previously provided for as amounts due to related parties, which were written back following the favourable outcome of an arbitration process (R19.7 million) and R10 million lapsed following the termination of the Group's relationship with the counterparty in question.

7. Operating profit

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

	2020 R'000	2019 R'000
Operating expenditure		
Depreciation of property, plant and equipment	**205 159**	168 824
Depreciation of right-of-use assets (refer note 11)	**123 659**	103 387
Amortisation of brands	**11 867**	11 867
Amortisation of computer software	**12 031**	10 913
Amortisation of customer relationships	**138 305**	138 305
Impairment loss on goodwill (refer note 17)	**198 000**	–
Impairment loss on building	**5 820**	–
Loss on disposal of property, plant and equipment	**2 683**	466
Employee benefits	**1 398 179**	1 307 546
Salaries and wages	**1 381 421**	1 290 900
Retrenchment and settlement costs	**16 758**	16 646
Strategic advisory fees	**–**	301
Due diligence costs	**286**	2 884
Credits relating to share appreciation rights granted (LTI scheme)	**(2 370)**	(1 456)
Charges relating to long-term incentive scheme (LTIP scheme)	**7 741**	6 194
Charges relating to share based payments (GSP)	**8 619**	2 211
Securities transfer tax	**–**	281
Research and development costs expensed as incurred	**1 420**	1 773
Auditors remuneration	**8 343**	8 407

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

	2020 R'000	2019 R'000
8. Earnings per share		
8.1 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	**73 713**	278 395
From continuing operations	**73 713**	355 452
From discontinued operations	–	(77 057)
Weighted average number of ordinary shares for the purposes of basic earnings per share ('000)	**595 812**	597 519
Basic earnings per share in cents		
From continuing operations	**12.4**	59.5
From discontinued operations	–	(12.9)
From continuing and discontinued operations	**12.4**	46.6
8.2 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)	**596 932**	598 481
Diluted earnings per share in cents		
From continuing operations	**12.3**	59.4
From discontinued operations	–	(12.9)
From continuing and discontinued operations	**12.3**	46.5
Reconciliation 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	**595 812**	597 519
Adjustments for calculation of diluted earnings per share:		
Deferred Shares – GSP[1]	**1 120**	962
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**596 932**	598 481

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.

8. Earnings per share continued

8.3 Normalised earnings per share (EPS)

	2020 Audited R'000	2019 Audited R'000
To arrive at Normalised EPS, the after-tax earnings from continuing operations is adjusted for the after-tax impact of the following:		
Profit for the year from continuing operations	**73 713**	355 452
Normalised for:	**145 395**	136 368
Amortisation of customer contracts and brands with definitive useful lives	**108 124**	108 124
Due diligence costs	**286**	2 884
Expenses relating to share based payments	**10 073**	5 002
Government grants	**(840)**	(155)
Retrenchment and settlement costs	**12 066**	11 985
Securities transfer tax	**–**	281
Strategic advisory fees	**–**	301
Unrealised forex losses	**15 686**	7 946
Normalised earnings used in the calculation of basic earnings per share	**219 108**	491 820
Weighted average number of ordinary shares for the purposes of basic earnings per share ('000)	**595 812**	597 519
Normalised basic earnings per share in cents	**36.8**	82.3

8. Earnings per share continued

8.4 Headline earnings

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

2020	Gross	Net of tax
Basic earnings from continuing operations	**73 713**	**73 713**
Adjustments	**206 503**	**205 902**
Loss on disposal of property, plant and equipment	**2 683**	**2 082**
Impairment of building	**5 820**	**5 820**
Impairment of goodwill (refer note 17)	**198 000**	**198 000**
Headline earnings from continuing operations	**280 216**	**279 615**

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

	2020 R'000	2019 R'000
Basic earnings from discontinued operations	–	(77 057)
Adjustments (net of tax)	–	52 258
Profit on disposal of property, plant and equipment and customer contracts	–	(7 000)
Impairment of brands	–	34 258
Impairment of goodwill	–	25 000
Headline earnings from discontinued operations	–	(24 799)
Headline earnings from continuing and discontinued operations	**279 615**	332 975
Headline earnings per share in cents		
From continuing operations	**46.9**	59.9
From discontinued operations	–	(4.2)
From continuing and discontinued operations	**46.9**	55.7
Diluted headline earnings per share in cents		
From continuing operations	**46.8**	59.8
From discontinued operations	–	(4.2)
From continuing and discontinued operations	**46.8**	55.6

8. Earnings per share continued

8.5 Normalised headline earnings per share (HEPS)

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

2020	Net
Normalised basic earnings from continuing operations	219 108
Adjustments	205 902
Impairment of goodwill (refer note 17)	198 000
Impairment of property, plant and equipment	5 820
Loss on disposal of property, plant and equipment	2 082
Normalised headline earnings from continuing operations	425 010
Normalised headline earnings per share from continuing operations (cents)	71.3

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

9. Directors' remuneration

Name/designation	Basic salary R'000	Bonuses R'000	Total remuneration and benefits R'000
2020			
AV van Rensburg (Executive Director)	6 111	2 065	8 176
RW Smith (Executive Director)	4 200	621	4 821
CB de Villiers (Executive Director)	3 500	928	4 428
W Luhabe (Chairman Non-Executive Director)	1 110	–	1 110
JP Landman (Lead Independent Non-Executive Director)	720	–	720
S Masinga (Independent Non-Executive Director)	730	–	730
S Khanna (Independent Non-Executive Director)	860	–	860
A Andrews (Independent Non-Executive Director)	72	–	72
Total – 2020	17 303	3 614	20 917
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

Mr CB de Villiers was appointed as executive director effective 1 January 2020 and Ms A Andrews was appointed effective 1 November 2020.

10. Property, plant and equipment

During the year ended 31 December 2020, the Group had capital expenditure of plant, equipment and computer software in the amount of R345 million (2019: R401 million). Significant capital expenditure projects continued during the year within the Perishables category, included a further R8 million investment in relation to milk receiving and distribution centre upgrades within the Lancewood division following a R45 million investment in 2019. Hard-cheese manufacturing and packaging upgrades continued at a cost of R65 million following the R42 million investment in the prior year.

Within the Groceries category, Montagu Foods upgraded lines and invested in a new honey packing facility at a total cost of R10 million and R15 million was invested within the Baking & Baking Aids category to upgrade Amaro Foods' artisanal facility and acquire generator capacity.

Within the Snacks & Confectionery category, upgrades to Ambassador Foods' facilities, which included the relocation of its confectionery operations, totalled R24 million, and R31 million was invested to consolidate four HPC manufacturing and warehousing facilities into a new facility.

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 2019.

11. Leases

This note provides information for leases where the group is a lessee.

	2020 R'000	2019 R'000
Amounts recognised in the consolidated statement of financial position		
Non-current right-of-use assets	**649 533**	655 596
Non-current lease liabilities	**(692 372)**	(677 674)
Current lease liabilities	**(90 596)**	(75 712)
Right-of-use assets[1]		
Right-of-use assets at 1 January	**655 596**	510 304
Lease modifications[2]	**(761)**	110 829
Additions and derecognitions	**118 357**	137 850
Depreciation for the year	**(123 659)**	(103 387)
Right-of-use assets at 31 December	**649 533**	655 596
Deferred tax asset		
Opening balance at 1 January	**25 852**	19 662
Movement for the year	**12 642**	6 189
Balance at 31 December	**38 494**	25 851
Lease Liabilities		
Lease liabilities recognised as at 1 January	**(753 386)**	(588 230)
Lease modifications[2]	**761**	(110 829)
Additions and derecognitions	**(115 105)**	(126 789)
Add: finance costs	**(64 370)**	(55 085)
Less: lease payments	**149 132**	127 547
Balance at 31 December	**(782 968)**	(753 386)

1 The majority of the value of the right-of-use assets relate to property leases. The other equipment related leases are deemed not to be material and as such are not disclosed separately.

2 Lease modifications mainly consist of lease extensions that occurred in the current and prior year.

	2020 R'000	2019 R'000
Amounts recognised in the consolidated statement of profit or loss and other comprehensive income		
Depreciation of right-of-use asset	**(123 659)**	(103 387)
Finance costs in respect of lease liability	**(64 370)**	(55 085)
Short-term and low value lease charges*	**31 535**	11 458

* Short-term and low value lease charges are due within the next twelve months.

The total cash outflow for leases in the current year was R149.1 million (2019: R127.5 million).

There were no significant variable payments in the current and prior year.

	2020 R'000	2019 R'000

12. Share capital

Share capital	**4 727 314**	4 727 314
Authorised capital comprises: 10,000,000,000 ordinary shares of no par value 1,000,000 preference shares		
Issued capital comprises: 595,812,254 (2019: 595,812,254) fully paid ordinary shares of no par value	**4 727 314**	4 727 314
1,000,000 preference shares of no par value	**–**	–
	4 727 314	4 727 314

12.1 Movements in fully paid ordinary shares

R'000	**Number of shares[1]**	**Share capital**
Balance at 1 January 2019	607 759 505	4 818 884
Share repurchase	(11 947 251)	(91 570)
Balance at 31 December 2019	595 812 254	4 727 314
Balance at 31 December 2020	**595 812 254**	**4 727 314**

[1] Included in the number of shares are 73,049,783 treasury shares with a share capital value of R0.7m wholly-owned by Employee Share Trusts established for the benefit of employees of the Group.

There were no changes in share capital in the current year. Ordinary shares entitle the holder to participate in dividends. These rights are subject to the prior entitlements of the preference shares. On a show of hands every holder of ordinary shares present at a meeting, in person or by proxy, is entitled to one vote, and on a poll each share is entitled to one vote.

The unissued shares are under the control of the directors until the forthcoming annual general meeting.

During the year under review Business Venture Investments No 2072 (Pty) Ltd subscribed for 517 473 subscription shares at a subscription price of R14.88 per share on 30 April 2020 and 554 723 subscription shares at a subscription price R15.32 per share on 30 September 2020. Libstar Holdings repurchased the same number of Nominal BEE shares at R0.01 per share on the respective dates.

During the year under review Business Venture Investments No 2071 (Pty) Ltd subscribed for 604 838 subscription shares at a subscription price of R14.88 per share on 30 April 2020 and 646 089 subscription shares at a subscription price R15.32 per share on 30 September 2020. Libstar Holdings repurchased the same number of Nominal BEE shares at R0.01 per share on the respective dates.

Alterations to authorised and issued shares

During the prior year 11 974 251 shares were repurchased at an average price of R7.66.

13. Shareholder analysis

Ordinary shares as at 31 December 2020

DIRECTORS' INTERESTS

ORDINARY SHARE CAPITAL	December 2020				December 2019			
DIRECTOR	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	**6 040 381**	**–**	**6 040 381**	**0.89%**	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%
CB de Villiers[2]	**7 742**	**–**	**7 742**	**0.00%**	–	–	–	0.00%
W Luhabe	**–**	**–**	**–**	**0.00%**	–	–	–	0.00%
JP Landman[1]	**–**	**95 000**	**95 000**	**0.01%**	–	75 000	75 000	0.01%
S Masinga	**–**	**–**	**–**	**0.00%**	–	–	–	0.00%
S Khanna	**–**	**–**	**–**	**0.00%**	–	–	–	0.00%
A Andrews[2]	**–**	**–**	**–**	**0.00%**	–	–	–	0.00%
WS Hamid^	**–**	**–**	**–**	**0.00%**	–	–	–	0.00%

^ Resignations in the prior period: WS Hamid

1 Indirect shares held by Ruland Trust, an associate of JP Landman

2 Appointed in the current period: CB de Villiers, A Andrews

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.

The only change in directors' interests or any share dealings by directors in the ordinary shares of the Company subsequent to 31 December 2020 and to the date of this report, was the purchase of 10 000 shares by the Ruland Trust, an associate of JP Landman.

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;

13. Shareholder analysis continued

ORDINARY SHAREHOLDER SPREAD	Number of shareholders	Number of shares	% of shares in issue
Public	1 848	249 066 641	36.5%
Non-public	9	432 854 767	63.5%
■ Directors	3	9 996 038	1.5%
■ Associates of directors	1	95 000	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	336 654 584	49.4%
Total issued shares	1 857	681 921 408	100.0%

^ Libstar Operations Proprietary Limited an subsidiary of Libstar Holdings Limited, purchased 13,059,363 treasury shares during the 2018 and 2019 financial year 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	84 191 507	12.3%
Business Venture Investments 2071 *	39 334 499	5.8%
Business Venture Investments 2072^	33 715 284	4.9%

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

^ Business Venture Investments No 2072 (RF) Proprietary Limited (BDT SPV), is wholly-owned by an BEE Development 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	1 781	95.9%	70 325 709	10.3%
1 000 001 – 3 000 000 shares	39	2.1%	69 605 901	10.2%
3 000 001 – 6 000 000 shares	28	1.5%	119 357 569	17.5%
6 000 001 – 40 000 000 shares	7	0.4%	117 613 712	17.2%
More than 40 000 000 shares	2	0.1%	305 018 517	44.7%
	1 857	100.0%	681 921 408	100.0%

14. Share-based payments

	2020 R'000	2019 R'000
Non-current liabilities:		
Cash settled share appreciation rights (LTI scheme)	–	2 353
Cash settled share based payments (LTIP)	**13 935**	6 194
	13 935	8 547
Current liabilities		
Cash settled share appreciation rights (LTI scheme)	–	4 156
Equity:		
Equity settled share based payments (GSP)	**7 798**	2 211

14.1 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 Initial Public Offering. Issue prices were adjusted to take into account a suitable discount factor.

The Group wound down this scheme during the current year, and the final allocations in terms of this scheme that were made in 2018 vested in the current year.

The following share appreciation rights were awarded to date:

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**

14. Share-based payments continued

14.1 Details of the cash settled share appreciation rights scheme of the Group (LTI scheme) continued

14.1.1 MOVEMENTS IN SHARE APPRECIATION RIGHTS DURING THE YEAR

The following table reconciles the share appreciation rights outstanding:

	Number of units issued (vested)	Weighted average issue price R	Value R'000
Balance at 1 January 2018	8 680 459	11.87	34 019
Movement in fair value of units vested in 2018	(4 086 513)	–	(18 945)
Allocated during the year	7 150 161	12.92	5 737
Balance at 1 January 2019	11 744 107	12.92	20 811
Movement in fair value of units vested in 2019	(4 593 946)	–	(14 302)
Balance at 31 December 2019	7 150 161	12.77	6 509
Movement in fair value of units vested in 2020	(6 451 943)	–	(4 139)
Movement in fair value of units forfeited in 2020	(698 218)	–	(2 370)
Balance at 31 December 2020	–	–	–

The first allocation of units vested in full on 31 December 2018. The second allocation of units vested in full on 31 December 2019 and the last units vested in full on 31 December 2020. Vested units have been fully settled in the current year. Refer to note 14.1 for the share-based payments in terms of LTI scheme.

14.2 Details of the Long-term Incentive Scheme of the Group – (LTIP scheme)

In the prior year the Group 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").

A summary of each component of offer under LTIP is set out below.

14.2.1 SHARE APPRECIATION RIGHTS (SARs)

On 4 April 2019 and 8 April 2020, eligible employees were allocated conditional and notional awards, at an allocation price of R8.08 and R6.33 respectively, which if settled in the future will be settled in cash. 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 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, i.e.: between the vesting date of 4 April 2022 and the maturity date of 4 April 2026 for the 2019 grant; and between the vesting date of 8 April 2023 and the maturity date of 8 April 2027 for the 2020 grant. PSP and FSP also have a 4 year exercise period similar to the SARs.

The performance condition is measured over a minimum of a three 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.

14. Share-based payments continued

14.2 Details of the Long-term Incentive Scheme of the Group – (LTIP scheme) continued

14.2.1 SHARE APPRECIATION RIGHTS (SARs) continued

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 by the number of awards expected to vest to arrive at a total value. Refer to 14.2.4 for the inputs and assumptions used in the measurement of the fair values at grant date and reporting date.

Refer to 14.2.5 for number of awards issued during the current and prior year. None of the SARs had vested as at 31 December 2020.

14.2.2 PERFORMANCE SHARE PLAN (PSP)

On 4 April 2019 and 8 April 2020, 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 three performance criteria have been met and the award holder exercising their right.

In contrast to the SARs, the award holders receive the cash equal to the Libstar share value in full.

The awards vest 3 years after allocation at 4 April 2022 for the 2019 grant and 8 April 2023 for the 2020 grant, when the rights may be exercised to the extent that the performance condition, as described below, has been met.

The performance conditions are measured over the three 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 14.2.1) – 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 TSR performance condition.

Vesting is further contingent on the award holder remaining employed by the Group.

Refer to 14.2.5 for number of awards issued during the current and previous year. None of the PSPs had vested as at 31 December 2020.

14.2.3 DETAILS OF THE FORFEITABLE SHARE PLAN (FSP)

On 4 April 2019 and 8 April 2020, 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 receive the cash equal to the Libstar share value in full.

The awards vest 3 years after allocation at 4 April 2022 for the 2019 grant and 8 April 2023 for the 2020 grant, when the rights may be exercised to the extent that the performance condition, as described below, has been met.

The performance condition is measured over the three year period starting at the allocation date and ending at the vesting date. Subject to the discretion of the Board and remuneration committee, the awards will vest if Libstar attains a “Compliant 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.

Refer to 14.2.5 for number of awards issued during the current and prior year. None of the FSPs had vested as at 31 December 2020.

14. Share-based payments continued

14.2 Details of the Long-term Incentive Scheme of the Group – (LTIP scheme) continued

14.2.4 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 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 by the number of awards expected to vest to arrive at a total value. Refer to 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 was 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 the number of awards expected to vest to arrive at a total value.

14. Share-based payments continued

14.2 Details of the Long-term Incentive Scheme of the Group – (LTIP scheme) continued

14.2.4 FAIR VALUE OF THE LTIP continued

	2020	2019
Valuation date – 31 December 2020		
Grant date	**8 April 2020**	4 April 2019
Vesting date	**8 April 2023**	4 April 2022
Maturity date	**8 April 2027**	4 April 2026
Allocation price	**R6.33**	R8.08
Share price at valuation date	**R6.33**	R6.33
Awards issued – SARs	**10 165 185**	6 156 748
Awards issued – PSP	**1 664 576**	1 101 830
Awards issued – FSP	**415 989**	275 444
Forfeiture rate p.a	**5.00%**	5.00%
Dividend yield p.a	**See Table below**	See Table below
Risk-Free interest rate	**BESA Swap Curve**	BESA Swap Curve
Volatility	**See Table below**	See Table below
Exercise Multiple	**1.8**	1.8
Non-Market performance conditions vesting percentages	**See Table below**	See Table below

	Expected Dividend Yields and Volatility Range at 31 December 2020
Expected Dividend Yields	
Scenario	
Lower Bound	**2.50%**
Mid Estimate	**2.75%**
Upper Bound	**3.00%**
Volatility Range	
Scenario	
Lower Bound	**42.35%**
Mid Estimate	**44.85%**
Upper Bound	**47.35%**

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 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 2020 was considered to arrive at a range which is deemed to be reasonable.

Non-Market Performance Conditions Vesting Percentages

	Expected Vesting Percentage at 31 December 2020
Expected NHE vs. CPI Performance Condition Vesting Percentages	
Scenario	
Lower Bound	**60.00%**
Mid Estimate	**65.00%**
Upper Bound	**70.00%**
Expected ROAA vs. WACC Performance Condition Vesting Percentages	
Scenario	
Lower Bound	**70.00%**
Mid Estimate	**75.00%**
Upper Bound	**80.00%**
Expected B-BBEE Performance Condition Vesting Percentages	
Scenario	
Lower Bound	**65.00%**
Mid Estimate	**70.00%**
Upper Bound	**75.00%**

14. Share-based payments continued

14.2 Details of the Long-term Incentive Scheme of the Group – (LTIP scheme) continued

14.2.5 MOVEMENTS IN LTIP COMPONENTS DURING THE YEAR

The following table reconciles the three LTIP components outstanding:

	Number of units issued (forfeited)	Value R'000
Share Appreciation Rights (SARs)		
Balance at 1 January 2019	–	–
Awards issued – 4 April 2019	8 474 882	3 743
Movement in 2019 units and fair value	(1 364 053)	(969)
Balance at 31 December 2019	7 110 829	2 774
2019 Awards forfeited in current year	(954 081)	–
Movement in fair value of 2019 units (including forfeiture)	–	636
Awards issued – 8 April 2020	11 610 050	–
2020 Awards forfeited in current year	(1 444 865)	–
Movement in fair value of 2020 units (including forfeiture)	–	2 996
Balance at 31 December 2020	**16 321 933**	**6 406**
Performance Share Plan (PSP)		
Balance at 1 January 2019	–	–
Awards issued – 4 April 2019	1 586 360	3 158
Movement in 2019 units and fair value	(208 416)	(418)
Balance at 31 December 2019	1 377 944	2 740
2019 Awards forfeited in current year	(276 114)	–
Movement in fair value of 2019 units (including forfeiture)	–	1 330
Awards issued – 8 April 2020	1 897 120	–
2020 Awards forfeited in current year	(232 544)	–
Movement in fair value of 2020 units (including forfeiture)	–	2 490
Balance at 31 December 2020	**2 766 406**	**6 560**
Forfeitable Share Plan (FSP)		
Balance at 1 January 2019	–	–
Awards issued – 4 April 2019	396 659	736
Movement in 2019 units and fair value	(52 066)	(56)
Balance at 31 December 2019	344 593	680
2019 Awards forfeited in current year	(69 149)	–
Movement in fair value of 2019 units (including forfeiture)	–	(62)
Awards issued – 8 April 2020	474 226	–
2020 Awards forfeited in current year	(58 237)	–
Movement in fair value of 2020 units (including forfeiture)	–	351
Balance at 31 December 2020	**691 433**	**969**
Total balance of the 2019 LTIP at 31 December 2019	8 833 366	6 194
Total balance of the 2019 LTIP at 31 December 2020	**7 534 022**	**8 098**
Total balance of the 2020 LTIP at 31 December 2020	**12 245 750**	**5 837**
Total balance of the LTIP at 31 December 2020	**19 779 772**	**13 935**

14. Share-based payments continued

14.3 Details of the Group Share Plan – GSP

In the prior year the Group also developed a new share-settled Group Share Plan (known as the "GSP"). 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").

These allocation methods of the three 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 dates were 31 July 2019 and 8 April 2020. Further details of the GSP components are not included and should be read together with of the LTIP scheme components above. Refer to section 14.2.1 – 14.2.3.

14.3.2 FAIR VALUE OF THE GSP

The valuation methods used to value the three components of the GSP are substantially similar to the valuation methods of the LTIP, except that the GSP valuation is a once off valuation at grant date where the LTIP is at grant date and subsequently at every reporting date due to it being cash settled. Refer to section 14.2.4 for further details.

The following inputs were used as at 31 December 2020 to calculate a fair value for the three components of the GSP. Service and non-market performance conditions attached to the arrangements were not taken into account in measuring fair values.

	2020	2019
31 July 2019 GSP		
Valuation date – GSP 31 July 2019		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
8 April 2020 GSP		
Valuation date – GSP 8 April 2020	**8 April 2020**	
Grant date	**8 April 2020**	
Vesting date	**8 April 2023**	
Maturity date	**8 April 2027**	
Share price at grant date	**R6.20**	
Awards issued – SARs	**2 824 546**	
Awards issued – PSP	**1 897 120**	
Awards issued – FSP	**474 226**	
Forfeiture rate p.a	**5.00%**	5.00%
Dividend yield p.a	**See Table in section 14.2.4**	See Table in section 14.2.4
Risk-Free interest rate	**BESA Swap Curve**	BESA Swap Curve
Volatility	**See Table in section 14.2.4**	See Table in section 14.2.4
Exercise Multiple	**1.8**	1.8
Non-Market performance conditions vesting percentages	**See Table in section 14.2.4**	See Table in section 14.2.4

14. Share-based payments continued

14.3 Details of the Group Share Plan – GSP

14.3.3 MOVEMENTS IN GSP COMPONENTS DURING THE YEAR

The following table reconciles the three GSP components as at 31 December 2020:

	Number of units issued	Value R'000
Share Appreciation Rights (SARs)		
Balance at 1 January 2019	–	–
Awards issued – 31 July 2019	2 269 550	597
Balance at 1 January 2020	**2 269 550**	**597**
Recognition of fair value of 2019 awards over vesting period	–	1 223
Awards issued – 8 April 2020	2 824 546	808
Balance at 31 December 2020	**5 094 096**	**2 628**
Performance Share Plan (PSP)		
Balance at 1 January 2019	–	–
Awards issued – 31 July 2019	1 274 590	1 391
Balance at 1 January 2020	**1 274 590**	**1 391**
Recognition of fair value of 2019 awards over vesting period	–	3 242
Awards issued – 8 April 2020	1 897 120	2 482
Balance at 31 December 2020	**3 171 710**	**7 115**
Forfeitable Share Plan (FSP)		
Balance at 1 January 2019	–	–
Awards issued – 31 July 2019	318 796	223
Balance at 1 January 2020	**318 796**	**223**
Recognition of fair value of 2019 awards over vesting period	–	493
Awards issued – 8 April 2020	474 226	371
Balance at 31 December 2020	**793 022**	**1 087**
Total balance of the 2019 GSP at 31 December 2019	3 862 936	2 211
Total balance of the 2019 GSP at 31 December 2020	**3 862 936**	**7 169**
Total balance of the 2020 GSP at 31 December 2020	**5 195 892**	**3 661**
Total balance of the GSP at 31 December 2020	**9 058 828**	**10 830**
Weighted average remaining contractual life of the GSP outstanding at end of period:		
2019 GSP		1,58 years
2020 GSP		2,27 years

The range of exercise prices for the GSP at end of period:

	Lower Bound Value (price per unit)	Mid Estimate Value (price per unit)	Upper Bound Value (price per unit)
2019 GSP			
SARs	R1.69	R1.89	R2.09
PSP	R7.68	R7.86	R8.03
FSP	R4.74	R5.05	R5.34
Total	R14.11	R14.80	R15.46
2020 GSP			
SARs	**R1.17**	**R1.33**	**R1.48**
PSP	**R5.37**	**R5.50**	**R5.63**
FSP	**R3.21**	**R3.43**	**R3.64**
Total	**R9.75**	**R10.26**	**R10.75**

None of the SARs, awards of the PSP and FSP vested as at 31 December 2020.

14. Share-based payments continued

14.4 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:

	2020	2019
Credits relating to share appreciation rights granted (LTI scheme)	(2 370)	(1 456)
Charges relating to long-term incentive scheme (LTIP scheme)	7 741	6 194
Charges relating to share based payments (GSP)	5 587	2 211
	10 958	6 949

14.5 Impact of current economic environment and COVID-19 on fair value measurements and awards

The LTIP and GSP share-based payments are valued based on the valuation results of the external valuator. These valuation results are based on the valuation inputs and assumptions as described above. The inputs and assumptions used in the current year valuations have been adjusted to factor in the current economic conditions and the impact of COVID-19. The valuation results include a lower bound, mid estimate and upper bound scenario. In the prior year, the mid estimate scenario was used to value the share-based payments.

Management, after consideration of the current economic conditions and potential impact of COVID-19, has taken a prudent approach and valued the 2019 LTIP, 2020 LTIP, 2019 GSP and 2020 GSP sharebased payments based on the lower bound scenario.

The Company continued to make share awards in the current year amidst the current economic impacts. The Remuneration Committee will continue to evaluate the social and economic impacts prior to making future awards.

15. Cash generated from operations

	2020 Audited R'000	2019 Audited R'000
Cash generated from continuing operations		
Profit before taxation from continuing operations	180 027	493 009
Adjustments for:	846 312	641 345
Depreciation and amortisation	491 021	433 296
Loss on disposal of property, plant and equipment	2 683	466
Impairment loss on goodwill (refer note 17)	198 000	–
Impairment loss on building	5 820	–
Expected credit loss allowance movement on other financial assets	653	–
Expected credit loss allowance movement on trade and other receivables	(11 590)	11 398
IFRS 16 non-cash lease modifications	(3 252)	(11 275)
Investment income	(44 720)	(54 025)
Finance costs	230 130	262 774
Other financial assets written off	946	–
Sundry income – loans payable written off	(29 754)	–
Fair value adjustment on forward exchange contracts	(427)	4 276
Movements in employee benefits – medical aid plan	(17)	332
Employee benefits contributions paid	(585)	(620)
Other non-cash movements in employee benefits	568	952
Movements in share based payments	6 819	(5 897)
Share based payments in terms of LTI scheme	(4 139)	(12 846)
Other non-cash movements in share based payments	10 958	6 949
Changes in working capital:	(117 660)	(189 577)
Increase in inventories	(115 352)	(96 600)
Decrease/(increase) in trade and other receivables	5 229	(152 069)
Increase in biological assets	(1 887)	(2 745)
(Decrease)/increase in trade and other payables	(5 650)	61 837
	908 679	944 777

16. Subsequent events

The Board has resolved to pay a dividend of 25 cents per share (gross) in respect of the year ended 31 December 2020. There have been no other material subsequent events from the reporting date to the date of issue of this announcement. Specific consideration was given to the potential impact of COVID-19 subsequent to reporting date to the date of issue of this announcement.

17. Goodwill impairment

The carrying amount of the Denny Mushrooms business unit within the Perishables cash-generating group has been reduced to its recoverable amount through recognition of an impairment loss against goodwill. This impairment loss is included in operating expenditure in the statement of profit or loss and other comprehensive income.

The effect of COVID-19 has been most apparent in the Group's sales channels. In particular, the food service channel was most adversely affected by the closure of hospitality venues and restaurants due to the second quarter level 5 lockdown restrictions and subsequent lower restaurant occupancy rates during the second half of the current year. The food service channel slowdown had a particularly pronounced impact on the Denny Mushrooms business unit. The impact of the lower mushroom sales volumes on the innately high fixed-cost nature of Denny Mushrooms' farming operations, adversely impacted profitability.

Corrective actions taken by the Group included increased mushroom price realisation, the containment of costs and the significant recovery of its retail channel market share from previous lows. Despite these efforts, the prevailing competitive market conditions, high operating cost structure and declining sale volumes have interrupted Denny Mushrooms' recovery. Considering these factors, the Group has applied a conservative downward revision of Denny Mushrooms' five-year growth forecasts.

In so doing, an impairment loss of R198 million has been recognised in relation to goodwill attributable to Libstar's investment in Denny Mushrooms. The recoverable amount of Denny Mushrooms was calculated at a conservative terminal growth rate of 4.7% and an after-tax discount rate of 13.0%. No class of asset other than goodwill related to Denny Mushrooms was impaired.

18. Impact of COVID-19

In March 2020, the World Health Organization formally recognised COVID-19, the novel strain of coronavirus, as a pandemic. As a result of various actions taken by national and local governments worldwide to curb the pandemic, including the temporary closure of certain businesses, various travel restrictions, and the mandatory containment of large segments of the global population within their geographic regions, the pandemic is proving to have a profound human and economic impact across the globe.

The Group has been impacted by COVID-19 during the current year. Revenue from the Group's retail and wholesale channel increased, whilst revenue from its food service channel decreased relative to the prior year. The Group has also noted a marked increase in the cost of operations required to maintain a safe working environment for its employees. The total direct COVID-19 related expenses for the year amounted to R64.7 million.

The full extent of the impact of the COVID-19 pandemic on the Group has yet to be established. However, the Board expects the following factors to continue to have an impact on the Group:

- Changes in the Group's sales channel mix attributable to national or provincial lockdown restrictions;
- Additional operating costs attributable to the COVID-19-pandemic;
- Supply chain disruptions; and
- A weak macro-economic climate, high rate of national unemployment and weakening consumer disposable income.

Impact on the results of the Group

Libstar incurred extraordinary COVID-19 expenses of R64.7 million to maintain a safe working environment for its employees. This included donations in the amount of R5.3 million to needy communities, personnel-related benefits of R28.5 million and R30.9 million in direct operating expenses. Personnel-related expenses mainly comprised staff transport benefits. Direct operating expenses related mainly to the cost of personal protective equipment (PPE).

18. Impact of COVID-19 continued

Further consideration was given to the following matters as a result of COVID-19:

- There has been an increase in the provision for slow moving stock from R21.2 million to R36.8 million. The Group held higher inventory levels in the current year in order to respond to the potential negative impact of COVID-19 on the supply chain and meet customer demand. Due to the impact of COVID-19, management further increased the provision for stock write-down from 2% to 3% of inventory in the current year.
- The Group increased its provision for doubtful debtors from R6.4 million to R18.0 million as a result of the impact of COVID-19. In relation to trade receivables, management has considered forward-looking information (macro-economic forecast data such as the five-year CPI forecast) to evaluate the impact on expected future default rates, in particular with regards to trade receivables exposed to the food service channel. In the light of the current economic environment and the potential future impact of COVID-19, management increased the risk-to-default factor per each aged bucket.
- The LTIP and GSP share-based payments are valued based on the valuation results of the external valuator. These valuation results are based on the valuation inputs and assumptions as described above. The inputs and assumptions used in the current year valuations have been adjusted to factor in the current economic conditions and the impact of COVID-19. Management, after consideration of the current economic conditions and potential impact of COVID-19, has taken a prudent approach and valued the 2019 LTIP, 2020 LTIP, 2019 GSP and 2020 GSP share-based payments based on the lower bound scenario.
- There are no significant restructurings or planned restructurings as a result of COVID-19.
- Other than the impact of COVID-19 on Denny Mushrooms as disclosed in note 17, there are no significant impairment losses related to financial assets and non-financial assets as a result of COVID-19. An impairment loss of R198 million was recognised in relation to goodwill attributable to the Group's investment in the Denny Mushrooms division.
- There are no significant discontinued operations or planned discontinuations as a result of COVID-19.
- No contingent liabilities or litigation matters arose as a result of COVID-19.

Impact on segmental results of the Group

All segments produce and sell products within the Group's four sales channels. As a result, all segments were positively impacted by increased retail and wholesale channel demand, whilst all channels were also adversely impacted by reduced revenue from the food service channel. Refer to the segmental analysis for further details on the results of the segments.

Impact on EPS and HEPS

The Group's HEPS and EPS has been impacted by COVID-19, particularly in relation to extraordinary expenses in the amount of R64.7 million (pre-tax) incurred to maintain a safe working environment for employees. The extent and timing of further costs cannot be determined at this time, however the expenses are not expected to materially adversely impact the Group's access to liquidity used to manage its operations.

Impact on debt covenants

As at 31 December 2020, the Group's leverage ratio (Senior Borrowings to EBITDA) was 1.3 (2019: 1.3) against a covenant of no more than 2.5. EBITDA to senior interest cover ratio was 8.0 (2019: 7.0) against a covenant of at least 3.5.

The Group remains solvent, liquid and operates well within the facility covenants established by its lenders.

The Board will continue to monitor the impact of COVID-19 on the Group's operations and its financial position to take timeous action where required.

Corporate information

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Forward-looking statements

This integrated annual report contains certain forward-looking statements. These include statements regarding our intentions, beliefs or current expectations concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the economic and business circumstances occurring from time to time in the markets in which Libstar operates, including the projected future financial and operating impacts of the COVID-19 pandemic.

All such forward-looking statements involve estimates and assumptions that are subject to risks, uncertainties and other factors that could cause actual future financial condition, performance and results to differ materially from the plans, goals, expectations and results expressed in the forward-looking statements and other financial and/or statistical data within this report.

It is believed that the expectations reflected in this integrated annual report are reasonable, but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated. Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser. The forward-looking statements reflect knowledge and information available at the date of preparation of this report and the Group undertakes no obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on such forward-looking statements. No statement in this communication is intended to be a profit forecast.

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