

Chairman's statement

Overview

Oceana produced excellent results in the year under review, with headline earnings per share 46% ahead of those of the previous year.

A final dividend of 130 cents per share was declared which, together with the interim dividend of 26 cents per share, makes a total distribution of 156 cents per share for the year (2007: 106 cents).

The economic benefits of Oceana's diversified activities in a number of inshore and deep-sea sectors in fishing and in cold storage were once again reflected in the results achieved.

The major contributors to increased profitability were higher sales volumes and improved margins for most products on both local and export markets.

The 90th anniversary of Oceana's incorporation was celebrated across the group in July. To add to the sense of achievement during the year Oceana was included amongst the top 50 companies, in the earnings over ten years category, in a Sunday Times survey in November 2007 and was placed 7th amongst the Financial Mail's Top Empowerment companies in April. It is also included in the JSE's SRI index whose eligibility criteria have become steadily more exacting.

Sustainability

Sustained growth in earnings is dependent on the complementary and mutually supportive functioning of many factors, including availability of fish, secure long-term fishing rights (quotas), efficient catching and processing plants, consumer demand and the ability to maintain margins in times of escalating costs. The business requires good skills, a sound administrative platform and a strong balance sheet.

Fish resources, access rights and management

The integrity and soundness of the biomass of fish species is essential for sustained fishing by the industry. Oceana supports responsible management of all species it catches, which includes adjustments to total allowable catches (TACs) and catching effort from season to season.

Commentary on the status of some of the fish species landed by Oceana is included in the sustainable fisheries report. The group's share in the TAC is summarised in the table below:

Species	Oceana's percentage of TAC	
	2008	2007
Pilchard – South Africa	14,4	14,3
Pilchard – Namibia (via Etosha)	9,3	9,3
Anchovy	16,8	16,7
Horse mackerel – South Africa	18,8	18,8
Horse mackerel – Namibia	26,7	28,0
Hake • trawl	1,1	1,1
• longline	1,4	1,4
Lobster • west coast (commercial)	21,3	21,4
• south coast	3,2	3,2
Squid	4,3	4,3

Management of South Africa's living marine resources is controlled by the Marine and Coastal Management (MCM) branch of the Department of Environmental Affairs and Tourism (DEAT), with input from universities and sectoral working groups to enable the fishing industry to engage in a participative process of sharing knowledge, expertise, catch statistics and seeking agreement on a modus operandi most likely to promote sustainable harvesting. Oceana participates in sectoral working groups each season and contributes to research and management by assisting with surveys of a number of species.

Climate change has an effect on fish availability and behaviour, as well as supplies of other raw materials. The activities of Oceana's environmental committee during the year included addressing climate

1958 Permission was given for two fishmeal plants to be built at Hout Bay, one by South African Sea Products and the other in an Oceana Group joint venture. This was in response to a perceived southward movement of pilchard shoals.

1957 The Oceana Group of fishing companies was formed. It united the operations of five of the biggest South African fishing companies and was hailed a triumph of organisation.

The Oceana Group now had control over a factory at Walvis Bay, six of the 14 pilchard factories in the Cape and ten rock lobster processing factories along South Africa's west coast.





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change as it may or does affect Oceana’s business and measurement of greenhouse gas emissions and their reduction and neutralisation.

It is essential that the TACs and, in particular, the commercial parts of them be set at objectively justifiable levels, so as to support the industry which catches in a lawful and responsible manner, produces an important source of protein for the country, employs a large number of people in the formal sector, and is a strong net earner of foreign exchange for South Africa.

Oceana’s investment in the industry and its consistent performance as measured on the triple bottom line basis justify the holding of adequate long-term rights (LTR). These rights, expressed as a percentage of the TAC, are included in the table on the previous page.

During the year Oceana purchased additional hake longline and horse mackerel quotas in South Africa, and awaits formal transfer

from the sellers. The group’s west coast lobster percentage declined marginally by consent following adjustments to correct administrative errors by the regulator. The share of the Namibian horse mackerel TAC declined as a consequence of the regulator adjusting the mass of quotas of all holders after a reduction in TAC from 300 000 tons to 230 000 tons in 2008.

Oceana successfully defended its status in the judicial review of hake sector allocations of long-term fishing rights during the year. Applications for judicial review of allocations in the lobster and pelagic sectors have yet to be heard. Oceana is confident of the merits of its allocations and will defend its position to the fullest extent in both reviews and appeals.

In a dynamic industry there are always parties desirous of exiting or of increasing their involvement. Oceana is well placed and qualified to acquire rights from persons who wish to dispose of them. This process is expected to accelerate once MCM settles the criteria for and conditions of transfer between non-related parties.

Fleet

Oceana’s fleet capacity can be summarised as follows:

Business division	Number of vessels		Total landing/hold capacity Tons	
	2008	2007	2008	2007
Oceana Brands				
– Pilchard and industrial fish	12	17	4 035	4 960
Etosha – Pilchard and industrial fish	4	3	2 350	1 550
Blue Continent				
– Horse mackerel SA	1	1	2 300	2 300
– Horse mackerel Namibia	3	2	4 050	2 700
– Hake	4	4	360	360
Oceana Lobster and Squid				
– West coast lobster	11	11	302	475
– South coast lobster (JV)	1	1	50 (tail wt)	50 (tail wt)
– Squid	5	5	130	130

1960 The August edition of *South African Shipping News and Fishing Industry Review* reported that Oceana factories from Hout Bay to Doringbaai were responsible for processing nearly half the total pelagic catch of the Cape west coast.

CHAIRMAN'S STATEMENT CONTINUED

Fleet capacity and vessel utilisation is augmented or reduced according to quota mass available from own quotas or those of contracted parties. Oceana's policy is to maintain and upgrade vessels and gear to remain economically viable in terms of operating costs and catch efficiency. All vessels are maintained according to sea-worthiness and health and safety laws and have advanced navigational and fish-finding technology. During the year the group spent some R80 million on the acquisition and refit of the horse mackerel midwater trawler *Desert Ruby* for Namibian operations and the midwater trawler *Iona* acquired by Etosha Fishing Corporation for Moroccan operations. The cost of fuels used in the group during the year increased significantly compared with the previous year. The effect on operating costs was partially managed by savings in fuel consumption in some sectors through adjustments to fishing strategy appropriate for resource availability and sea conditions.

Processing plants

Land-based pelagic processing plants are located at Hout Bay, St Helena Bay and through Etosha Fishing at Walvis Bay.

The pelagic canning factories at St Helena Bay and Walvis Bay embrace appropriate stringent internationally accredited food safety management plans. The plant in St Helena Bay has a capacity of 400 tons per day and that in Walvis Bay 600 tons per day. Whilst these capacities are currently large relative to the output, the plants have been suitably sized to cater for the large annual variations in raw material supply which are characteristic of pelagic species.

The two reduction plants located at Hout Bay and St Helena Bay can reduce 1 800 tons of raw fish per day into fishmeal and oil. The latest indirect drying technology is employed with the mutual advantage of producing superior products of the desired standard required by the aquaculture sector and at the same time resulting in processing that is more environmentally friendly. The reduction plant in Walvis Bay has a capacity of 900 tons of raw fish per day and produces product that is suitable in particular for the poultry industry.

Oceana Lobster has a cooking and freezing plant at St Helena Bay, which includes a liquid nitrogen freezing facility, to achieve enhanced product quality, and a live-lobster holding and dispatch operation at Hout Bay. Both facilities are fully approved by the Hazard Analysis of Critical Control Points (HACCP) approved with European Union (EU) accreditation, and

process not only Oceana's landings but those of third parties wishing to join Oceana in producing premium products for best markets.

South coast lobster is caught and held in tanks on board and transferred to a land-based factory where it is either packed as live or tails. Squid is bulk packed and frozen at sea, then transferred to a land-based cold store for repacking in calamari squid boxes.

Catches of horse mackerel and hake are packed and frozen at sea; some chilled hake is packed on land, for export.

The cold stores operated by Commercial Cold Storage are maintained to high standards with modern equipment and technology for handling, storing, accessing and monitoring products held for a diverse range of customers. The sterifruit facility at Maydon Wharf, Durban, is accredited by the Perishable Products Export Control Board for exports to Japan.

Procedures are in place to safeguard production continuity and cold store temperatures in the event of limited electricity supply shortages in the future. Oceana Brands has an effective working arrangement with Eskom to manage supplies in times of general shortage. The cold storage division has commenced with a project to install voltage smoothing and lower energy lighting.

All Oceana's production and service facilities are predicated on high quality, hygiene and safety, at competitive cost. Plant rationalisation and upgrading of facilities ensure that the group meets the requirements of HACCP, the EU, the United States Food and Drug Administration and



1962 Blue Continent Products (Pty) Ltd was founded and established as a broker and dealer in frozen fish and seafood products. Locally caught fish were sold on export markets and the company provided a means for foreign trawlers to sell their catch.

1963 Massive pilchard catches continued and 1963 marked the sixth year in succession that the total combined catch of South and South West Africa set a new record – the third million ton year in a row with a catch of 1 248 230 tons.

the National Regulator for Compulsory Specifications (NRCS) (formerly the South African Bureau of Standards).

Products and markets

Oceana's products range from basic to those requiring a high level of processing and include: fishmeal for animal and aquaculture feeds; fish oil for emulsifiers; canned fish for human consumption and pet food; frozen horse mackerel, hake and monk, live and frozen rock lobster and frozen squid for export markets; and French fries for the domestic market. This range, from a relatively limited number of species and production facilities, gives flexibility in variants and packaging specifications to meet consumer preferences in markets at home and abroad. Markets served are diverse, as to disposable income, tastes, and geographical location. Oceana has developed logistical and distribution channels in Central Africa, with local operators. Oceana is attentive and proactive to market dynamics. Consumers are identified as key stakeholders in the business, and effective communication with them is highly valued.

Oceana operates in a competitive domestic market (canned fish versus alternative proteins, eg poultry and processed meats) and international market (usage of fishmeal versus soya; horse mackerel versus freshwater and dried fish, hake versus white fish from aquaculture) and this ensures that prices remain competitive.

Skills and training

Oceana's business requires significant engineering and technical expertise and competencies. Recruitment and retention of skilled staff, and continuous upgrading of in-house skills, is regarded as a priority. Oceana has a graduate recruitment programme in place, focusing on broad-based black economic empowerment (B-BBEE) candidates. Training in a variety of technical and business-related skills is provided for employees, from internal resources and through third parties, eg tertiary institutions. Group training is organised through a centralised department. Expenditure on training in 2008 was R4,4 million (2007: R4,9 million). Employee remuneration, based on cost to company, includes initiatives to retain and motivate skilled staff.

Financial and administration

The successful completion of 90 years of growth and expansion is testimony to good management, financial discipline and efficient administration. In recent years Oceana has restructured and rationalised its operating and organisational systems, including enhanced information

systems (IS) applications, for reasons of operational efficiency and to achieve sustainable cost savings. Group-wide functions of IS, payroll and human resources, specifically the areas of training and development and performance, reward and talent have been centralised.

Governance

Every aspect of business activity is regulated by increasingly onerous and complex laws and regulations, from catching and processing fish, operating plant and machinery, product safety and hygiene, marketing and consumer protection, and in the work place. To assist in group-wide awareness and compliance Oceana engages in in-house instruction, consultation with professional advisers, internal audit and other assurance testing, and has its own procedures to integrate this process. During the year the Oceana Code of Business Conduct and Ethics was revised, as were formal policies relating to fraud, discipline and grievances, computer and internet usage, socio-economic development, HIV/AIDS and BEE procurement.

Appreciation

I appreciate the support I received from my fellow directors during the year and the commitment of management and staff to the development of the group. During the year Messrs N Dennis and NP Doyle resigned and Messrs PG de Beyer, M Fleming and PB Matlare were appointed to the board.

Prospects

The effects of this year's volatility in financial markets are likely to spill over into 2009 as consumers' income and confidence are tested and producers deal with the constraints of scarce and expensive credit facilities, across the globe. These effects will impact on supplies of raw materials and demand and prices for Oceana's products. Oceana has the resources, skills and expertise to adapt to challenges which it may encounter. I am confident that the group will produce good results in real terms.



MA Brey
Chairman

13 November 2008



1967 Lamberts Bay Canning Company invested in Sea Products (SWA) as the South West African fishery continued to achieve excellent catches and caught and processed some 790 000 tons.