*Andrew Marshall*
*CHIEF EXECUTIVE OFFICER*

Operating profit and headline earnings were ahead of last year despite difficult fishing conditions in most of the sectors in which the group is active. This achievement underscores the importance of the group's strategy of investment in a diversified range of fishing sectors. Our strategy will be to continue operating in a number of different sectors to secure and increase volumes by working together with joint venture partners and contractual suppliers as well as to acquire quotas from willing sellers of long term fishing rights.

The groups' fleets and processing facilities performed well under the circumstances in terms of efficiencies, yields and cost containment. Product quality, efficient distribution, marketing, and brand protection and development were well managed.

Capital expenditure during the year was R94,3m (2005: R46,1m). The commercial cold storage facilities at Bayhead in Durban and Epping in Cape Town were expanded and a modification made to the Maydon Wharf sterifruit facility. Replacement capital expenditure was mainly on horse mackerel trawler refurbishments and plant and machinery at the St Helena Bay cannery.

As will be seen from the sustainability report on page 24 considerable energy and resources were directed towards employment equity, training and development, CSI initiatives, environmental responsibility and good practices.

## Financial performance

Group turnover decreased by 1% largely due to lower volumes of canned fish on the domestic market.

Operating profit before abnormal items increased by 1% to R183,3m (2005 restated: R180,7m). Improved results were recorded by the midwater and deep-sea fishing segment due mainly to exceptional results from the horse mackerel business and reversal of losses in hake and tuna. The inshore fishing segment was negatively affected by poor pilchard catches which resulted in stock shortages and lower sales volumes.

Abnormal items represent primarily the provision raised in respect of the estimated value of the deemed improper use of the surplus in the Oceana Group Pension Fund. Operating profit after abnormal items was 16% higher than the previous year which had included the write down of the investment in Namibian white fish interests.

Net investment income increased by 11% on last year due mainly to higher average cash holdings. Working capital levels were consistently low. Net cash and cash equivalents at year end amounted to R126,7m (2005: R283,2m) after the cash outflow resulting from the group's contribution to the funding of its BEE transaction on 28 September 2006.

Earnings attributable to own shareholders increased by 21%. Headline earnings increased by 8% and by 6% on a per share basis.

## Oceana Brands

The Oceana Brands division is engaged in fishing for small pelagic species (pilchard and anchovy) and in the production, marketing and distribution of fishmeal and branded canned fish products, particularly pilchards under the Lucky Star label in southern Africa and the Glenryck label in the UK. Canned products required in excess of that produced at Oceana's cannery in St Helena Bay and at Etosha Fishing Corporation in Walvis Bay, are sourced from other local and offshore producers.

### *Canned fish*

The South African pilchard total allowable catch (TAC) for 2006 was 204 000t (2005: 382 119t). Oceana's pilchard fleet consists of five steel hulled vessels with chilled or refrigerated holds, and three smaller vessels. Oceana's quotas and those of its pilchard joint venture partners were landed either directly to the cannery in St Helena Bay or at an off-loading facility in Mossel Bay and then transported by road to the cannery. The cannery processed a total of 39 796t of fish in the year to 30 September, compared with 36 201t in the prior year. Fishing was slow from October 2005 to May 2006, whereafter it improved although periods of winter weather interrupted fishing. The bulk of fish was caught off the southern and south eastern Cape coast which, due to the long distance from the cannery in St Helena Bay, added to the cost of landed fish. At the end of September Oceana had landed 71% of its pilchard quotas compared with 72% by the industry in total. Landing the balance of the outstanding quotas by close of season on 31 December 2006 will be challenging, particularly if the fish do not move further westwards closer to the canning factory. The average fish size was slightly larger than the previous year although the cannery production yield per ton reduced due to the quality of fish delivered. Cannery production amounted to 2,2m cartons of fish in the twelve months to 30 September, the same as in 2005.

The Namibian pilchard TAC was unchanged on that of last year, at 25 000t. It was announced late in the season, and despite a concerted effort no landings of pilchard had been made by Etosha Fishing Corporation or other industry operators by financial year end.

*The Lucky Star brand retained its leading position and popularity throughout the country.*

Pilchard is in short supply worldwide and the company managed to import only a small quantity to augment supplies to the local market. Efforts to procure alternative sources of supply of canned fish remain a focus area for management.

Demand for canned pilchards on the local and export markets was strong, with insufficient supply of product to fully meet demand which resulted in an increase in prices during the year. Despite the present shortage and competitive market situation, Oceana's Lucky Star brand retained its leading position and the popularity and quality assurance of the brand continued to be promoted. Sales volumes of Lucky Star canned fish, however, were substantially lower than the previous year.

Glenryck Foods, Oceana's canned fish operation in the UK, recorded increased turnover mostly attributable to higher canned tuna sales volumes and prices. Various new product lines marketed under own brand and dealers brands have been successfully added to the range of canned fish products provided to the UK retail and catering markets over the past two years. The product range includes canned pilchard, tuna, salmon and mackerel. Most of Glenryck's canned pilchard was sourced from Morocco due to the lack of production at Etosha whilst the company maintained various sources of supply for its tuna and other products. Glenryck's profits increased in sterling and rand terms.

Overall, profits from canned fish operations declined substantially compared to the previous year.

### *Fishmeal*

Oceana's industrial fishing fleet, consisting of ten vessels, co-owned and managed with joint venture partners (augmented by pilchard vessels where appropriate), operates from St Helena Bay and Hout Bay. All landings of fish are directed to the nearest Oceana processing plant as soon as possible thereby ensuring good quality and protein levels in the fishmeal produced.

The anchovy TAC in South Africa in 2006 was 362 251t (2005: 315 648t). In the twelve months to 30 September input to Oceana's fishmeal plants was 101 648t (2005: 188 896t) from Oceana's own quotas plus those of its joint venture partners and including non quota catches and offal from the cannery. At year end Oceana had completed 59% of its "A" season anchovy quotas, which was slightly behind the industry total of 62%, and is unlikely to land the full "A" season quota by close of season. The "B" season quota, which is allocated for catching mainly from September to December each year and which must be free of pilchard by-catch, will therefore not be landed this season.

Fishmeal production from Oceana's South African factories was 25 342t (2005: 46 537t). Industrial fish landings at Etosha (juvenile horse mackerel) amounted to 23 072t to 30 September (2005: 29 250t which included offal from the canning process) which produced 5 443t of fishmeal (2005: 7 250t).

Yields were satisfactory and targeted protein levels and quality standards were achieved. Costs were well managed. Product is sold on the local and export markets. Prices rose steeply in the second half of the year as a result of strong world demand and a short supply situation in major markets. Operating profits, however, were lower due to lower volumes.

### *Other*

Lamberts Bay Foods produces french fries at a factory located in Lamberts Bay, sourcing potatoes from all major growing areas in South Africa and selling products to fast food chains, retailers and wholesalers. The business produced very good results, with record sales volumes and strong support from well known fast food franchises.

## OCEANA LOBSTER SQUID AND ABALONE

### *Lobster*

Oceana's west coast lobster operations are based in Hout Bay (processing live lobster) and St Helena Bay and Doring Bay (frozen products). The season opens in mid-November and closes on 30 September the following year. Oceana currently has a fleet of 12 vessels, equipped and operated so as to maintain all landings in the best possible condition, for optimum yields and product quality. The west coast lobster TAC was 3 173t (2005: 3 527t). The final allocation of long term rights to Oceana amounted to 490t (2005: 594t).







The issuing of fishing permits by M&CM during the season under review was unfortunately plagued by delays. Delays in the long term rights appeal process resulted in approximately 24% (551t) of the commercial TAC not being issued to rights holders by close of season, and it therefore remained uncaught. In Oceana's case 117t of lobster remained uncaught due to this restriction in the fishing permit. In addition, prolonged poor weather and rough sea conditions in August and September compounded the disruption to normal fishing operations. Oceana's fleet landed 367t of its own lobster quota being 21t short of the actual amount allocated to it, by permit, out of its quotas. In 2005 the full quota (594t) was landed. The Minister has granted permission for the uncaught quota to be carried over to the 2006/2007 season.

Prices in foreign currency terms increased as a consequence of the general shortage of lobster products on the world market, due to unusual environmental occurrences in several major producing areas. The differential in the price realisations of live and frozen product narrowed to correct the imbalance which had developed following the build up of frozen stock in past seasons. In 2006 59% of Oceana's landings were directed into live product.

The south coast lobster TAC was 382t (2005: 382t), with Oceana's quota amounting to 12,3t (2005: 18,1t). It was landed in full and exported mainly in live form at good prices.

Overall, profit from lobster operations was marginally higher than the previous year.

### *Squid*

Oceana's squid operations are conducted by subsidiary Calamari Fishing, based in Port Elizabeth. The company owns five vessels equipped to pack and freeze the catch at sea. Vessel performance was excellent. Oceana landed 560t of squid (2005: 503t) of good quality. Demand and prices for squid on major markets were good and the operation recorded a profit compared to a breakeven result last year.

### *Abalone*

Oceana's abalone operations were conducted by subsidiary Tuna Marine based in Hermanus. The business was acquired in 1990 and contributed meaningfully to the group's results until poaching became a major factor affecting the biomass which led M&CM to reduce the TAC year after year. The government terminated the access rights of the original quotaholders in this sector at the end of 2006. This necessitated a scaling down of activity and retrenchment of workers in the last two years, with a decision being taken to dispose of the processing business and assets.

The 2006 abalone TAC was 223t (2005: 237t), with Oceana's quota 15,4t (2005: 17,5t), all of which was landed by close of season. Quality was good. Almost all production was directed into canned product, for which market demand and prices were good.

## BLUE CONTINENT PRODUCTS

The BCP division is engaged in fishing, processing and trading of horse mackerel, hake and tuna. Its primary operating subsidiaries are Blue Continent Products, Oceana International, Desert Diamond Fishing and Erongo Marine Enterprises in Namibia. The Montevideo (Uruguay) and Kaohsiung (Taiwan) trading offices of Interpesca International were closed towards the end of the year.

The division achieved an excellent performance, with good catches, demand for products and prices.

### *Horse mackerel*

BCP operates a midwater trawl vessel in South Africa, the Desert Diamond (7 628 gross tons) and two in Namibia, the Desert Jewel (4 407gt) and the Desert Rose (4 407gt). These vessels fish in their respective national waters and catch, process and pack the catch at sea, ready for despatch to market.

The horse mackerel fishing season in both South Africa and Namibia runs from January to December each year. The Namibian midwater trawl TAC for 2006 was 315 000t (2005: 310 000t) and in South Africa was unchanged at 31 500t. Namibian quotas held by companies associated with Oceana were 78 701t (2005: 77 215t). Oceana's quota in South Africa was 5 922t (2005: 5 803t).

Oceana's South African 2006 quota was completed in full by 30 September, with the vessel continuing thereafter to land fish against quotas of other rights holders which have contracted with BCP. It is hoped to complete the Namibian quotas by close of season in December. Vessel performance in terms of catch rates and running costs was good, allowing for the Desert Diamond's non availability for two months whilst undergoing a refit and reflagging on the SA shipping register and also the refit of the Desert Rose.

Achievements with regard to continuous improvement included the use of cheaper heavier grade fuel oil through the HFO conversion on all three horse mackerel vessels; energy saving by improving vessel operating procedures; improved efficiency in the tonnage of fish blast frozen per hour; experimenting with different nets and gear to improve catching efficiency; and improving the quality and appearance of packaging.

Demand for South African and Namibian frozen horse mackerel in the major markets in Central and West Africa was strong and at good prices. Oceana International has for some years been promoting brand recognition and developing structured and reliable distribution and logistics channels in its main markets to improve market penetration and margins. Results from these distribution channels in Angola and DRC were pleasing however the Cameroon operation was closed.

### *Hake*

BCP's hake fishing operations are restricted to South Africa, where two deep sea trawl vessels the Compass Challenger (841gt) and Realeka (497gt) are used to catch and process its own quotas, as well as additional volumes from other rights holders engaged in joint venture or supply agreements with the company. A third vessel, the eBhayi, operated from Port Elizabeth, was withdrawn from service in August as it was economically unviable as a result of the reduction of Oceana's hake quotas issued in terms of its long term rights.

The deep sea trawl hake TAC for 2006 was 125 321t (2005: 132 076t), with Oceana's quotas at 1 337t (2005: 2 281t). The long line hake TAC was 9 775t (2005: 10 309t) with Oceana's quota at 167t (2005: 114t).

Good prices were obtained for hake product (mainly headed and gutted) on international markets. Profits were very satisfactory, despite Oceana's small hake quotas.

### *Tuna*

Despite competitive conditions experienced in tuna trading, financial results showed a turnaround to a creditable profit during the past year.

## Commercial Cold Storage

Subsidiaries in this division own and operate eight commercial cold stores in South Africa and Namibia, of which three (Maydon Wharf Fruit Terminal, CCS Duncan Dock and CCS Walvis Bay) are on the quayside. Total capacity available to the market is in excess of 100 000t, following capacity expansions at the Epping and Bayhead stores. The facilities all offer a technologically high-quality and efficient service to importers, exporters and local manufacturers/distributors for the handling and storing of all classes of chilled and frozen product.







Average occupancy and activity levels throughout the year were good, mostly in poultry, fish, meat, vegetables and fruit products.

Imports of poultry and processed meats were at a high level, as were volumes of fish and fruit for export. Deciduous fruit export volumes handled by the division's Paarden Eiland store were very satisfactory. Citrus export volumes through Durban did not meet expectations as a consequence of quality issues faced by producers, following drought conditions in 2004/2005, and a decision by South African citrus producers to limit exports to Japan, after an oversupply in 2005.

The division has well-established core competencies in fruit handling and storage, ie in equipment and technology, geographical location in relation to growing areas and export ports, and staff and management skills.

Operating costs were well managed. Recycling of fresh water achieved appreciable savings in volume usage and costs, and a programme is underway to evaluate electricity savings in a joint initiative with Eskom.

Average occupancy levels for frozen products increased over that of the prior year resulting in increased turnover whilst throughput volumes were lower resulting in lower handling revenues, particularly for citrus exports. Operating profit increased marginally on the previous year.

## Conclusion

The LTR application process imposed significant demands on the time and resources of senior management in fishing divisions. Now that this process has been completed, as well as the transaction to increase Oceana's BEE ownership, management will focus on the rationalisation of existing operations and corporate structure as well as opportunities to grow the business by securing access to additional volumes through acquisitions, joint ventures and contractual arrangements.

Andrew Marshall
*Chief Executive Officer*
10 November 2006

*CCS owns and manages over 100 000t capacity of cold storage facilities (l-r) Walvis Bay, Namibia; City Deep, Johannesburg; Paarden Eiland, Duncan Dock and Epping, Cape Town and including Maydon Wharf and Bayhead in Durban (pages 40/41).*