

# Integrated report 2017

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# OUR BRANDS



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# INVESTMENT CASE

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## 1. Balanced and optimised portfolio

- With the completion of the Group's exit from the broiler meat market, Quantum Foods has reduced exposure to the cyclical nature of the poultry industry.
- The Group has established itself as the largest contract producer of live broilers, supplying its own day-old chicks and feed, to the South African market.
- Continued focus on growing revenue from external feed sales, livestock and the Group's other African operations.
- Established egg business in South Africa, with Nulaid achieving the status of the best egg brand in the country for the fourth consecutive year.
- A strong market position with growth potential in animal feed and livestock.

## 2. Africa growth traction and prospects

- Proven track record of success in Africa – operating in Zambia and Uganda for over 18 years.
- Further expansion of the existing table egg businesses in Zambia, Uganda, Mozambique.
- Strategic opportunities in other African countries will be considered.

## 3. Efficient cost base

- The Group has an efficient cost base, and cost management remains a key focus.
- The current cost base provides an ideal position from which bolt-on acquisitions can be made.
- Targeted cost-saving initiatives are identified annually.

## 4. Solid cash-generating ability

- Quantum Foods has no material debt on its balance sheet and has sufficient debt capacity to enable organic growth, as well as growth through acquisitions.
- The Group has a healthy asset base from which to grow production of feed, layer and broiler livestock, as well as drive egg and broiler sales, without significant further investment.

## 5. The right people

- The Group has a team of talented, experienced and motivated employees with a strong desire to succeed, while maintaining sound ethical standards and regard for the environment.



# ABOUT THIS REPORT

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## OVERVIEW

This is the fourth integrated report of Quantum Foods Holdings Ltd and its subsidiaries (“Quantum Foods”, “the Group” or “the Company”). It covers the financial period from 1 October 2016 to 30 September 2017.

This report is aimed primarily at the Group’s shareholders and other interested stakeholders. It provides a holistic overview of Quantum Foods’ strategy, performance and business activities, as well as a measure of the Group’s ability to ensure a sustainable business future.

The King IV Report on Corporate Governance™ for South Africa, 2016, (“King IV™”) and the International Integrated Reporting Council’s (“IIRC’s”) Integrated Reporting <IR> Framework, were considered in the compilation of this report. In accordance with the <IR> Framework, the Group considers the six capitals, namely financial, manufactured, intellectual, human, social and relationship and natural capital, in the compilation of this report.

## SCOPE AND BOUNDARY

Quantum Foods is a public company, duly incorporated in South Africa under the provisions of the Companies Act, Act 71 of 2008, as amended, and its regulations (“the Companies Act”). It is listed on the Johannesburg Stock Exchange Ltd (“JSE”) main board in the “Farming and Fishing” sector under the share code QFH.

The report provides financial and non-financial performance data on the Group’s business activities in all its operating geographies, including South Africa, Mozambique, Uganda and Zambia, and for all subsidiaries of the Group.



*More information is provided in the business overview section on page 20.*

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The scope of non-financial information provided in this report expands on that provided in the previous year, with a primary focus on the Group’s South African business activities. Quantum Foods is committed to improving the level of integration of its reporting over time.

## REPORTING PRINCIPLES AND COMPARABILITY

The summary consolidated financial statements provided in this integrated report are extracted from the full statutory financial statements available on the Group’s website: [www.quantumfoods.co.za](http://www.quantumfoods.co.za).

The financial statements were prepared in accordance with International Financial Reporting Standards (“IFRS”), the requirements of the Companies Act and the Listings Requirements of the JSE (“JSE Listings Requirements”) and were audited by PricewaterhouseCoopers Inc. (“PwC”).

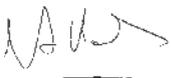
There were no material changes to the business’ operating model during the reporting period that affect historical comparability.

## ASSURANCE

The Group did not seek external assurance for the integrated report as a whole. However, assurance for certain elements of this report was provided by a combination of internal and external sources. This integrated report is the product of comprehensive and detailed internal content development and control processes, with oversight and responsibility at executive level. Quantum Foods' broad-based black economic empowerment ("B-BBEE") score was externally assured by Empowerdex. The Group appreciates the need for an increased level of external assurance in its reporting of non-financial elements in particular, and will continue to pursue improvement in this area.

## BOARD APPROVAL

Quantum Foods' board of directors ("the Board"), assisted by its audit and risk and other committees, is ultimately responsible for overseeing the integrity of the integrated report. The Board confirms that it has collectively reviewed the output of the reporting process and the content of the integrated report, and therefore approves the report for release.



**WA Hanekom**  
Chairman



**HA Lourens**  
Chief Executive Officer

## FEEDBACK

Quantum Foods is committed to communicating meaningfully with its stakeholders, and would therefore appreciate feedback on the effectiveness of this report. Any feedback can be emailed to the Group's company secretary, Ntokozo Makomba, at [Ntokozo.makomba@quantumfoods.co.za](mailto:Ntokozo.makomba@quantumfoods.co.za).



*This report is available on the Company website: [www.quantumfoods.co.za](http://www.quantumfoods.co.za)*

## FORWARD-LOOKING STATEMENTS

Certain statements in this integrated report may constitute "forward-looking statements". Actual results and performance of the Group may differ materially from those implied by such statements due to many factors. Readers are therefore cautioned not to place undue reliance on such statements. The Group does not undertake any obligation to update any revisions to these statements publicly after the date of this report.

## NAVIGATIONAL ICONS

The following navigational icons are featured throughout this report to increase usability and demonstrate supporting information:



This icon refers to where additional information can be found in this report.



This icon refers to where additional information can be found on the Company website: [www.quantumfoods.co.za](http://www.quantumfoods.co.za).

## COMMONLY USED TERMS

The following industry terms are commonly used throughout this report:

<b>Birds</b>	All varieties of live chicken, i.e. meat-type chicken, egg-type chicken, day-old chicken, layer chicken, etc.
<b>Broilers</b>	Also “broiler chickens”: a young, tender chicken of a meat-type strain suitable for roasting or grilling
<b>Day-old chicks</b>	Chicks that are one day old, usually from the same stock as broilers
<b>Day-old pullets</b>	Female layer chicks that are one day old
<b>Feed conversion rate</b>	The quantity of feed, in kilograms, required by birds of the egg type to produce 1 dozen table eggs, or required by birds of the meat type to produce 1 kg of broiler meat
<b>Free-range eggs</b>	Eggs produced from poultry kept in natural conditions that include freedom of movement
<b>Hatching eggs</b>	Fertile eggs produced on a breeding farm
<b>Layers</b>	Mature female chickens (at least 19 weeks old) used to produce marketable egg products
<b>Liquid eggs</b>	A product especially for the catering industry, where eggs are sold in liquid form
<b>Livestock</b>	Farmed animals kept for commercial use
<b>Parent stock</b>	Chickens bred specifically for further reproduction. There is different parent stock for broiler and egg-type chickens
<b>Point-of-lay</b>	The age at which a pullet lays its first eggs
<b>Poultry</b>	All forms of domestic fowl, e.g. chickens, turkeys, ducks, geese, etc.
<b>Rearing</b>	The process of growing a day-old chick or pullet into a mature bird
<b>Table eggs</b>	Eggs intended for consumption. Table eggs are normally graded according to a number of criteria, including weight and quality

## MATERIAL MATTERS

Quantum Foods has identified the matters that could significantly impact its value-creation abilities, strengths, risks and opportunities in the short, medium and long term.

Senior decision-makers of the Group were involved in a structured process to identify and prioritise the following economic, environmental and social matters for inclusion in this report. These matters were presented to, and approved by, the Board. More information is available throughout this report, as referenced:

MATERIAL MATTER	CONTEXT AND BUSINESS RESPONSE	MORE INFORMATION
<b>Economic</b>		
Market understanding of Quantum Foods' changed broiler business model	The Group has significantly hedged its exposure to the broiler meat market in South Africa by strategically repositioning itself as a contract producer that sells live broilers to third-party abattoirs. Quantum Foods has to ensure that the effect of this change to the Group's broiler business model is understood by the market	Business overview – pages 20 – 23
Growth opportunities	The Group's experience, expertise and footprint in Africa enables it to identify and realise growth opportunities on the continent, specifically in the table eggs and livestock feed value chains.	Joint report of the chairman and chief executive officer – pages 32 – 36
	The planned upgrade of the Group's Olifantskop feed mill in Paterson, Eastern Cape, is complete. The focus is now on utilising the increased capacity to service the market, particularly the dairy market.	Business overview – pages 20 – 23 Strategic framework – pages 26 – 29
Growth opportunities	The Group converted a layer breeding farm and a layer hatchery in the Western Cape to a broiler breeding farm and broiler hatchery. Quantum Foods also embarked on a project to increase broiler hatchery capacity in the North West province by expanding its Hartbeespoort broiler hatchery.	Quantum Foods' strategic framework – pages 26 – 29
		Joint report of the chairman and chief executive officer – pages 32 – 36 Business overview – pages 20 – 23
Growth opportunities	The table egg expansion projects in Zambia and Uganda are complete, resulting in increased volumes of table eggs produced for sale. The Galovos table egg business in Mozambique (acquired in September 2016) further increased the volume of eggs sold outside South Africa during the year.	Business overview – pages 20 – 23 Joint report of the chairman and chief executive officer – pages 32 – 36

**MATERIAL MATTER****CONTEXT AND BUSINESS RESPONSE****MORE INFORMATION****Economic**

**Growth opportunities** As the Group could not extract the required level of efficiency from the facility, Quantum Foods exited a rental agreement for a point-of-lay rearing production facility near Ventersdorp in the North West province in July 2017. This reduced the Group's point-of-lay hen production capacity by 13%. Joint report of the chairman and chief executive officer – pages 32 – 36

**Ability to recover rising input costs** A volatile rand and fluctuations in the cost of local and international grain crops threaten the Group's profitability. The Group's main exposure to this matter is in the egg business, where the selling price of eggs is determined by supply and demand and, to a lesser extent, by the cost of production (of which feed is the main contributor). Quantum Foods recovers rises in input costs through a relentless focus on procurement, currency movement, efficiencies, and cost and margin management. Joint report of the chairman and chief executive officer – pages 32 – 36  
Strategic risks – pages 30 – 31

**Innovation** For the Group to diversify, grow and sustain its margins, it should develop products that cater for customers and markets. Feed formulation for optimal animal nutrition, in particular, is a highly technical field with many opportunities to innovate. In the Group's broiler and egg businesses, innovation is focused on the continuous enhancement of farming practices to optimise livestock health and production efficiencies. Business overview – pages 20 – 23

**Environmental**

**Poultry disease** Outbreaks of poultry disease can significantly impact the productivity, efficiency and financial performance of the Group's farming operations. The outbreak of highly pathogenic Avian Influenza ("AI") in South Africa in June 2017 significantly increased this risk, and has the potential to greatly reduce the national flock. Two of the Group's Western Cape egg layer farms and a Western Cape point of lay rearing farm, were infected with AI in September 2017. Biosecurity, vaccination and monitoring programmes are continually reviewed with the assistance of veterinary companies to improve the protection of the birds. Ensuring responsible business – pages 45 – 51  
Strategic risks – pages 30 – 31  
Joint report of the chairman and chief executive officer – pages 32 – 36

**Optimised procurement and the availability of key raw materials** The cost and availability of key raw materials required for animal feed production is an ongoing concern. This long-term threat was alleviated during the year following the harvest of record level crops in South Africa. The Group's centralised procurement team, which sources and secures feed raw materials through agreements with dependable local and international suppliers, further mitigates this risk. Strategic risks – pages 30 – 31  
Joint report of the chairman and chief executive officer – pages 32 – 36

MATERIAL MATTER	CONTEXT AND BUSINESS RESPONSE	MORE INFORMATION
<b>Environmental</b>		
Protecting the environment	As an agricultural business, the long-term sustainability of Quantum Foods depends on its ability to access a range of natural resources. It is therefore in the interest of the Group to contribute towards the protection of the environment by promoting sustainable agricultural and production practices, particularly with regard to water usage.	Ensuring responsible business – pages 45 – 51  Strategic risks – pages 30 – 31
Water availability and quality	To sustain a healthy agricultural business, the Group is dependent on continuous access to high-quality water across its operations, particularly in its poultry operations. While the Group successfully manages this need, climate change has the potential to impact the business in the long term. Water availability, especially in the Western and Eastern Cape provinces, is of particular concern due to ongoing and severe drought. In response, the Group has water contingency plans in place that can be implemented if its current water supply is interrupted.	Ensuring responsible business – pages 45 – 51  Strategic risks – pages 30 – 31
<b>Social</b>		
Ensuring the necessary skills to drive a high-performance culture	Attracting and retaining talented employees who can drive a high-performance culture is a priority for the Group. The business requires rare skill sets, particularly in the farming operations and egg business, where succession is a challenge. The Group strengthened its management team in the egg business and farming operations through a number of key appointments made during the year.	Remuneration report – pages 62 – 71  Strategic risks – pages 30 – 31  Ensuring responsible business – pages 45 – 51
Product safety and quality	The Group produces products for human and animal consumption. Quantum Foods therefore adheres to strict food safety protocols to retain its licence to operate. The Group has stringent quality-control processes in place, as well as a dedicated consumer-feedback channel that is actively monitored to ensure that any issues that arise are attended to swiftly and professionally.	Ensuring responsible business – pages 45 – 51

**MATERIAL MATTER****CONTEXT AND BUSINESS RESPONSE****MORE INFORMATION****Social**

B-BBEE and transformation

Quantum Foods recognises its obligation to contribute towards improving the socio-economic status of historically disadvantaged South Africans (“HDSA”). While the agricultural industry faces many transformation and skills challenges, the Group is committed to identifying and developing new managers and leaders, especially at farm level. The focus remains on transformation with priority pillars that include Employment Equity, Skills Development, Socio-economic Development, Enterprise Development and Preferential Procurement.

Ensuring responsible business – pages 45 – 51

Animal welfare

Livestock husbandry is critical to the success of the business. Quantum Foods therefore has an obligation to treat animals in accordance with required protocols, not only from an ethical and legal perspective, but also due to the concomitant impact on mortality and livestock production. In response, the Group frequently engages with external parties on matters related to animal welfare in a transparent and open manner.

Ensuring responsible business – pages 45 – 51

Health and safety

Quantum Foods is committed to ensuring that its operations are conducted in an environment that supports the health and safety of employees and the animals with which they work. Internal audits of premises are conducted regularly, on a rotational basis, to evaluate and improve health and safety compliance. Training of employees to ensure the necessary health and safety awareness and competency remains a priority.

Strategic risks – pages 30 – 31

Ensuring responsible business – pages 45 – 51





# Quantum Foods

is the largest producer of eggs in South Africa.

# QUANTUM FOODS AT A GLANCE

## PROFILE

Quantum Foods is a fully integrated, diversified feed and poultry business with four focus areas:



Animal feed



Layer and  
broiler farming



Eggs



Related business on  
the African continent

The Group provides quality animal protein to selected South African and African markets.

### South Africa

Animal feed is manufactured and sold under the Nova Feeds brand. External sales amounted to 343 205 tons for the year (2016: 301 562 tons), representing 54% of total feed volumes produced (2016: 51%). The balance is consumed internally by the Group's integrated layer and broiler poultry operations. The majority of external feed sales are to the dairy market, constituting 53% (2016: 56%).

Table eggs are sold under the *Nulaid*, *Safe Eggs*, *Quantum*, and retailers' own brands, while layer livestock (day-old chicks and point-of-lay hens of the Lohmann breed) are sold under the *Bergvlei Chicks* brand. During the year, *Nulaid* sold approximately 845 million (2016: 849 million) eggs of which the Group supplied 60% (2016: 57%) to the retail sector. During the year, *Nulaid* also sold approximately 70 million eggs as liquid egg products (2016: 89 million).

Day-old broiler chicks of the Cobb500 breed are sold under the *Bellevue Chicks* brand. An average of 1 012 700 (2016: 941 000) day-old broiler chicks per week were produced for sale, either as day-old broiler chicks or as live broilers, to third-party abattoirs or in the live bird market, under the *Tydstroom* brand.

### Other African countries

In Zambia, Quantum Foods operates a broiler and layer breeder business (selling day-old chicks), a feed business and a table egg business. The table egg business sold 89 million eggs during the year (2016: 81 million). This increase is due to the completion of an expansion project in December 2016, which resulted in increased production capacity and eggs available for sale in 2017.

The Group's Ugandan business comprises a broiler and layer breeder business, a feed business and a table egg business. The table egg production facility near Masindi was completed in 2016 and fully placed from June 2017 (a full population of layer hens was available for egg production). The table egg business sold 11 million eggs for the year (2016: 1 million).

In Mozambique, the business comprises of a table egg business located near Maputo, which supplies both the retail and informal markets. This business was acquired in September 2016 and sold 25 million eggs during the year.

## GEOGRAPHIC FOOTPRINT

**5.0%**

of Group revenue from Other African operations

2016: 4.1%

**632 000 tons**

feed produced in South Africa

2016: 597 000 tons

**915 million**

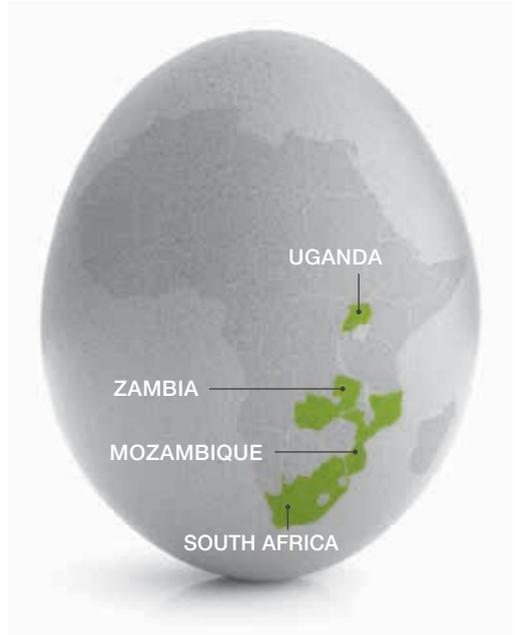
eggs sold in South Africa

2016: 938 million

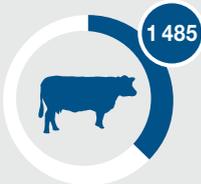
**52.7 million**

day-old broiler chicks produced per annum

2016: 48.9 million

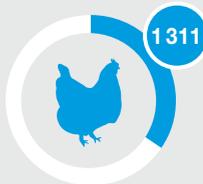


## EXTERNAL REVENUE CONTRIBUTION (R'M)



**ANIMAL FEED**

2016: 1 421



**FARMING**

2016: 1 327



**EGGS**

2016: 1 005



**AFRICA**

2016: 160

## GROUP STRUCTURE

Quantum Foods  
Holdings Ltd

100%

Quantum Foods  
(Pty) Ltd

100%

- Lohmann Breeding SA (Pty) Ltd
- Philadelphia Chick Breeders (Pty) Ltd
- Quantum Foods Zambia Ltd
- Quantum Foods Uganda Ltd
- Quantum Foods Mozambique, S.A.
- Bergsig Breeders (Pty) Ltd (28%)

# VALUE CHAIN AND BUSINESS MODEL

Quantum Foods generates value by providing affordable access to animal protein for the full spectrum of LSM consumers in selected South African and African markets. This takes the form of eggs and broilers as a core source of human nutrition, especially in Africa, where there is a need to mitigate the increasing risk of food and resource scarcity.

The Group creates value for customers and consumers by ensuring a consistent and fresh supply, ease of access and competitive pricing through trusted and market-leading brands. The Group's business activities enable an integrated and diversified

value chain that supports Quantum Foods' own poultry operations, while servicing the external market locally and in selected African countries. A strong focus on responsive and customised service and technical solutions (particularly in feed), is supported by leading expertise and dedicated points of contact.

Intellectual property ("IP") and licensing rights ensure continued value creation and provide shareholders with the certainty that the Group's competitive position remains viable and sustainable, with growth opportunities in market expansion and product innovation.

The Group's value creation is supported by its stock of the six capitals:



Financial

**The combination of a largely ungeared statement of financial position, sufficient debt capacity to enable growth, revenue generated, and investment by shareholders and financial institutions provides Quantum Foods with the financial capital it needs to grow.**



Manufactured

**Strategically located packing stations, feed mills, commercial hatcheries and poultry farms support Quantum Foods' business activities and enable extensive distribution coverage, locally and into Africa.**



Intellectual

**Leading brands, IP licences, in-house expertise and feed and farming capabilities (particularly with regard to layers and feed formulation) provide Quantum Foods with intangible assets that support value creation.**



Human

**The rare skills, expertise and experience of Quantum Foods' employees are critical in creating value.**



Social and relationship

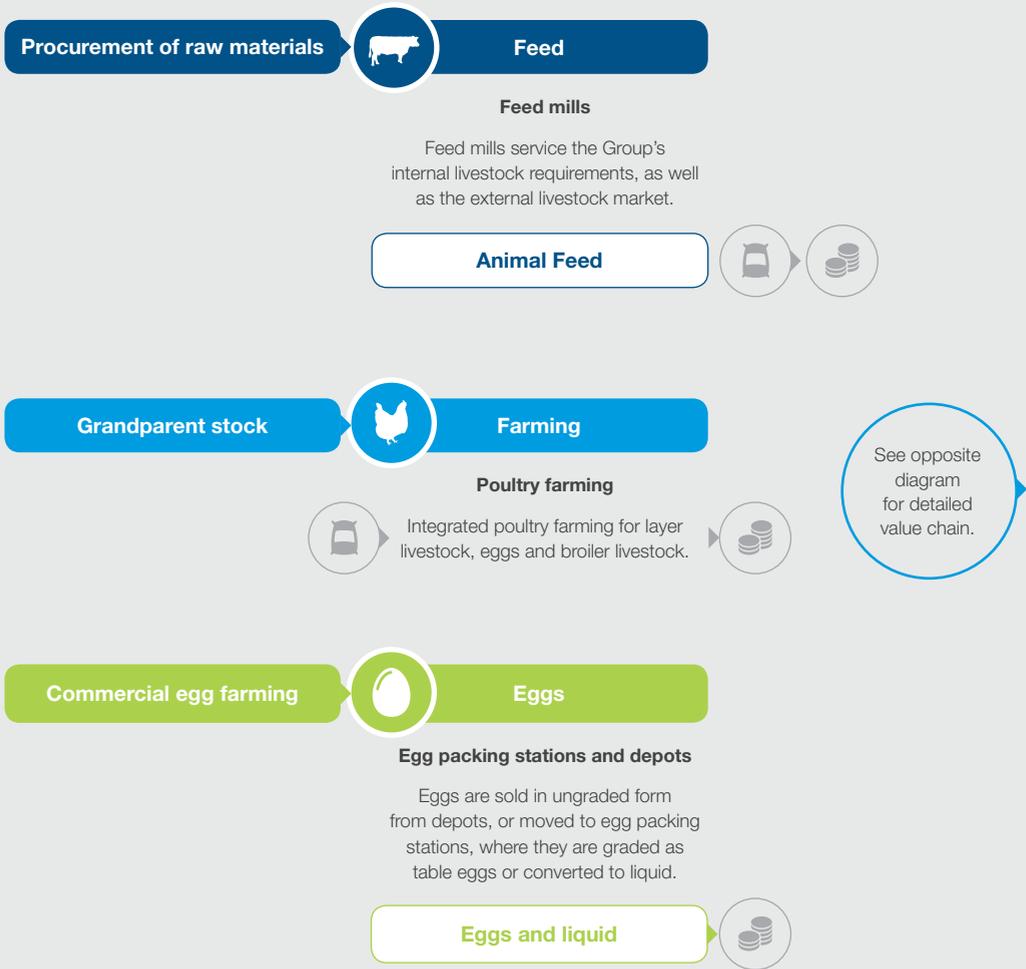
**A wide range of activities and interactions support Quantum Foods' relationship with its customers, suppliers and communities. The Group's working relationship with the National Society for the Prevention of Cruelty to Animals ("NSPCA") supports animal welfare, which is critical to the success of the business.**



Natural

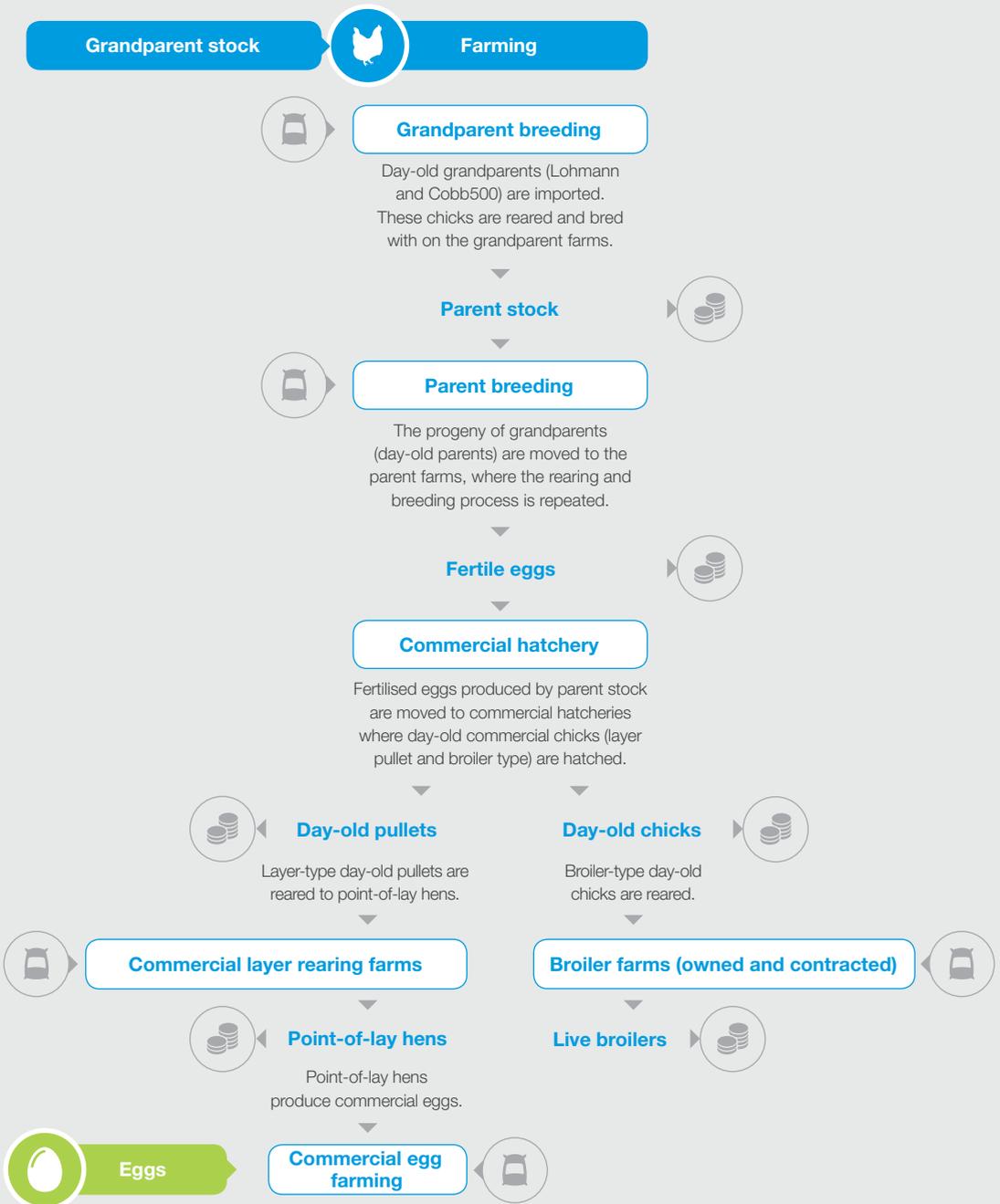
**The Group relies on a range of natural resources to enable its business activities. This includes, most importantly, grain, water and gas.**

The following diagrams illustrate Quantum Foods' business activities and value chain:



 Indicates in which areas of the value chain feed for internal use is applicable

 Sales to market



# FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

Through the Group's business activities, Quantum Foods generates financial and non-financial value for its stakeholders:



with increased revenue from external feed sales, egg sales and the Other Africa business

due to improved earnings from especially the Eggs business

- Dividend per share increased to 34.0 cents compared to 6.0 cents in 2016
- Number of employees increased from 2 130 in 2016 to 2 159 in 2017
- Table egg production increased in Zambia and Uganda following expansion projects, as well as in Mozambique following the acquisition of Galovos eggs near Maputo in September 2016
- Increased production capacity at the Olifantskop feed mill in Paterson, Eastern Cape
- Received an award from Cobb International for the best broiler breeder performance in the Europe, Africa and Middle East region for 2017
- Nulaid received the 2017/18 Kasi Star Brands egg category winner award
- Installed a second modern egg-grading machine at the Group's Western Cape egg-packing station following the installation of a similar machine at the Group's Gauteng egg-packing station in the previous year

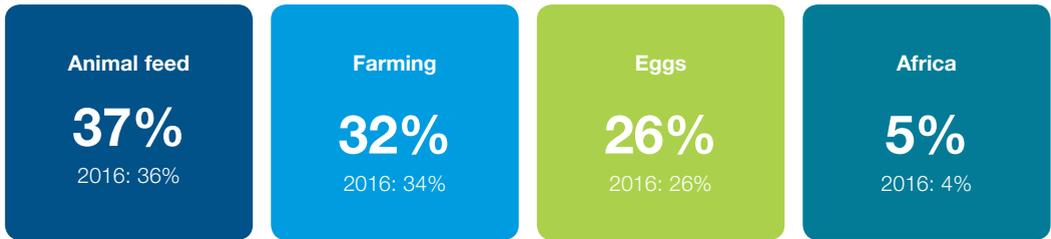


More information is provided in the business overview section on page 20.



# BUSINESS OVERVIEW

## REVENUE CONTRIBUTION PER BUSINESS



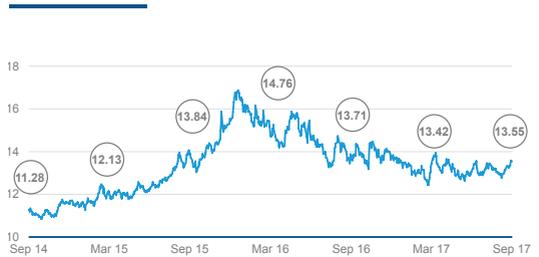
### Industry features

Companies operating in the feed and poultry industries in South Africa, Mozambique, Uganda and Zambia were challenged by tough trading conditions for the majority of the reporting period.

In particular, companies were affected by the high cost of raw materials for feed production due to a poor grain crop harvest in 2016. While subsequent improvement in the current agricultural season has led to cost reductions, other issues faced by the industry continue.

These include, for example, volatile currencies and muted consumer demand due to low levels of economic growth; continued pressure on the South African broiler industry due to dumping by international broiler exporters; and, in particular, South African layer flock diseases that negatively impact poultry productivity.

### RAND VS US\$



Difficult industry conditions were amplified by the outbreak of AI in South Africa – the first ever outbreak of this disease in the country’s poultry. AI results in substantial financial loss due to the immediate decimation of infected poultry, as well as lost production capacity as birds cannot be replaced immediately. Investigations into possible solutions are ongoing and are being considered in partnership with the South African Poultry Association. Possible solutions include preventative vaccination, which is currently in use in other parts of the world but not yet approved by the government for use in South Africa.

The South African government entered into an agreement with the United States in 2016 that allows for chicken meat to be imported at lower duties in order for South Africa to remain a beneficiary of the African Growth and Opportunity Act (“AGOA”). This continues to increase pressure on broiler producers in South Africa. While broiler meat imports from western European countries were temporarily terminated during the year due to outbreaks of AI, the import of vast quantities of broiler meat from mainly Brazil continued.

Quantum Foods is not a direct participant in South Africa’s broiler meat market and is therefore not directly exposed to these effects. However, financial pressure experienced by the abattoirs that are supplied by the Group could impact Quantum Foods.

The Mozambican, Ugandan and Zambian egg markets are less developed in terms of production volumes and per capita consumption than the South African egg market. While these markets have been impacted by slow economic growth related to the international commodity cycle, as well as increased raw material costs following drought, they are starting to recover. The broiler market in Zambia remains highly competitive following the expansion of mostly South African broiler producers into the country.

Layer hens and broilers remain highly efficient converters of feed into animal protein, with favourable conversion ratios of feed to final product compared to other animal protein sources. With the availability of arable land and water supply coming under continued strain, together with the expected increase in global demand for animal protein, poultry will remain a critical source of human nutrition in future.

## SOUTH AFRICA

### Animal feed manufacturing

Quantum Foods’ feed mills are located in Malmesbury, George, Paterson and Pretoria, where feed is sold under the *Nova Feeds* brand.

The Malmesbury site consists of two factories, bringing the total number of feed mills to five, with a total production capacity of approximately 60 000 tons per month. These mills are highly automated and are equipped to manufacture a wide variety of feeds for optimal animal nutrition. Integrated quality and safety systems are in place at all mills to ensure the

consistent output of high-quality products for livestock consumption.

Following the acquisition of the Olifantskop feed mill, the Group completed a factory upgrade to create additional production capacity and improved product quality through the introduction of new technology. This includes, for example, the installation of a modern pelletising machine for improved quality.

Nova Feeds has extensive expertise in the production and formulation of feeds for monogastric livestock (such as poultry) and ruminant livestock (such as cows). The main feed categories include poultry (broiler and layer), dairy, pig, ostrich and sheep feed. Feed is supplied to the integrated poultry farming operations and the external feed market.

Dairy feed represents the largest component of external sales, followed by poultry, pig and ostrich feed. Nova Feeds is the leading supplier of dairy feed in the Western Cape and Eastern Cape, and supplies feed to a number of the country’s leading dairy farmers.

## The Group remains focused on providing customised feed solutions, supported by high levels of technical service, to unlock value for customers.

### Farming

#### Layer farming

Lohmann Breeding SA (Pty) Ltd owns the rights to import pedigree grandparent layer stock of the Lohmann breed, as well as distribute next generation parent stock, exclusively in South Africa and non-exclusively to some southern African countries.

Day-old parent chicks are reared and placed on the Groups parent layer farm near Bronkhorstspruit as well as on a rented facility in KwaZulu-Natal. Fertile hatching eggs are incubated at the Group’s commercial hatchery in Bronkhorstspruit, Gauteng Province, which has a capacity to produce 7.8 million day-old pullets per annum. These female day-old chicks are either sold or placed on the Group’s six commercial rearing farms.

*Bergvlei Chicks* is the sales brand under which layer parent stock, hatching eggs, day-old pullets and point-of-lay hens are sold. The Group distributes nationally and into Botswana, Mozambique, Namibia and Swaziland – with strategically located commercial rearing farms ensuring extensive distribution coverage.

The Group owns 14 and rents two commercial layer farms on which an average of 71.9 million eggs are produced per month (2016: 72.8 million). The farms are located in the Western Cape, Eastern Cape, Free State, Gauteng and North West provinces. Free-range eggs are produced on two of the farms. The Group procured approximately 4.8 million eggs per month from contract farmers (2016: 7.4 million). This equates to a total of about 921 million eggs per year (2016: 962 million).

### Broiler farming

Quantum Foods owns the rights to import pedigree grandparent broiler stock of the Cobb500 breed, which supplies next generation parent stock for its own requirements and non-exclusively for some customers in other countries in Africa. Day-old parent stock is placed on the three parent rearing farms in the Western Cape and, thereafter, on parent layer farms. Following the conversion of a layer parent farm to a broiler parent farm during the year, a total of six broiler parent farms are in use by Quantum Foods. Of these six farms, four are owned by the Group and the remaining two are contracted farms that supply the Group with fertile hatching eggs.

Following the conversion of a commercial layer hatchery during the year, day-old commercial broiler chicks are produced at three hatcheries, which have an annual capacity of 60 million day-old chicks (2016: 53 million). The day-old chicks are transferred to commercial Company-owned and contract-grower broiler farms, with the balance sold to the open market.

The Group supplied abattoirs in the Western Cape and Gauteng with approximately 833 000 live broilers per week (2016: 836 000), with the majority supplied to Astral and Sovereign Foods in terms of long-term supply agreements. This supports the alignment of the Group's broiler value chain and growing position as a significant contract grower of broiler livestock in South Africa.

The Group sells broiler hatching eggs and broiler day-old chicks to the market under the *Bellevue Chicks* brand to ensure that its broiler breeder production capacity is utilised efficiently and in support of the strategy of increasing livestock sales.

### Eggs

Eggs are processed at six grading and packing facilities located in the Western Cape, Eastern Cape, Free State, KwaZulu-Natal and Gauteng. The Group replaced egg-grading machines at the two largest facilities during the past two years, resulting in improved efficiency.

The eggs are distributed nationally as graded, ungraded or in liquid form. Graded eggs are sorted in the packing facilities according to weight (for example, medium, large, extra-large and jumbo). Fresh and pasteurised liquid eggs are produced in egg breaking plants, where the shells are removed from the product for sale. Fresh and pasteurised liquid eggs are predominantly sold to industrial customers.

Quantum Foods' egg pasteurisation plant, Safe Eggs, was incorporated into the grading and packing facility in Gauteng due to space becoming available at the Group's Sova pack station. This led to improvements in cost efficiency. These eggs are distributed via three of the Group's packing facilities.

## OTHER AFRICAN COUNTRIES

### Zambia

Quantum Foods Zambia commenced operations in 1997. Operations are conducted in two regions in the country, namely Lusaka and the Copperbelt.

In Lusaka, there is a parent breeding facility, a hatchery, a feed mill and a small layer-egg facility. The Lusaka facility produced 1.4 million Lohmann (2016: 1.5 million) and 1.6 million Cobb500 day-old chicks (2016: 1.8 million) per annum. The Lohmann day-old chicks are supplied to the Chingola layer rearing farm and for external sales. The feed facility produced 3 560 tons of feed (2016: 3 816 tons) and the farm produced 4.3 million eggs during 2017 (2016: 5.4 million).

Quantum Foods Zambia's major egg operation is located near Chingola in the Copperbelt and operates under the *Mega Eggs* brand. At this location, 85 million eggs are produced per annum

(2016: 64 million) and more than 13 000 tons (2016: 10 500 tons) of feed is produced for consumption on the farm and sale to external customers. The increase in egg production was due to the completion of an expansion project in 2016.

Quantum Foods Zambia produced 2.6 million eggs (2016: 11.7 million) at a facility in Chipata in eastern Zambia that was rented until November 2016.

This rental was not renewed as production was consolidated in Lusaka and Chingola.

The distribution capacity of the Zambia business was enhanced during the year with the opening of 21 small retail shops that sell eggs, day-old chicks and feed.

### Uganda

Quantum Foods Uganda commenced operations in 2000. The business operates three facilities located near Kampala, and a commercial rearing and layer-egg farm in the Masindi area, north-west of Kampala.

The Kampala sites comprise parent breeding facilities and a hatchery. The smaller Kampala feed

mill was closed during the year and feed production consolidated at the Masindi facility. The Kampala site produced 1.1 million Lohmann (2016: 1.5 million) and 1.7 million Cobb500 (2016: 1.7 million) day-old-chicks during the reporting period. The Lohmann day-old chicks are either transferred to the Masindi layer rearing farm or sold to external customers. Three small retail shops were opened in Uganda to improve supply to the market.

The Masindi farm expansion project, which includes a feed mill, layer rearing and egg laying facilities reached full production during July 2017. The facility produced 11 million eggs (2016: 1.1 million), and 2 460 tons of feed during the year (2016: 740 tons).

### Mozambique

Quantum Foods Mozambique acquired a layer farm in the Maputo province in September 2016. The farm produced 25 million eggs in the past year. Feed is procured from a third party, and the farm is stocked with point-of-lay birds that are produced by the Group in South Africa.

## 2018 MANAGEMENT FOCUS AREAS

BUSINESS AREA	ICON	MANAGEMENT FOCUS AREAS
Animal feed		Increase contribution from external sales
Farming		<ul style="list-style-type: none"> <li>Improve layer farm productivity and reduce non-feed cost per unit</li> <li>Ensure world-class broiler farm results</li> <li>Increase broiler livestock volumes</li> <li>Optimally manage any potential outbreak of AI in the Group's poultry flocks</li> </ul>
Eggs		Achieve packing station efficiency targets
Africa		Extract value from expansions in Mozambique, Uganda and Zambia

# STRATEGIC FOCUS



## VISION

Quantum Foods aims to be a leading feed and animal protein business in Africa delivering sustainable returns.



## PURPOSE

To build a leading feed and animal protein business through:

- low-cost operations;
- farming efficiency; and
- effective selling and customer relationship management.



## VALUES

The Group's commitment to its values supports its vision and purpose:

- We value teamwork.
- We are resilient and adapt to new situations.
- We take accountability: we own up and we learn from our mistakes.
- We are truthful in everything we do.
- We aim to exceed our customers' and consumers' expectations.

Quantum Foods has identified the following strategic themes that support the successful execution of its vision and purpose:

Business/product composition

Unlock supply-chain value

World-class efficiency

Organic growth

High-performance human capacity

These five strategic themes were initially approved by the Board in 2015, following the unbundling of the Group from Pioneer Foods in 2014, and have since remained consistent. Each year, performance initiatives and targets are set per strategic theme. These initiatives and targets are approved at the annual Board strategy meeting. Actual performance against the targets set in the previous year is also evaluated

at this strategy meeting. These performance initiatives and targets are then cascaded down the various management and employee layers of the Group, and form the foundation of Quantum Foods' employee performance management system. This ensures that the execution of the strategy is aligned throughout the business.



## Quantum Foods' strategic framework

PERFORMANCE INITIATIVE	ACTION TAKEN	GOING FORWARD
<b>Strategic theme: Business/product composition</b>		
<p>Increase external sales volumes of the Group's feed business</p>	<p>External sales volumes increased by 14% during the year.</p> <p>Expansion of production capacity at Olifantskop feed mill was completed during the year.</p>	<p>Increase sales volumes from the Paterson feed mill.</p> <p>Consider acquisition opportunities in the feed business, should they arise.</p>
<p>Increase the volume of broiler day-old chicks and live broiler birds sold</p>	<p>Combined volumes of day-old broiler chicks and live broilers sold increased compared to 2016.</p> <p>Converted existing layer parent breeding and layer hatchery facilities in the Western Cape to broiler parent and broiler hatchery facilities.</p>	<p>Quantum Foods is the largest contract grower of live broilers, supplying own chicks and feed for sale to third-party abattoirs in South Africa. Expansion projects implemented during the year will strengthen this position going forward.</p> <p>Expand production capacity at the Hartbeespoort broiler hatchery in the North West province.</p>
<p>Increase sales of higher-value eggs</p>	<p>Improved sales mix resulted in the achievement of higher than average selling price increases.</p>	<p>Continuous improvement remains a priority.</p>
<p>Increase egg sales outside South Africa</p>	<p>Table egg expansion projects completed in Zambia and Uganda increased production during the year.</p> <p>Established 21 depots in Zambia and three depots in Uganda during the year. These depots predominantly sell table eggs, but also supply feed and day-old chicks to predominantly small scale local farmers.</p>	<p>Extract maximum value from the increased capacity and extended distribution footprint.</p>
<p>Further the Group's footprint outside South Africa</p>	<p>Table egg business in Mozambique (acquired in September 2016) integrated into the business.</p>	<p>Extract maximum value from the integration.</p>
<b>Strategic theme: Unlock supply chain value</b>		
<p>Implement projects to reduce distribution costs</p>	<p>Implemented outsourced distribution agreements in the feed, farming and egg business in 2016 to improve efficiencies and customer experience. In line with anticipated benefits, these agreements improved the Group's ability to manage distribution costs and quality of service.</p>	<p>Target continuous improvement in efficiency and customer experience.</p>

**PERFORMANCE INITIATIVE****ACTION TAKEN****GOING FORWARD****Strategic theme: Unlock supply chain value**

Consolidate the Group's inbound farm logistics	Implemented outsourced distribution agreements to improve efficiencies and bird health. Expected improvements were realised.	Target continuous improvement in efficiencies and bird health.
Implement energy-saving projects and initiatives	Implemented a project to convert from gas to coal heating at a broiler rearing farm in the North West province. Continued with the installation of energy-saving light bulbs at selected Group facilities. Improved maintenance on boilers, as well as an increased focus on preventative maintenance on electrical installations in the Group's feed mills.	Consider further energy-saving projects.
Further centralisation of procurement	Group purchasing power utilised effectively during the year.	Centralise the procurement of further expense categories.

**Strategic theme: World-class efficiency**

Reach stated farm efficiency targets	<p>The broiler value chain achieved efficiency targets in the breeding operation and commercial broiler operation.</p> <p>Gauteng/North West commercial broiler efficiencies improved resulting in lower conversion costs, however, remain below those achieved in the Western Cape.</p> <p>In the layer value chain, efficiency targets were achieved in the breeding operation. While efficiencies in the commercial rearing and egg laying operations improved, they remained below target mainly due to higher mortality. Following an outbreak of AI, the subsequent culling of flocks in the Group's Western Cape layer operations significantly impacted efficiencies.</p>	<p>Maintain performance in the Western Cape and target further improvement in the Gauteng/North West broiler operations to reduce conversion costs.</p> <p>Convert open layer house systems to environmentally controlled systems.</p> <p>Target improvement in commercial layer operations.</p>
Non-feed cost per unit increase below inflation	<p>Achieved in the feed and broiler farming businesses.</p> <p>On layer farms, non-feed cost per unit increased above inflation due to increased expenditure (mainly related to maintenance), as well as below target production volumes.</p>	Achieve cost per unit target.

**PERFORMANCE INITIATIVE**

**ACTION TAKEN**

**GOING FORWARD**

**Strategic theme: World-class efficiency**

Decrease waste at egg packing stations

Waste reduction achieved but not yet on standard.

Target improvement to increase efficiency and reduce costs.

Modern egg grading and packing machines were installed at the Group's two largest facilities. This resulted in immediate efficiency improvements, including lower waste production.

Ensure a safe environment and safe products

Achieved.

Maintain the highest safety standards.

**Strategic theme: Organic growth**

Grow external feed volumes

Achieved due to additional volumes from the Olifantskop feed mill and the existing footprint.

Grow organically and by considering acquisition opportunities.

Grow layer livestock

Point-of-lay sales volumes declined following the termination of the Sterkstroom rental agreement.

Following conversion of the Group's Western Cape layer parent and hatchery facilities to broiler parent and hatchery facilities, production capacity has been reduced. Further growth will depend on demand from the layer industry, which will be monitored going forward.

Day-old pullet volumes declined due to lower demand from customers. This resulted in the production capacity of the Western Cape layer parent and hatchery facilities no longer being required and a decision to convert those to broiler parent and hatchery facilities.

Grow broiler livestock

Achieved due to increased volumes of broiler livestock sold (live broilers and day-old broiler chicks).

Production capacity will increase following the conversion of the Western Cape layer parent and hatchery facilities to broiler parent and hatchery facilities, and due to the completion of the Hartbeespoort hatchery expansion project.

**PERFORMANCE  
INITIATIVE****ACTION TAKEN****GOING FORWARD****Strategic theme: Organic growth**

Grow table eggs

Not achieved, mainly due to a terminated agreement with a Western Cape contract producer.

Improving farm production efficiencies will result in more eggs available for sale. A further spread of AI in South Africa could, however, significantly impact egg production volumes in the coming year.

To increase production capacity, the Group will upgrade three dormant poultry houses in the Western Cape, and will consider adding to production capacity either by renting additional egg farms in South Africa or through acquisitive growth.

**Strategic theme: High-performance human capacity**

Strengthen the egg business team through strategic appointments

Achieved. Successfully recruited for most key vacancies during the year.

Fill additional strategic positions identified by the Group

Retain and develop talent.

Grow talent via farm internships

Internships awarded to 12 students during the year.

Continue with initiatives to improve talent pool.

Implement an e-learning training solution for farm employees.

Improve B-BBEE profile

The Group attained a level 6 status on the current codes applicable to agriculture enterprises.

Target improvement across most pillars.

Build a sustainable performance culture

An employee engagement model was developed in 2016 and rolled out across the Group's South African operations. This employee engagement model included confirmation of the Group's values, as well as a culture survey, which was performed toward the end of 2017.

Monitor the success of the Group's employee engagement model and begin roll-out to operations outside of South Africa.

Incorporate the findings of the culture survey into the engagement model.

# STRATEGIC RISKS

The Group determines its material risks through a risk management process that considers the potential impact of each risk on the Group’s ability to achieve its strategy, as well as the probability of each risk arising. The residual risk rating takes into account the mitigation strategies the Group has in place. Material risks were identified by management in collaboration with the Group’s internal auditors. The top 11 residual risks are provided in summary below:

1. Poultry diseases impacting the productivity of poultry
2. Insufficient water supply causing business disruption
3. Volatility due to exchange rate instability
4. Inability to cope commercially with raw material price increases – particularly maize and soya meal
5. Declining consumer spend impacting sales
6. Inadequate talent pipeline
7. Exposure to internal labour action
8. Inability to recruit suitably skilled candidates for specialised positions
9. Supply and demand imbalances – oversupply resulting in pricing challenges (chicken and eggs)
10. New market entrants increasing market competition
11. Statutory compliance of all sites (specifically focusing on occupational certificates)

RISK DESCRIPTION	MITIGATION TO CREATE OPPORTUNITIES
Poultry diseases impacting the productivity of poultry	<ul style="list-style-type: none"> <li>• The Group runs a comprehensive vaccination and flock health monitoring programme. The Group enforces strict biosecurity management.</li> <li>• Specific additional monitoring and biosecurity measures were implemented due to the increased threat of AI.</li> <li>• The geographical spread and number of Quantum Foods’ farming operations provides the Group with some protection from the impact of poultry disease.</li> </ul>
Insufficient water supply causing business disruption.	<ul style="list-style-type: none"> <li>• Water contingency plans have been designed for the Group’s Western Cape and Eastern Cape farms that are most at risk due to the ongoing drought.</li> </ul>
Volatility due to exchange rate instability	<ul style="list-style-type: none"> <li>• Foreign currency positions (mostly US dollar) affecting imported soya meal and maize are managed by the corporate office according to a Board-approved hedging strategy and policy. No speculative positions are taken.</li> </ul>

**RISK DESCRIPTION****MITIGATION TO CREATE OPPORTUNITIES**

Inability to cope commercially with raw material price increases caused by unfavourable weather conditions and a weakening rand (impacting maize and soya meal, in particular)

- Raw materials are procured and monitored according to a Board-approved hedging strategy and policy for the Group's own production requirements. No speculative positions are taken.
- Regular monitoring of the Group's raw material cost position informs margin management.
- The centralised raw material procurement department observes market trends on a daily basis.

Declining consumer spend impacting sales

- The Group supplies animal feed and produces eggs and broilers that fulfil basic nutritional requirements. Poultry is an excellent, cost-effective converter of animal feed to protein (eggs and broiler meat).
- The continuous focus on efficiencies and cost management.

Inadequate talent pipeline

- Talent development is a continuous area of focus and planning reviews are conducted biannually.

Exposure to internal labour action

- The Group conducts decentralised negotiations at its various operations. The negotiations are staggered throughout the year, and temporary labour is appointed where necessary.

Inability to recruit suitably skilled candidates for specialised positions

- The Group builds relationships with universities and offers bursary programmes.
- Formalised development plans for internally identified talent are monitored.
- The annual intake of interns for animal production training.
- Partnerships with recruitment agencies.

Supply and demand imbalances – oversupply resulting in pricing challenges (chicken and eggs)

- The Group no longer sells broiler meat to the market but rather sells live broilers to abattoirs. Pricing models reflect production and not market risk.
- The egg production plan is adjusted based on the monitoring of industry trends and available statistics to forecast potential egg supply and demand imbalances.

New market entrants increasing market competition

- The Group maintains an awareness of new competitors entering the market through its market research initiatives.
- A relentless focus on production efficiencies and cost management enables the Group to remain competitive.

Statutory compliance of all sites (specifically focused on occupational certificates)

- The Group monitors its progress according to a priority scorecard for future compliance across all sites.
- A fire risk management framework is in place and certification audits are conducted annually.

# REPORT FROM LEADERSHIP

## JOINT REPORT OF THE CHAIRMAN AND CEO

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**WA Hanekom**  
Chairman



**HA Lourens**  
Chief Executive  
Officer

The past financial year was dominated by two factors that influenced the poultry and egg industries. The first factor was high summer rainfall, which resulted in the harvest of record level maize crops and a significant reduction in feed prices in the second half of the year. The second factor was the outbreak of highly pathogenic Avian Influenza (“AI”) in South Africa, which occurred in the latter part of the year. This devastating outbreak resulted in large numbers of chickens being culled, and a subsequent reduction in the supply of poultry products in South Africa.

## INTRODUCTION

In South Africa, per capita income remains under pressure. This does not bode well for growth in protein consumption. In addition to the above, there was a natural decline in production in the egg industry, with fewer hens being placed in prior years. This was due to margin contraction as a result of higher feed costs, as well as the challenging effects of poultry disease that negatively impacted production efficiencies in layer hens. The decline in egg production was exacerbated by the AI outbreak in Mpumalanga and Gauteng during June, and the subsequent spread of the disease to the Western Cape in August.

## OPERATIONAL OVERVIEW

The main cost drivers that impact Quantum Foods' operations are maize and soybean meal prices. Maize prices were elevated during the first half of 2017 but declined sharply following the record harvest. South African Futures Exchange ("SAFEX") maize prices declined by 27% year-on-year. Soybean meal prices declined by 7%. This was driven by a strengthening rand. The prices of all other major raw materials used in animal feed production declined in line with maize and soybean meal.

## SEGMENTAL OVERVIEW

The Nova Feeds business again produced a good performance. External sales volumes grew by 14%, driven by the inclusion of the Olifantskop mill for the full year, as well as good growth from the current footprint. This exceptional performance by the Nova Feeds' team was achieved in a declining market and without margin sacrifice. Nova Feeds remains critical to the future success of Quantum Foods.

The broiler farming business delivered a solid performance in its first full year as a pure livestock business. The Group's grandparent and parent breeder operations achieved the best results of all Cobb customers who use Cobb500 genetics in the Africa, Europe and Middle East region. This was a world-class performance. Excellent production efficiencies were also achieved at commercial broiler level, especially in the Group's Western Cape operations. Commercial broiler performances in the Group's northern operations continued to improve and, for the first time, exceeded the set breed standards.

Efficiency improvements in the layer farming business continued. At breeder level, performance exceeded the Lohmann breed standard. At commercial layer level, performance improved by 4% year-on-year.

Unfortunately, two of the Group's Western Cape commercial layer farms were affected by the AI outbreak in September. This resulted in the loss of approximately 570 000 chickens. A further outbreak was experienced at a rearing farm in September, resulting in the culling of approximately 149 000 point-of-lay hens. The majority of chickens were culled to prevent any further spread of the disease. To mitigate the impact on the production capacity of the egg business, a dormant farm in Gauteng will be brought back into production in the first quarter of 2018. Additional capacity has also been created at previously dormant layer houses on a Western Cape farm. This facility will be brought back into production during the first half of 2018. The Opdiefontein farm in Gauteng, which was largely out of production during the previous year due to a biosecurity upgrade, will be fully placed from the second quarter of 2018. This farm should supply more eggs in the next financial year.

During the year, a layer breeder farm and hatchery in the Western Cape was converted to a broiler breeder and hatchery facility. This enabled the consolidation and improved utilisation of the Group's layer hatchery in Gauteng. It will further support the Group's ability to supply increased volumes to the broiler market in South Africa.

We terminated a rental agreement for a layer rearing farm near Ventersdorp during the year. This decision was made as the Group was not able to extract the expected benefit of an additional 13% in point-of-lay rearing capacity from this facility.

The egg business experienced a difficult start to the year; however, the turnaround in the second half of the year was significant. This improvement was driven by the lower cost of feed, as well as a constrained supply of eggs into the market due to the natural egg cycle. The outbreak of AI had a limited impact on egg prices. It is, however, expected that this outbreak will compound the already constrained supply in the next six to 12 months, resulting in higher egg prices. In terms of operational efficiencies, the egg business showed a strong improvement. Certain operational targets, such as the management of product mix, were reached earlier than anticipated. The grading machine at the Group's Brackenfell packing station was replaced, and the Safe Eggs egg pasteurisation facility was incorporated into the Sova packing station in Gauteng. This supported improved operational efficiency.

The Group's other African businesses followed a similar trend, with performance across countries picking up in the second half of the year. Disappointingly, high raw material prices in all three countries could not be recovered in final product selling prices.

In Mozambique, extreme weather conditions resulted in 28% of the layer flock being lost in the first quarter of 2017. The business was subsequently restructured and downscaled, and capital was deployed to upgrade the chicken houses to ensure that flocks are better protected from harsh conditions going forward.

The Uganda business started to recover in the second part of the year due to lower raw material prices and an improved focus on efficiencies.

The Zambian business was well managed and remained profitable throughout the year. This was achieved despite many economic and industry challenges.

Following the completion of expansion projects, increased egg production was successfully integrated into the supply chain and sales channels of the Ugandan and Zambian businesses. In both of these countries, a substantial portion of eggs were sold from small depots that were established during the year. These depots were established to improve access to markets and to sell directly to consumers.

## FINANCIAL OVERVIEW

**Group revenue increased by 4% to R4 052 million, with an increase of R95 million (2.5%) in the South African operations and an increase of R44 million (27.4%) in other African operations.**

Revenue from other African operations contributed 5.0% of Group revenue for 2017 (2016: 4.1%).

Revenue from South African operations:

- Increased by R64 million (4.5%) for the feed segment, despite average selling prices declining by 6.7% as a result of lower average raw material costs. Volumes sold increased by 14%, with 7% growth attributable to the Olifantskop feed mill (acquired in February 2016) being operational for the full year.
- Decreased by R16 million (1.2%) for the farming segment. Similar to the feed segment, reduced selling prices were due to lower average feed costs used in determining selling prices.
- Increased by R46 million (4.6%) for the eggs segment. An average price increase of 7.5% was achieved.

Revenue from the other African businesses increased. This was due to the full-year inclusion of the Galovos egg business in Mozambique (acquired in

September 2016), as well as increased egg volumes sold from the Mega Eggs farm in Zambia and the Masindi egg farm in Uganda, following the completion of expansion projects in 2016.

Cost of sales increased by 1% to R3 258 million. Cost of sales include the biological assets (livestock) and agricultural produce (eggs) fair value adjustments that were realised and included in other gains and losses in the statement of comprehensive income.

These fair value adjustments for the year ended 30 September 2017 amounted to R165 million (2016: R145 million). Gross profit, excluding these fair value adjustments, increased by R125 million to R959 million at a margin of 23.7% (2016: 21.3%).

Cash operating expenses increased by 14% in 2017. Inflationary cost increases, as well as the cost of additional business units incorporated into the Group, contributed to the increase in cash operating expenses. These additional business units include the Olifantskop feed mill, as well as the acquisition and expansions in the rest of Africa. It further includes increased operational costs due to increased production on Western Cape broiler farms following the exit of certain contract producers during the year.

Operating profit, before items of a capital nature, increased by 67% to a profit of R149 million. The South African operations recorded an increase of R65 million (61%) to a profit of R172 million, at a margin of 4.5% (2016: 2.8%). Eggs and Feeds improved by R73 million and R5 million respectively, while Farming weakened by R14 million to report a profit of R47 million. The result for Farming includes the culling and associated clean-up cost of R30 million following the outbreak of AI in the Group's Western Cape layer operations. The other African operations recorded a decline in profits of R9 million, resulting in a loss of R10 million.

**Headline earnings per share (“HEPS”) increased to 49.0 cents, from 28.2 cents per share in 2016.**

Cash inflow from operations amounted to R257.7 million. This includes a reduced investment in working capital of R115.2 million.

Capital expenditure amounted to R73 million. This expenditure included the replacement of a grading machine at an egg packing station, the expansion of capacity at the Olifantskop feed mill, the biosecurity upgrade at the Opdiefontein layer farm in Gauteng, as well as the upgrade of the Zambia hatchery.

Cash and cash equivalents increased from R79.5 million at 30 September 2016 to R261.5 million at 30 September 2017.

The Group had minimal borrowings at 30 September 2017, comprising an arrangement to purchase electricity generated from solar panels capitalised as a finance lease in terms of IFRS.

## DIVIDEND AND SHARE REPURCHASE

The Group declared dividends at a HEPS cover of approximately five times in the first two years that followed its listing on the JSE. Following the adjustments made to the business model, and in light of the resilience shown by the Group in response to challenging operating conditions in 2016 and in the first half of 2017, the Board is comfortable to reduce the HEPS cover for dividends to approximately four times. In its declaration of a total dividend of 34 cents per share, the Board further considered the cash generated by, as well as the healthy cash position of, the Group at 30 September 2017.

Dividend at a HEPS cover of 4.1 times	12 cents
Special dividend due to 2017 cash generation	22 cents
<b>Total dividend</b>	<b>34 cents</b>

During 2017, Quantum Foods bought back and cancelled 9 488 659 shares at an average price of R3.03 per share. Including the dividend of 34 cents per share, this results in a total amount of R104.3 million returned to shareholders.

The Board intends to continue with the repurchase of shares.

## PROSPECTS

The record maize crop harvested in South Africa in 2017 should result in a large carry over of maize stock into the next season. Even with average summer rainfall in maize producing areas, the Group should experience relatively low maize prices in 2018. Globally, maize and soybean stocks remain sufficient. These factors should ensure that the main input costs into Quantum Foods' business remain reasonable.

There are other factors, however, that are uncertain and that could have a significant impact on Quantum Foods in the year ahead.

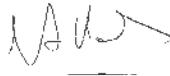
Firstly, should the rand weaken against the US dollar, it would result in higher maize and soybean prices. This would result in increased input costs.

Secondly, any further impact of AI would have a devastating effect on the South African poultry industry. The geographical spread of Quantum Foods' farms will reduce the potential impact. However, the Group has a number of large facilities that would be severely negatively affected by an outbreak of AI. All reasonable possible measures are being taken to protect the Quantum Foods' farms against AI. The Group continues to work in partnership with the South African Poultry Association and government to ensure the sustainability of the industry, either through vaccination, or through compensation for loss of chickens.

Thirdly, due to the continued drought, the water supply to the Group's Western Cape operations is exposed to the risk of disruption. Actions taken to mitigate this risk include drilling for boreholes, as well as planning for an emergency supply of water to the farms most at risk.

## APPRECIATION

It would not be possible to operate a business of the size and scale of Quantum Foods without the support of various people. Particular thanks goes to the Board of Directors, the Executive team and all employees, as well as to the Group's customers and suppliers for their constructive contribution to the business.



**WA Hanekom**

Chairman



**HA Lourens**

Chief Executive Officer



# BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT



Back row (L to R): Patrick Ernest Burton, Geoffrey George Fortuin, Roelof Viljoen, André Hugo Muller, Jan Hendrik van Rhyn, Norman Celliers, Prof. Abdus Salam Mohammad Karaan, James Joseph Murray, Marthinus Petrus van Lill, Lesego Amos Seleledi



Front row (L to R): Hendrik Albertus Lourens, Ignatia Ntokozo Tamarie Makomba, Heather Elizabeth Pether, Adel Deidré van der Merwe, Wouter André Hanekom.

# BOARD OF DIRECTORS



**WOUTER ANDRÉ HANEKOM (58)**

**Chairman**

André was nominated and elected as chairman of the Board on 28 April 2015.

**Qualifications:**  
CA(SA)

**Quantum Foods Board and committee membership:**

Chairman, remuneration and human capital and social and ethics

André joined Bokomo Breakfast Cereals in 1988 as a financial manager. He was later appointed as operational executive and, in 1994, he was appointed as chief executive officer of Bokomo. After the merger between Sasko and Bokomo, André served as the executive responsible for Sasko Milling and Baking, after which he was appointed as chief executive officer of Pioneer Foods in 1999. André retired as chief executive officer of Pioneer Foods in March 2013. He was appointed to the Board on 1 October 2014.



**PATRICK ERNEST BURTON (64)**

**Lead independent non-executive director**

Patrick was appointed to the Board on 29 July 2014.

**Qualifications:**  
BCom (Hons) Financial Management, HDip in Tax Law

**Quantum Foods Board and Committee Membership:**

Non-executive director, audit and risk (chairman), remuneration and human capital (chairman)

Patrick is an experienced businessman with experience as a director. This includes non-executive positions in fishing, food, insurance, financial services and investment holdings companies. Patrick sits on the board of directors of various listed and unlisted companies.



**GEOFFREY GEORGE FORTUIN (50)**

**Independent non-executive director**

Geoff was appointed to the Board on 28 April 2015.

**Qualifications:**  
BCom (Acc), BCom (Acc) (Hons), CA(SA)

**Quantum Foods Board and Committee Membership:**

Non-executive director, audit and risk

Geoff is a qualified chartered accountant and practised as a partner at Deloitte & Touche for 15 years during which time he was responsible for a number of South African listed companies. He was also a member of the Deloitte South Africa Board. Geoff is currently the Financial Director of Brimstone Investment Corporation Ltd.



**PROF. ABDUS SALAM MOHAMMAD KARAAN (49)**

**Independent non-executive director**

Mohammad was appointed to the Board on 10 June 2014

**Qualifications:**  
BSc Agric, BSc Agric (Hons), MSc Agric, PhD (Agric)

**Quantum Foods Board and Committee Membership:**

Non-executive director, audit and risk, social and ethics (chairman)

Mohammad joined the Development Bank of Southern Africa in Johannesburg as an economist and later returned to Stellenbosch to join the Rural Foundation as head of research. In 1997, he joined Stellenbosch University as a lecturer in the Agricultural Faculty. In October 2008, he became dean of the Faculty of AgriSciences at Stellenbosch University. He serves on various boards.



**NORMAN CELLIERS (44)**

**Non-executive director**

Norman was appointed to the Board on 10 June 2014.

**Qualifications:**  
BEng (Civil), MBA

**Quantum Foods Board and Committee Membership:**

Non-executive director, remuneration and human capital

Norman's professional experience includes engineering, management consulting and private equity in South Africa and abroad. Currently, he is the chief executive officer of Zeder Investments Ltd.



**HENDRIK ALBERTUS LOURENS (54)**

**Chief Executive Officer**

Hennie was appointed as the chief executive officer of Quantum Foods in 2007, while it was a division of Pioneer Foods.

**Qualifications:**  
BCom (Hons), MCom, BProc

**Quantum Foods Board and Committee Membership:**

Executive director

Hennie commenced his services with Pioneer Foods as the human resources manager for Bokomo in 1996 and was later appointed as general manager for the Sasko Grain Business. He has been in the fast-moving consumer goods ("FMCG") industry for over 20 years and was appointed to the Board on 27 January 2014.



**ANDRÉ HUGO MULLER (47)**

**Chief Financial Officer**

André was appointed to the Board on 27 January 2014.

**Qualifications:**  
CA(SA)

**Quantum Foods Board and Committee Membership:**

Executive director

André joined Quantum Foods in 2003, while it was still a division of Pioneer Foods. He started at Nulaid as financial manager and was later appointed as the farming operations manager for Nulaid, a position he held for four years. André spent a year as national sales and marketing manager for Tydstroom before being appointed as head of finance for Quantum Foods.

**COMPANY SECRETARY**



**IGNATIA NTOKOZO TAMARIE MAKOMBA (31)**

**Company secretary and legal advisor**

Ntokozo has been with Quantum Foods since 2014.

**Qualifications:**  
LLB

Ntokozo has seven years' experience in the legal and compliance environment. She joined Quantum Foods as company secretary and legal advisor in 2014 from Van der Spuy and Partners (Paarl), where she practised as an attorney in the commercial department. She articulated in Bloemfontein at Phatshoane Henney Attorneys.

# EXECUTIVE MANAGEMENT

The Quantum Foods' executive committee meets regularly and acts as a consolidating oversight committee for the Group. The committee is responsible for managing the Group's operations, developing strategy and policy proposals for the Board's consideration, and implementing the Board's directives.



**HENDRIK ALBERTUS LOURENS (54)**

**Chief Executive Officer**

Hennie has been with Quantum Foods since 2007.

**Qualifications:**  
BCom (Hons), MCom, BProc

Hennie was appointed as executive of Quantum Foods in 2007, while it was a division of Pioneer Foods. He commenced his services with Pioneer Foods as the human resources manager for Bokomo in 1996 and was later appointed as general manager for the Sasko Grain Business. He has been in the FMCG industry for 21 years.



**ANDRÉ HUGO MULLER (47)**

**Chief Financial Officer**

André has been with Quantum Foods since 2003.

**Qualifications:**  
CA(SA)

André joined Quantum Foods while it was a division of Pioneer Foods. He started at Nulaid as financial manager and was later appointed as the farming operations manager for Nulaid, a position he held for four years. André spent a year as national sales and marketing manager for Tydstroom before being appointed as head of finance for Quantum Foods.



**ROELOF VILJOEN (51)**

**Executive: Supply chain**

Roelof has been with Quantum Foods since 2008.

**Qualifications:**  
CA(SA)

Roelof was a financial manager and a sales manager at Sasko Grain, before joining Quantum Foods while it was still a division of Pioneer Foods. He has 17 years' experience in the food industry, of which nine years have been spent in the poultry industry.



**MARTHINUS PETRUS VAN LILL (47)**

**Executive: Animal Feed business**

Thinus has been with Quantum Foods since 1997.

**Qualifications:**  
BCom (Acc), BCompt (Hons), SAIPA (PA)

Thinus has been with Nova Feeds since 1997, while it was still a division of Pioneer Foods. He has since progressed from a financial manager to the executive responsible for the Animal Feeds business. He has 20 years' experience in the animal feed and poultry industry.

During the year, members of the executive committee included the:

- Chief executive officer (chairman)
- Chief financial officer
- Executive: Africa
- Executive: Eggs business
- Executive: Farming
- Executive: Animal Feed business
- Executive: Human resources
- Executive: Layer farming
- Executive: Supply chain

Mr LA Seleledi joined the executive team in January 2017 as the executive responsible for the layer farming business.



**ADEL DEIDRÉ VAN DER MERWE (46)**

**Executive: Eggs business**

Adel has been with Quantum Foods since 2008.

**Qualifications:**  
BCom Management Accounting

Adel started out in the corporate finance department of Pioneer Foods in 1995 but moved to central procurement where she spent the bulk of her time involved in raw materials and commodities procurement. In 2008, she joined Nova Feeds while it was still a division of Pioneer Foods. She joined the Eggs business during 2016. She has more than eight years' experience in the feed and food industry.



**JAMES JOSEPH MURRAY (60)**

**Executive: Farming**

Jimmy has been with Quantum Foods since 2013.

**Qualifications:**  
National Diploma in Agricultural Extension and Soil Conservation

Jimmy has 36 years' experience in the poultry industry. Most of his early experience was gained at Rainbow Chicken Ltd in various senior farming production roles. After Rainbow Chicken Ltd, he spent five years as managing director of Hy-Line SA (importer of Hy-Line grandparent layers), followed by five years as chief executive officer of Grendon (an integrated poultry operation in KwaZulu-Natal).



**HEATHER ELIZABETH PETHER (49)**

**Executive: Human resources**

Heather has been with Quantum Foods since 2005.

**Qualifications:**  
National Diploma in Human Resources

Heather has 22 years' experience in the human resources field. She spent seven years as the human resources manager of Tydstroom while it was a division of Pioneer Foods. She was appointed as the executive responsible for human resources at Quantum Foods in 2012.



**JAN HENDRIK VAN RHYN (52)**

**Executive: Africa**

Jannie has been with Quantum Foods since 2014.

**Qualifications:**  
BEng, MSc, BCom (Hons)

Jannie spent nine years with Naspers Ltd, during which time he was involved in many start-up internet and internet-related businesses in South Africa, China and a number of African countries. This includes Nigeria, where he was based for three years. Jannie was involved in projects, business development and operations in sub-Saharan Africa for 13 years. He joined Quantum Foods in November 2014, and is responsible for the business in the rest of Africa.



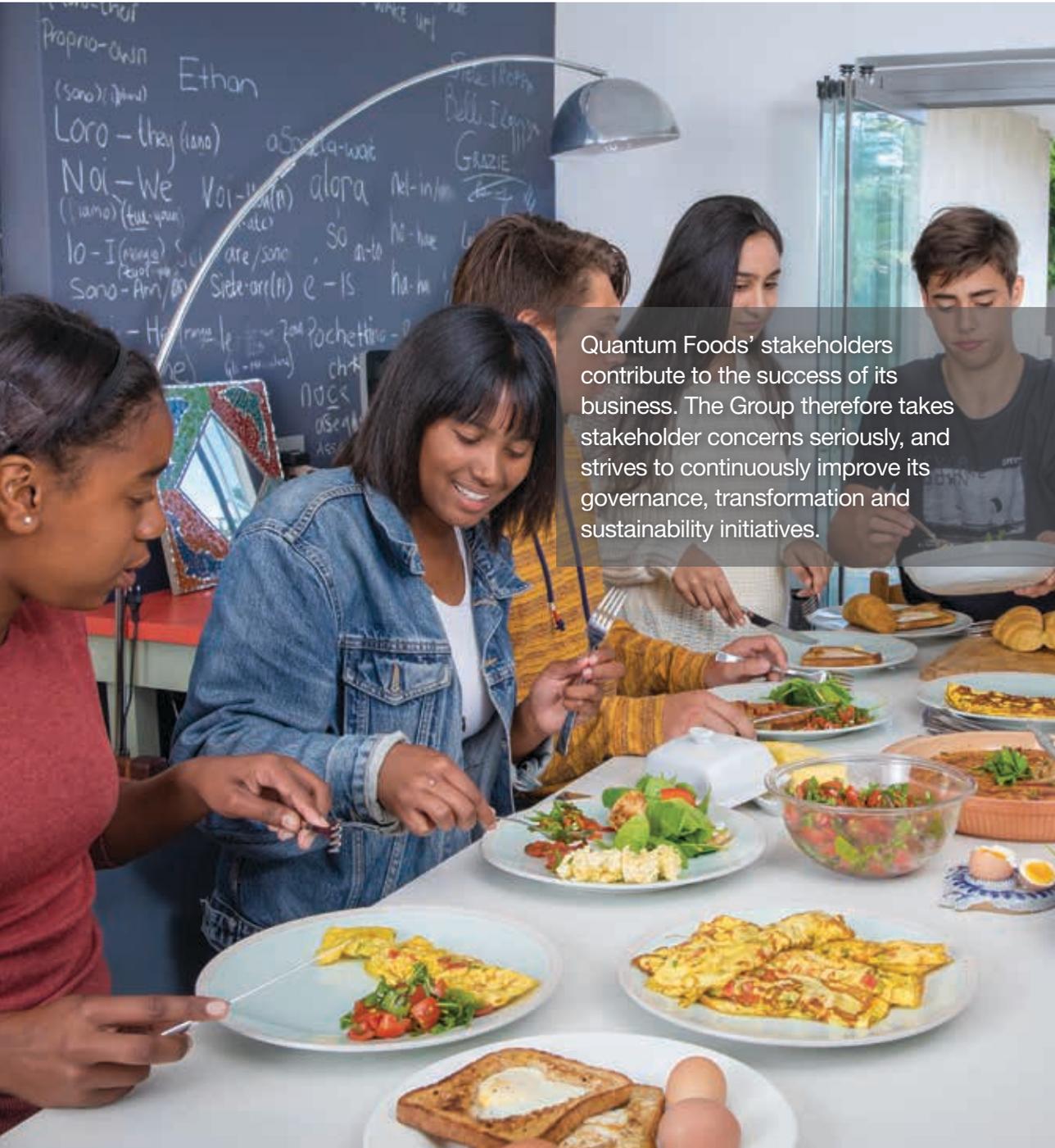
**LESEGO AMOS SELELEDI (40)**

**Executive: Layer farming**

Amos has been with Quantum Foods since 1999.

**Qualifications:**  
BAgric, BInstAgrar (Hons), MPhil, BBA

Amos joined Quantum Foods in 1999, while it was still a division of Pioneer Foods. He started at Nova Feeds as a technical specialist and joined Nulaid in 2003 as a technical manager. He then became regional manager then national manager before being appointed as the executive for layer farming in January 2017. He has 18 years' experience in the poultry industry.



Quantum Foods' stakeholders contribute to the success of its business. The Group therefore takes stakeholder concerns seriously, and strives to continuously improve its governance, transformation and sustainability initiatives.

# ENSURING RESPONSIBLE BUSINESS

The Group is committed to creating value for its stakeholders by ensuring the sustainability of its business model. The value of sustainability will be realised through an improved ability to attract capital from socially responsible investors, an increased ability to attract and retain like-minded talent, and the ability to provide shareholders with positive returns on their investment.



*Read more about the Group's approach to stakeholder engagement on page 58.*

## PRODUCT SAFETY AND CUSTOMER COMPLAINTS

### Feeds business

Quantum Foods aims to provide safe feed according to Good Manufacturing Practices in the animal feed industry. Quality assurance is therefore crucial. All feed mills have Integrated Management Systems ("IMS") in place that are subject to annual external audits and reviews to ensure adherence to industry, regulatory and product safety standards. Some of the audits are conducted by internationally-accredited certification bodies. This includes a complete re-certification audit which is done every three years. An internal audit programme is in place that enables continuous monitoring and improvement of the IMS.

Customer satisfaction is important and the Group has a formal customer complaint system in place. Furthermore, an independent customer satisfaction survey is conducted on an annual basis to measure overall satisfaction, identify trends and benchmark performance.

Quality assurance and customer satisfaction remain the responsibility of management and form part of monthly reporting. The quality system is used to identify non-conformance, record specific customer complaints and identify preventative and corrective actions. These trends are used by management to improve the IMS, as well as customer satisfaction.

### Farming business

The Group's farming operations and subsequent health of poultry flocks play an important role in the production of safe food. Stringent biosecurity measures are in place at all farms and are audited at regular intervals by both internal employees, as well as by the external veterinarians contracted by the Group. In addition to biosecurity measures, the Group has implemented vaccination programmes and monitors serology, environmental and water quality results to maintain a healthy flock capable of producing safe food. At a minimum, internal health and safety audits are conducted annually at all layer farms and cull depots.

## Egg business

It is important that Quantum Foods provides safe and reliable products to its customers and consumers. The Group's grading facilities are subject to external audits, which are conducted at regular intervals to ensure compliance to food safety management systems, applicable laws and regulations. The Group's grading facilities are subject to audits from national retail customers. An internal health and safety audit is conducted annually at all grading facilities.

As complaints in the egg business are generally more generic than those received in the feeds business, the Group uses an external company to monitor complaints. A toll-free number is available to both customers and consumers, and all calls are logged and managed. A weekly report is generated and monitored by senior management to identify trends and assist the Group in developing a customer-centric culture.

## ENVIRONMENT

As a business reliant on agriculture, the Group is concerned about changing weather patterns, droughts, floods and the other likely effects of climate

change. A conscious effort is made to minimise Quantum Foods' environmental impact and to support the effective consumption of resources, with a specific focus on water and energy.

Poultry farming contributes a large component of the Group's water consumption requirements, with limited opportunities for reduction beyond ensuring that water is not wasted. The aim is to critically analyse waste production and to ensure that all relevant aspects are managed responsibly.

The table below outlines the Group's overall performance for 2017 and in comparison with the previous year. This enables stakeholders to monitor performance, and helps the Group identify improvement opportunities:

## Environmental performance indicators

Consumption	Units	2017	(Decrease)/ Increase from 2016
Water	Kilolitres	1 109 368	2%
Electricity	kWh'000	42 975	(8%)
Coal	Tons	2 058 <sup>1</sup>	89%
Gas	Kg	1 395 952 <sup>2</sup>	26%
Diesel/petrol/paraffin	Litres	994 320 <sup>3</sup>	(11%)
Heavy fuel oil ("HFO")	Litres	1 001 719	2%
Packaging	Tons	15 387	(4%)
Waste			
Litter/manure produced	Tons	146 699	1%
Mortalities to landfill/waste pit	Tons	2 026 <sup>4</sup>	104%
Effluent water	Kilolitres	58 310	(8%)

<sup>1</sup> Western Cape broiler farm, previously dormant, being utilised in 2017

<sup>2</sup> Increased production on Group-owned Western Cape broiler farms

<sup>3</sup> Increased utilisation of outsourced logistics in the Farming business

<sup>4</sup> Hens culled on Western Cape layer farms following an AI outbreak in September 2017

## Conservation

The relationship with the Western Cape Nature Conservation Board in respect of the perpetual biodiversity agreement at a portion of the Farm Zouterivier continues. This conservation area is known as the Quantum Foods' Atlantis Sand Fynbos Conservation Area, and critically endangered Atlantis Sand Fynbos is conserved on the property.

## Energy efficiency

With the assistance of an external service provider, energy-saving opportunities are continuously evaluated across the Group's integrated value chain. Quantum Foods' main energy-intensive activities relate to the boilers used in the preparation of animal feed, the temperature control of hatching eggs, the rearing of layer and broiler chicks, and the overall production of egg packing stations.

Opportunities for energy efficiency and savings include process optimisation and the introduction of advanced technologies to reduce the burden of the Group's energy-intensive activities. Approved projects are being implemented and tracked to ensure that the full benefit of lower energy consumption is realised. For example, energy-saving light bulbs are being rolled out across the Group's facilities. Other projects completed in 2017 that resulted in energy efficiency improvements include the overhaul of boilers, the installation of variable speed drives and power

factor correctors as well as an increased focus on preventative maintenance on electrical installations in the Group's feed mills. During the year, the Group also embarked on a project to convert a broiler farm from gas- to coal-derived heating due to the lower heating costs associated with coal.

**Going forward, Quantum Foods will expand these programmes and identify opportunities to reduce energy consumption within the business.**

## HUMAN RESOURCES

### Diversity and employment equity

Quantum Foods is committed to addressing inequalities with regard to race, gender and disability. The Group believes that a diverse and transformed workplace adds value in the form of improved employee capabilities and shared values that strengthen, motivate and enhance employee productivity to the ultimate benefit of society. Increasing the percentage of management deemed HDSA is a direct focus area of the Board in terms of the Group's employment equity strategy.

Permanent employees deemed HDSA

**88.9%**

2016: 90.0%

Management deemed HDSA grade 12+ (permanent employees)

**28.3%**

2016: 31.6%

Permanent employees who are women

**42.1%**

2016: 43.8%

South African employees on fixed term contracts

**4.1%**

2016: 2.8%

The employment equity statistics for the Group's South African operations are provided in the table below:

### Employment equity statistics as at 30 September 2017

Occupational levels	African		Coloured		Indian		White		Foreigners		Total
	M	F	M	F	M	F	M	F	M	F	
Top management	1	1	0	1	0	0	6	1	0	0	10
Senior management	0	0	0	2	1	0	17	2			22
Professionally qualified, experienced specialists and mid-management	11	1	8	5	2	1	48	11	1	0	88
Skilled technical and qualified employees, junior management, supervisors, foremen, superintendents	90	24	46	45	4	5	36	38	0	0	288
Semi-skilled and discretionary decision-making employees	192	116	97	76	0	0	2	7	1	0	491
Unskilled and defined decision-making employees	289	273	39	41	0	0	0	0	2	0	644
Total permanent employees	583	415	190	170	7	6	109	59	4	0	1 543
Non-permanent employees	25	19	5	1	0	1	9	4	2	0	66
Total	608	434	195	171	7	7	118	63	6	0	1 609

### Total number of employees as at 30 September 2017

The employee numbers for the South African operations are reflected in the table below:

	2017
Salaried	470
Salaried contractors	35
Wages	1 073
Wages contractors	31
<b>Total</b>	<b>1 609</b>

By ensuring a high percentage of permanent employees, the Group provides more individuals with access to retirement and disability benefits that are not available through contract labour. Permanent employees further provide the Group with a stable and experienced skills base. The Group employs 382 (2016: 243) individuals in Zambia, 101 (2016: 97) individuals in Uganda and 67 (2016: 65) individuals in Mozambique.

### Training

The Group invests in the development of its employees' skills, knowledge and capabilities. Legislative training was completed, and a number of workshops and seminars were attended by employees during the year. Workshops included a specific focus on the Group's values and the associated behaviours that support Quantum Foods' strategy.

The table below indicates the number of participants in the different training initiatives:

Skills pipeline	2017	2016
Internships	12	19
Apprenticeships	3	3
Learnerships	15	16
Bursaries	17	16
Adult Basic Education and Training ("ABET")	10	10

Training spend	2017	2016
Total number of employees trained	306 <sup>1</sup>	418
Employee training spend	R2 072 926	R1 151 018
Employee training spend as a percentage of payroll	0.7%	0.4%

<sup>1</sup> Excludes the Group's values session, which formed part of the roll out of its employee engagement model.

### Occupational health and safety

In order to provide a safe work environment for its employees, Quantum Foods strives to adhere to and comply with all relevant health and safety legislation across its operations. Occupational health and safety training is conducted annually.

	2017	2016
Number of fatalities	1	0
Total number of recordable injuries	58	71
No of lost days	195	87

The number of recordable injuries declined in comparison to 2016. This decrease can be attributed to training that was conducted across the Group's farming operations. Employees received guidance on vaccination techniques to reduce the risk of personal injury.

One fatality was reported at the Mega Eggs feed mill in Chingola, Zambia when an employee fell and sustained a head injury. An investigation confirmed that this accident was not attributable to the working environment.

All appointments in terms of sections 16(1) and 16(2) of the Occupational Health and Safety Act, Act 85 of 1993, have been implemented, and health and safety meetings are held regularly. The Group's feed factories are on the National Occupational Safety Association ("NOSA") system, which formalises the management of occupational health and safety systems. ISO 14001 is an internationally accepted environmental management certification system used to manage environmental risks at the Group's feed factories.

### Employee turnover

	2017	2016
Total turnover <sup>1</sup>	23.1%	22.1%

<sup>1</sup> Number of individuals who departed relative to the total number of employees at year-end. 2017 turnover includes the restructure of operations in the layer business. 2016 turnover includes the closure of the Hartbeespoort abattoir in October 2015.

Quantum Foods' employee turnover figures for its South African operations were as follows:

- Management – 3.4% compared with 1.4% in 2016
- Not in management – 19.7% compared with 20.7% in 2016

### Labour union management

	2017	2016
Percentage of employees who belong to a trade union	51.9%	52.0%

Quantum Foods supports its employees' rights to collective bargaining. Employees are represented by 11 trade unions.

The Food and Allied Workers' Union ("FAWU") has the highest overall representation among Quantum Foods' employees. At 30 September 2017, 36% of the Group's wage employees in its South African operations belonged to FAWU. While negotiations between FAWU and the Animal Feeds business are centralised, negotiations between the union and the Group's other business units are decentralised.

### B-BBEE

Quantum Foods recognises its obligation to contribute towards improving the socio-economic status of HDSA. To achieve transformation in the Group, and to improve the level of transformation in the agricultural industry, Quantum Foods has developed a three-year strategy to assist the Group in reaching its target level 4 B-BBEE status, based on the current Agricultural sector Code scorecard, by 2019.

The Group attained a level 6 B-BBEE status in 2017.

The audit was carried out by Empowerdex, an accredited verification agency, using the Agricultural Sector Code scorecard. This rating for Quantum Foods is valid from November 2017 to November 2018.

<b>Empowerment indicator</b>	<b>AgriBEE indicative scorecard</b>	<b>Quantum Foods' score</b>
Ownership (land and equity)	20	4.41
Management control	10	5.51
Employment equity	10	2.92
Skills development	20	8.61
Preferential procurement	20	12.27
Enterprise development	10	10.00
Rural development, poverty alleviation and social enterprise development	10	10.00
Level 6 contributor	100	53.72

The Group continues to contribute to enterprise development. Current initiatives include the rental of a farm in Bronkhorstspuit from a HDSA, as well as egg procurement from a HDSA egg producer in the Western Cape who were supplied with point-of-lay hens. Benefits of R5.0 million (2016: R4.1 million) accrued for the year.

Other projects to assist suppliers, specifically small enterprise farmers, were implemented during the year. This includes assisting farmers to obtain their B-BBEE rating. This in turn improves the Group's preferential procurement score. The Group identified a number of senior appointments that will increase its management control and employment equity scores. Some of these appointments were made in 2017, including the appointment of a new executive position for the layer farming business.

The Group will continue with its scholarship programme by offering bursaries to HDSA who are studying towards an agricultural qualification.

## COMMUNITY PROJECTS

The Group's involvement in its "adopted" primary school, which is situated close to its head office in Wellington, has grown. Quantum Foods' funding to the school increased by 63% from 2016. Through its Social Club, Quantum Foods' employees involved the school in a number of its social activities.

As the Group is passionate about education, it provided funding to Khula Development – an organisation that supports out-of-school children in the Paarl East area. The organisation's mission is to integrate at-risk children back into the school system.

This year, Quantum Foods became involved with FoodForward SA. FoodForward SA collects edible surplus food from manufacturers, wholesalers and retailers, and redistributes this food to verified non-profit organisations that collectively feed thousands of hungry people daily.

## Corporate social investment spend

	<b>2017</b>
Total CSI spend	<b>R1 495 291</b>
Spend on feeding programmes	<b>R286 800<sup>1</sup></b>
Product donations	<b>R291 424</b>
Spend on education	<b>R917 067</b>

<sup>1</sup> Excludes value of egg donations

## HUMAN RIGHTS

Quantum Foods is committed to, and strives to protect, basic human rights as defined in the Constitution of the Republic of South Africa, and according to internationally proclaimed human rights' standards. No incidents of human rights violations were reported during the year.

## ANIMAL WELFARE

The welfare of the Group's birds remains a major focus area. Regular internal audits are conducted on all the Group's farms to ensure adherence to set internal standards. These audits were, however, reduced

during the reporting period due to the additional biosecurity measures in place to mitigate the spread of the AI.

Employee training on the handling of chickens was repeated during the year, with additional training available and provided as and when needed. Quantum Foods regularly engages with the NSPCA and conducts audits with inspectors from the NSPCA to ensure compliance. In addition, strict biosecurity measures are in place at all farms to protect chickens against disease and illness.





# CORPORATE GOVERNANCE

Quantum Foods is a JSE listed entity and monitors its compliance with the principles of good corporate governance. King IV™ defines corporate governance as the exercise of ethical and effective leadership towards the achievement of the following outcomes:

- Ethical culture;
- Good performance;
- Effective control; and
- Legitimacy.

The practices underpinning the principles espoused in King IV™ are entrenched in many of the Group's internal controls, policies and procedures that govern its corporate conduct. The Group is focused on improving its corporate governance and aspires to align itself with corporate governance best practice for a company of its nature and size.



*A detailed report of the Group's adherence to King IV™ is available at [www.quantumfoods.co.za/company-documents](http://www.quantumfoods.co.za/company-documents).*

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## LEADERSHIP ETHICS AND CORPORATE CITIZENSHIP

Quantum Foods believes in doing what is right. This includes considering the impact of the Group's products and operations in relation to its stakeholders. The Board therefore considers it a business imperative that all actions taken on behalf of Quantum Foods are executed ethically and professionally. The Group's code of ethics guides the business on the behaviours needed to build a culture of ethics and integrity among its employees and directors.

To assist the Group in monitoring and managing its ethical performance, a Tip-offs Anonymous line is available. During the year, 10 tip-offs were investigated and resolved appropriately.

All Group employees are required to declare any gifts received from stakeholders in a register that is monitored by the executive committee. A competitor contact register is also monitored by the executive committee. These matters are regulated in the code of ethics.

The Board-approved insider trading policy regulates trading in Group shares by employees during open and closed periods. In this regard, all executives and board members must request permission to trade in shares from the properly authorised individuals.

No form of bribery, corruption, theft or fraud by the Group's employees is tolerated. Quantum Foods is guided by the Prevention and Combating of Corrupt Practices Act, Act 12 of 2004, which clearly defines the offense of corruption. The social and ethics committee ("SEC"), as well as the audit and risk committee ("ARC"), monitors these matters.

## STRATEGY PERFORMANCE AND REPORTING

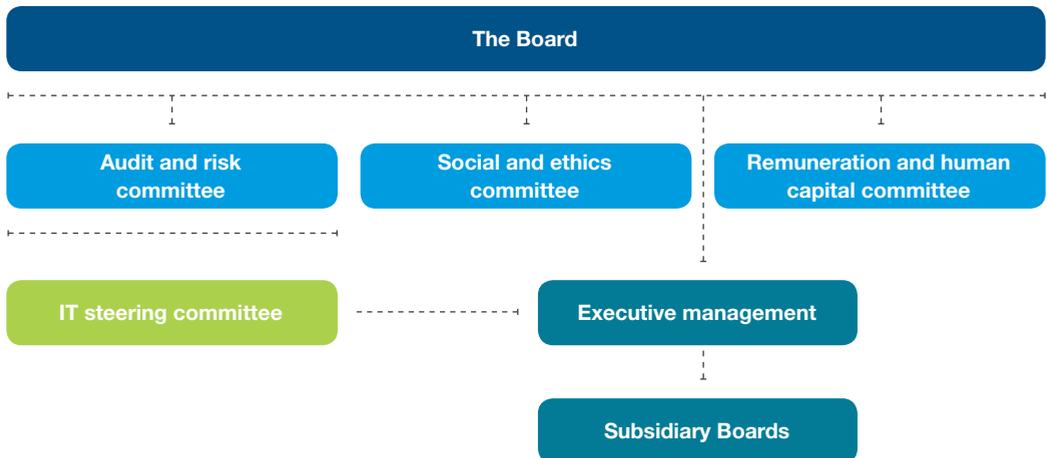
The Board assumes ultimate responsibility for strategy, performance and reporting. The Board delegates the daily management of the Company to the executive management committee, under the leadership of the chief executive officer, and monitors performance through its various subcommittees.

## GOVERNING STRUCTURES AND DELEGATION

### The Board

The Board and all its committees are constituted in terms of approved charters, which are reviewed annually. The Board is assisted by three committees to fulfil its mandate, but ultimately remains responsible and accountable for all matters.

The committees of the Board are as follows:



## Meeting attendance

The Board held five scheduled meetings during the reporting period. The Board members also attended a full-day session during which the 2018 strategy and budget were approved. The SEC had two scheduled meetings during the year, the ARC had three

scheduled meetings, and the remuneration and human capital committee ("RHCC") held two scheduled and two additional *ad hoc* meetings.

All members who could not attend a meeting excused themselves accordingly.

	Status	AGM	Board	RHCC	ARC	SEC	Strategy session
WA Hanekom	Chairman, Independent non-executive director	1/1	5/5	4/4*	3/3 <sup>^</sup>	1/2 <sup>^</sup>	1/1
PE Burton	Lead Independent non-executive director <sup>#</sup>	0/1	5/5	4/4*	3/3	n/a	1/1
N Celliers	Non-executive director	1/1	5/5	4/4*	n/a	n/a	1/1
Prof. ASM Karaan	Independent non-executive director	1/1	5/5	n/a	3/3	2/2	1/1
GG Fortuin	Independent non-executive director	0/1	5/5	n/a	3/3	n/a	1/1
HA Lourens	Chief executive officer	1/1	5/5	4/4*	3/3	2/2	1/1
AH Muller	Chief financial officer	1/1	5/5	4/4*	3/3	2/2	1/1

<sup>^</sup> WA Hanekom attended the meetings as an invitee

<sup>#</sup> PE Burton was appointed as the lead independent director in September 2017

\* The committee held two additional *ad hoc* meetings

## Composition and functions of the Board

The Board consists of seven directors, of whom five are non-executive directors. Four of the directors are independent non-executive directors. The chairman, Mr André Hanekom, an independent non-executive director, presides over meetings of the Board. Mr Patrick Burton, an independent non-executive director, was appointed as the Lead Independent Director of the Board during the year. The duties and functions performed by Mr André Hanekom as chairman and independent non-executive director are separate from those performed by the chief executive officer, Mr Hennie Lourens, who is an executive director.

The Board appoints the chief executive officer and the company secretary. The independence of each non-executive director is regularly assessed by monitoring information submitted by directors relating to their relevant business interests. Quantum Foods elected not to have a nominations committee. The appointment of directors is considered a matter for the Board as a whole. The appointment of directors

is transparent and takes place according to a formal process that includes proposal submissions from all incumbent directors, followed by interviews with nominated directors.

The Board is diverse in terms of race, business acumen, and tenure. This diversity provides for challenging and robust discussion and views. The Board, however, recognises the gender gap that currently exists. The Board has adopted and approved a diversity policy, which specifically identifies gender diversity as a focus area and also addresses diversity attributes generally. When identifying suitable candidates for appointment to the Board, the Board will consider candidates on merit against objective criteria, and with due regard for the potential benefits of gender diversity at a Board level. Voluntary targets for gender and race will be set in the new financial year, and will be considered as part of the Board's succession planning. The Board will continue to discuss, and annually agree on, all measurable targets for achieving gender diversity at Board level.

There were no changes to the Board during the reporting period. At each annual general meeting (“AGM”), one-third of the non-executive directors retire by rotation, but are eligible for re-election. Any non-executive director who has already held office for a period of more than three years since his/her last election for appointment at the AGM retires at the next AGM, but remains eligible for re-election.

A director shall be obliged to retire at the conclusion of the AGM relating to the financial year in which he/she becomes 70 years old, and shall not be eligible for re-election. A decision-making framework clearly sets out the balance of power and authority at Board level, ensuring that no one director has unfettered powers of decision-making. In line with the requirements of King IV™, a formal internal appraisal of the Board and committees was done during the reporting period and no material issues were identified.

The key roles and responsibilities of the Board include:

- acting as the focal point for, and custodian of, corporate governance;
- determining the strategies and strategic objectives of the Group;
- determining and setting the tone for the Group’s values;
- satisfying itself that the Group is governed effectively in accordance with corporate governance best practices;
- monitoring the implementation of the Board’s decisions and policies;
- ensuring that the Group has an effective and independent ARC and RHCC;
- ensuring that disputes are resolved effectively and efficiently; and
- appointing and evaluating the performance of the chief executive officer and the company secretary.

The Board’s focus areas during the year included:

- reviewing its charter to incorporate the recommendations of King IV™ and approving the work plan for the financial year;
- appointing a lead independent director;
- reconstituting the composition of the SEC in line with King IV™;

- approving the Group Governance Framework;
- reviewing and amending the decision-making framework;
- approving the interim and full year financial results;
- approving the Group budget;
- reviewing and approving the Group strategy, as presented by management;
- overseeing the integration of the Galovos Egg business in Mozambique; and
- overseeing the mitigation measures for AI.

### Company secretary

All Board members have access to the advice and services of the company secretary, who is responsible for the proper administration of the Board and the implementation of sound corporate governance procedures. This includes corporate announcements, investor communications and information about developments that may affect the Company and its operations.

The Board is of the opinion that the company secretary is suitably qualified, competent and experienced to carry out her duties as stipulated under section 88 of the Companies Act. The Board is satisfied that an arm’s-length relationship exists between the company secretary and the Board.

### LEGAL AND COMPLIANCE

The Board recognises its responsibility to ensure that Quantum Foods complies with all applicable laws and monitors adherence to all regulatory charters, codes and standards. Board members have experience in, and knowledge of, the agricultural industry, and are aware of the potential impact of legislative changes.

The Company monitors key identified legislation for any changes and developments. Such legislation includes:

- The Companies Act, Act 71 of 2008
- The Stock Exchange Control Act, Act 1 of 1985
- The Occupational Health and Safety Act, Act 85 of 1993
- The Constitution of the Republic of South Africa, Act 108 of 1996
- The Value-Added Tax Act, Act 89 of 1991

- Income Tax Act, Act 58 of 1962
- Basic Conditions of Employment Act, Act 75 of 1997
- Employment Equity Act, Act 55 of 1998
- Labour Relations Act, Act 66 of 1995
- The Medical Schemes Act, Act 131 of 1998
- The Compensation for Occupational Injuries and Diseases Act, Act 130 of 1993
- The Health Act, Act 63 of 1977
- Agriculture Products and Standards Act, Act 119 of 1990
- Animal Diseases Act, Act 35 of 1984
- Livestock Improvement Act, Act 24 of 1985
- Trade Marks Act, Act 194 of 1993
- Fertilisers, Farm Feeds, Agricultural Remedies and Stock Remedies Act, Act 36 of 1947
- South African Revenue Services Act, Act 34 of 1997
- Animal Health Act, Act 7 of 2002
- Foodstuffs, Cosmetics and Disinfectants Act, Act 54 of 1972
- Skills Development Act, Act 97 of 1998
- The Broad-Based Black Economic Empowerment Act, Act 53 of 2003
- Extension of Security of Tenure Act, Act 62 of 1997

The Board monitors updates to legislation on a quarterly basis.

During the past financial year, no instances of material non-compliance were noted, and no judgments, damages, penalties or fines were recorded or levied against Quantum Foods, its directors or employees.

## COMBINED ASSURANCE

The Group has identified the components of combined assurance as per King IV™. These components of combined assurance enable effective control of the Group's internal environment. Assurance processes in the Group include internal and external audit.

Various assurance role players oversee corporate governance at Quantum Foods. These role players provide different types of assurance, and are referred to as the "three lines of defence". The "three lines of defence" are differentiated by their levels of independence from the Group's operational activities and the Group itself.

The "three lines of defence" governance model therefore distinguishes between:

- Functions owning and managing risks as part of their daily activities (first line of defence);
- Functions overseeing risks and providing robust challenge to the management teams (second line of defence); and
- Functions providing independent assurance (third line of defence).

First line of defence	Second line of defence	Third line of defence
Management assurance; executive committee; procurement committee; sales and marketing management teams; Safety, Health and Environmental unit ("SHE"); technical specialists in Animal Feeds; supply chain; human resources; and finance.	Quality audit; Board; Board committees; subsidiary boards; IT advisory/ project management; health and safety; compliance function; environmental risk management.	Internal audit; external audit; sponsors; and other independent third-party specialists.

## GROUP EXTERNAL AUDIT

The 2017 external audit services for the South African, Zambian and Mozambican operations were provided by PwC. PKF provided the 2017 external audit services for the Group's Ugandan operations. Feedback on the audits provided to the subsidiary boards is monitored by the ARC.



*Read more about Group external audit in the ARC report from page 75.*

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## GROUP INTERNAL AUDIT

The Group's internal audit services for 2017 were provided by Deloitte & Touche. The internal audit service contract is valid for a further year. The internal audit function is constituted in terms of a charter, and reports to the ARC. The internal auditors serve as an independent appraisal and assurance body that fulfils a core requirement within the Group's governance structures. It aims to add value by providing the Group with autonomous and objective assurance.

During the year, the internal auditors monitored the effectiveness and adequacy of the Group's risk framework and risk register. The assurance process was determined as being a combination of internal and external accountabilities. Risk mitigation was identified, and risks with a high probability and impact were prioritised and included in the internal auditors' programme for the year.



*The report of the ARC is provided on pages 75 – 77.*

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*Read more about the Group's strategic risks from page 30.*

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## STAKEHOLDER RELATIONS

Quantum Foods engages with its stakeholders by way of group discussions and one-on-one meetings. The following broad stakeholder groups have been identified:

- Employees
- Customers
- Communities
- Shareholders and investors
- Suppliers and contractors
- Governments and regulatory bodies
- Industry bodies

Quantum Foods has adopted a formal stakeholder engagement policy that outlines its approach to communicating and working with its stakeholders. Enquiries from shareholders are generally handled by the company secretary or directly by the chief executive officer or chief financial officer.

Going forward, the Company will make more documents relevant to stakeholders easily available on its website, rather than limiting access to its employees only.



*The Group's stakeholder engagement policy is available on the Company website: [www.quantumfoods.co.za](http://www.quantumfoods.co.za).*

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## IT GOVERNANCE

Information Technology (“IT”) at Quantum Foods is a strategic tool that facilitates the successful implementation of the Group’s strategy and sustainable business performance. The Quantum Foods’ IT charter is based on the principles of the Control Objectives for Information and Related Technologies (“COBIT”) framework for IT governance. COBIT is an internationally recognised IT framework that guides the Board in discharging its IT responsibilities. COBIT is published by the Information Systems Audit and Control Association (“ISACA”).

The Board is responsible for IT governance and is ultimately responsible for ensuring information and IT strategies are aligned with business strategies. The ARC assists the Board in carrying out these responsibilities. The IT Steering committee is an independent committee which is tasked with identifying key projects, implementation and monitoring of such projects and reporting to the executive committee, the ARC and the Board where necessary.

An IT governance framework and reporting system provides the Board with assurance that the IT strategy, procedures and controls within the business reduce IT risk, including information security, to an acceptable level. PwC, as external advisors, assist with ensuring that measures are put in place to ensure the security of IT.

During the current reporting period, a review was done to identify the business’ key information assets and the measures in place to protect them. A cybersecurity risk review was conducted with the assistance of PwC. Recommended actions flowing from the review will be implemented in the new reporting period.

The Board is satisfied that, based on reports received from the ARC, an appropriate IT governance framework exists, is functioning, and is effectively monitored.

## Audit and risk committee (“ARC”)

### Members

- Mr PE Burton (chairman)
- Prof. ASM Karaan
- Mr GG Fortuin

The ARC is comprised of three independent non-executive directors. Mr HA Lourens and Mr AH Muller, in their respective capacities as chief executive officer and chief financial officer, are permanent invitees to the meeting. The internal and external auditors also attend the meetings of the committee. The ARC holds a minimum of three meetings per annum. One of the meetings focuses on risk in order to ensure that risk management is adequately addressed. During the reporting period, there were no changes to the composition of the committee. The committee oversees the following functions:

- Integrated reporting
- Combined assurance
- The finance function
- Internal audit
- Risk management
- External audit
- The IT function



*More information about the functions and responsibilities of the ARC during the year is provided in the ARC report from page 75.*

### Social and ethics committee (“SEC”)

The SEC consists of three members. The members are, Ms HE Pether, a prescribed officer as described in the Companies Act, Mr WA Hanekom and is chaired by Prof. ASM Karaan. King IV™ requires the majority of the SEC members to be independent non-executives. As such, Mr JJ Murray stepped down as a member of the SEC, and Mr WA Hanekom was appointed in line with the requirements of King IV™. The SEC holds a minimum of two meetings per annum.

The SEC monitors the sustainable development and non-financial performance of the Group, specifically relating to:

- stakeholder management, engagement and reporting;
- health and public safety, including occupational health and safety and the quality of the Group’s products and services;
- B-BBEE;
- diversity management;
- labour relations and working conditions;
- training and skills development;
- management and monitoring of the Group’s environmental impact;
- ethics management; and
- corporate social investments.



*The report of the SEC is provided on page 61.*

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### Remuneration and human capital committee (“RHCC”)

The RHCC members are Mr WA Hanekom and Mr N Celliers and the chairman is Mr PE Burton. The chief executive officer, chief financial officer and human resources executive are permanent invitees of the committee. The RHCC is primarily responsible for reviewing and approving the executives’ remuneration, and assisting the Board in reviewing non-executive directors’ remuneration recommendations. The RHCC takes cognisance of both local and international best practices to ensure that the Group’s remuneration practices are fair and reasonable for the executives and the Company.

The RHCC performs the following main functions:

- maintaining and approving human resource policies;
- enabling and recommending succession planning of the chief executive officer and executive management;
- monitoring the impact and implementation of applicable labour legislation that does not fall within the scope of the SEC;
- determining the remuneration packages of directors and executive management;
- ensuring that all remuneration packages are fair, market-related and responsible;
- enabling the Group to attract, engage and retain talent;
- ensuring that directors’ remuneration is accurately, completely and transparently disclosed and reported on;
- establishing the criteria to evaluate the performance of the executive management and directors; and
- evaluating and approving the Group’s remuneration philosophy, strategy and policy.



*The report of the RHCC is provided on pages 62 – 71.*

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# SOCIAL AND ETHICS COMMITTEE REPORT

During the reporting period, the SEC held two meetings. The SEC reviewed the committee charter and work plan. The SEC is guided by the five main focus areas, as set out in regulation 43 of the Companies Regulations, 2011. These are:

- Social and economic development
- Good corporate citizenship
- Environment, health and safety
- Consumer relationships
- Labour and employment

During the year, the SEC's key focus areas were as follows:

- B-BBEE and targets – The committee monitored the strategy and targets of the Company.
- Sponsorships and charitable donations – The SEC monitored the various product donations, and continues to monitor the social responsibility initiatives, which is detailed under the ensuring responsible business section on pages 45 to 51.
- Water, energy and waste disposal management – A report containing usage details is monitored biannually. The short-term aim is to reduce wastage of these elements across the Group's operations.
- Occupational compliance – During the year, the SEC noted progress in obtaining occupational certificates for various business premises. This is

an ongoing process. Capital is allocated each year to ensure progress on compliance.

- Customer complaints and food safety – The SEC monitored customer complaints and food safety, and is satisfied that such matters were adequately monitored and dealt with during the year.
- Employment equity and training – The SEC monitored employment equity and training as set out in the ensuring responsible business section on pages 45 to 51.
- Animal welfare – The SEC monitored engagement with the NSPCA and other stakeholders to ensure that animal welfare remains a priority.
- Ethics management – The SEC monitors adherence to the code of conduct.

The SEC evaluated and approved the non-financial information contained in this report. The SEC is satisfied that it has fulfilled its responsibilities in accordance with its charter and work plan for the reporting period.



**Prof. ASM Karaan**  
Chairman

Wellington

22 November 2017

# REMUNERATION REPORT

## LETTER FROM THE CHAIRMAN OF THE RHCC TO SHAREHOLDERS

Dear shareholders,

We present you with our remuneration report, updated in terms of King IV™ and the JSE Listings Requirements. This report summarises the remuneration policy applicable to the employees of Quantum Foods and its subsidiaries. It highlights the activities of Quantum Foods' RHCC, and addresses the outcomes of the implementation of the remuneration policy.

It has been a challenging year for the poultry industry in South Africa, as well as in Quantum Foods' other operating geographies. Despite this, the Group improved earnings from its South African operations. This is due to an increased contribution from the feed business, with improved volumes sold to external customers, as well as profit recovery in the eggs business in the second half of the year. The farming business reported lower earnings than the previous year, impacted by the outbreak of AI in the Group's Western Cape layer farms.



*Quantum Foods' full financial performance is discussed in the joint report of the chairman and CEO on pages 34 and 35.*

The RHCC made various key decisions in 2017. These decisions included:

- Approving the salary increases for farming sectoral and non-sectoral employees
- Reviewing the short-term incentive ("STI") and long-term incentive ("LTI") performance targets, as well as the proposed non-executive director ("NED") fees
- Reviewing the results of an equal pay for work of equal value exercise

- Considering the implications of the national minimum wage in South Africa

In implementing the remuneration policy, the RHCC considered the advice of remuneration consultants. These consultants satisfied the RHCC's requirements for independence and objectivity.

At the 2016 annual general meeting ("AGM") held on 24 February 2017, 87.27% of shareholders voted in favour of the Group's remuneration policy. This year, we have segmented the Remuneration report into three parts (including a remuneration policy and an implementation report). We will put the remuneration policy and the implementation report to separate, non-binding advisory votes at the AGM. In the event that 25% or more of the voting rights exercised on any of the resolutions are against the resolution, the RHCC shall initiate an engagement process with the dissenting shareholders.



*This process is explained in more detail in the remuneration policy from page 63.*

The RHCC is of the view that the remuneration policy achieved its objectives in 2017. During 2018, the RHCC will remain focused on its current activities. We look forward to receiving your support on the remuneration policy at the 2017 AGM, to be held on 23 February 2018.



**PE Burton**  
Chairman

Wellington

9 November 2017

## REMUNERATION POLICY

### Remuneration governance

The RHCC is constituted as a committee of the Board, and is responsible for the Group's remuneration policy. The RHCC consists of three NEDs, the majority of whom are independent. The RHCC is chaired by an independent NED.

The duties and responsibilities of the RHCC primarily revolve around the organisation-wide remuneration policy, as well as monitoring the effectiveness of management and succession planning. The detailed list of the RHCC's duties and responsibilities are set out in its committee charter. These should be read together with the remuneration policy.



*The charter is available online at [www.quantumfoods.co.za/company-documents](http://www.quantumfoods.co.za/company-documents).*

At a minimum, the RHCC meets twice in every financial year. Selected individuals may also attend these meetings by invitation from the RHCC.



*The membership and meeting attendance records of the RHCC are disclosed in the corporate governance report on page 55.*

### Remuneration philosophy and fair and responsible remuneration

Quantum Foods' remuneration framework supports the delivery of the Company's business strategy. The RHCC's remuneration approach combines talent development, career growth opportunities, recognition of performance, and a corporate culture driven by performance and value creation. The remuneration philosophy is determined on an organisation-wide basis.

Quantum Foods aims to ensure that its remuneration policy (as part of its employee value proposition) is competitive enough to make it an employer of choice. Quantum Foods rewards individual, team and business performance, and encourages superior performance across the Group.

### Fair and responsible remuneration

The RHCC observes the principle of fair and responsible remuneration. The RHCC continuously examines innovative methods to ensure that remuneration paid to executive directors is in line with the market, and that it is justifiable in the context of overall employee remuneration.

In line with the provisions of the Employment Equity Act, Act 55 of 1998 as amended ("Employment Equity Act"), the RHCC oversees the results of the Company's TASK and ExecEval grading system. This system enables the RHCC to evaluate whether an employee's remuneration is in line with his or her peers within the same job category to identify and correct any unjustifiable differentials. This supports the principle of equal pay for work of equal value espoused in the Employment Equity Act.

Quantum Foods has a human resources strategy that supports career progression and the development of upcoming talent. Through its talent development programme (in partnership with certain institutions of higher education), students studying for qualifications in animal production participate in the Group's internship programme. Many of these students have been retained and placed in the Company's career pathing programme.

### Remuneration framework

The remuneration framework consists of total guaranteed package ("TGP") benefits and, depending on an employee's job category and seniority, variable remuneration. Profitability and efficient business processes are the key Group performance indicators for reward. Individual performance indicators are determined according to the key measurable areas which contribute to overall Group performance and strategy execution.

The different components of remuneration, their link to Quantum Foods' business strategy, and their positive outcomes within the economic, social and environmental context within which the Group operates, are summarised in the table below:

Component and positive outcome	Policy and link to business strategy
<p>TGP (fixed; applicable to all employees)</p> <p>Social – ensuring the necessary skills to drive a high-performance culture.</p>	<p>Aimed at attracting and retaining talent and ensuring competitiveness.</p> <p>Quantum Foods participates in reputable South African salary surveys, and benchmarks total remuneration packages against the market value applicable to various job categories on a biannual basis. The surveys and benchmarks that are used include PwC's REMChannel Survey. The RHCC is satisfied that these surveys and benchmarks are appropriate in the context of Quantum Foods and its business. Internal salary positioning is based on factors that include work experience, competence, performance, internal historical factors, and market influences. TGP is generally referenced to the job family market median.</p> <p>Collective bargaining agreements for unionised employees are negotiated annually.</p> <p>The average salary for each job category is reviewed annually, bearing in mind the affordability restraints of the Company.</p>
<p>Benefits (fixed)</p> <p>Social – allowing employees the flexibility of structuring according to individual requirements</p>	<p>Benefits form part of TGP and include medical aid, retirement fund contributions, disability and life insurance, as well as additional benefits such as travel and cell phone allowances. Contributions are made according to statutory requirements and fund-specific rules. Employees receive a long service bonus equal to one month's TGP for every completed 10 years of service. Employees receive a 13th cheque, as part of their TGP. They can either elect to receive the 13th cheque on a once-off basis in December of every year, or have it paid to them in equal instalments over a 12-month period.</p>

Component and positive outcome	Policy and link to business strategy
<p>STIs (variable)</p> <p>Economic – drives sound farming production efficiency that assist the Group’s ability to recover rising input costs and improved returns on the asset base. This enables the creation of shareholder value.</p>	<p>The STI constitutes a performance bonus. This bonus is designed to motivate and reward management for its contribution to the achievement of targets related to main business drivers, ultimately increasing shareholder value.</p> <p>Performance conditions:</p> <ul style="list-style-type: none"> <li>• Growth in headline earnings before tax (“HEBT”) – the growth calculation is based on an audited and agreed comparative base for the previous financial year.</li> <li>• Growth in economic profit (“EP”) – the growth calculation is based on the weighted average cost of capital over a rolling three-year period, applied to the average net asset base of the Group.</li> <li>• Farming production efficiency – the efficiency calculation is based on targets set for feed conversion ratios and egg production efficiency. Feed conversion ratios are calculated as the amount of feed (in kilograms) used to produce either one dozen of eggs for layer-type chickens, or one kilogram of meat for broiler-type chickens. Egg production efficiency is measured as the number of eggs produced per layer-type hen placed at the start of a laying cycle.</li> </ul>
<p>LTIs (variable)</p> <p>Economic – drives share price growth and by extension, the creation of shareholder value.</p>	<p>The LTI consists of an equity settled Share Appreciation Right (“SAR”) scheme designed to attract and retain talent over the long term, as well as align the interests of employees with that of shareholders.</p> <p>50% of the SAR award is subject to performance conditions (set out below). The remaining 50% is subject to continued employment.</p> <p>Performance condition:</p> <ul style="list-style-type: none"> <li>• Growth in Group headline earnings per share (“HEPS”): The hurdle for vesting is compound average growth (“CAGR”) in HEPS equal to the consumer price index (“CPI”), plus 1% growth with full vesting at CPI plus 5% growth.</li> </ul> <p>The Board can increase the baseline HEPS for an allocation to ensure that the target for the vesting of this component is fair and reasonable to both shareholders and participants.</p>

## Pay mix

The pay mix for senior executives comprises a combination of TGP and variable pay. A sufficient portion of the pay mix is “at risk” in order to incentivise executives to meet financial performance targets and realise the Company’s business strategy. The STI portion drives the achievement of share price growth over the short term, while the LTI portion incentivises long-term share price growth and alignment with shareholders. At lower levels, the on-target pay mix is weighted towards guaranteed pay.

## TGP

The TGP and benefits offered by Quantum Foods are summarised in the remuneration framework above. Several employees fall within collective bargaining units. Therefore, their remuneration is determined outside of the remuneration policy and is subject to the applicable collective bargaining agreement. All South African employees participate in a Group-wide retirement scheme and a voluntary medical aid scheme.

### Annual reviews and TGP increases:

Annual reviews of TGP take into account inflation, current market conditions, an employee's financial and non-financial individual performance against preset goals, as well as the performance of the Group. Increases are limited to an approved budget, and executive increases are considered within the context of average increases for employees throughout the Group. Employees whose individual performance falls below an acceptable standard will not be eligible for an increase. This is determined through the Company's performance management process.

### STIs

Based on business and individual performance, executives and selected senior managers may participate in the STI scheme (as summarised above in the remuneration framework). A maximum bonus pool is calculated annually to govern the total amount of the STIs payable to participants. The bonus pool for the HEBT and EP components is self-funding, and the achievement of growth targets is calculated after taking the bonus pool into account. The portion of the bonus dependent on farming production efficiency targets, however, is not dependent on the achievement of growth targets for HEBT.

### Earning potential for STI:

The table below sets out the earning potential (as a % of TGP) of employees:

Position	Earning potential for STI (as a % of TGP)
CEO	100%
CFO and executives	75%
Senior management	15% or 35%

Senior management with African country, national, or significant regional responsibility have an STI earning potential of 35% of TGP. Other senior management reporting directly to the executive team have an STI earning potential of 15% of TGP.

The maximum payment is determined by the bonus pool cap (R19.8 million for 2017). The bonus pool cap is calculated based on the participant's cost to company, as well as maximum earning potential depending on the participant's level. The STI scheme is based on three performance measures that are applicable to all eligible employees, as set out in the table below:

Performance measure	Weighting	On-target performance	Stretch performance
Growth in the Group's HEBT	40%	20% growth*	50% growth*
Growth in the Group's EP	40%	25% of the three-year rolling average improvement in EP is included in the bonus pool.	
Achievement of farming production efficiency targets	20%	Tied to feed conversion rates and breed standards for table egg production	

\* Targets for 2017. At performance of 20% HEBT growth or lower, the bonus will be nil.

The hurdle rates for HEBT, the percentage of growth in EP included in the bonus pool, and farming production efficiency targets are determined annually by the Board to establish minimum and maximum potential bonus pay-outs during the first quarter of the following fiscal year.

An employees' individual performance score, which is measured in line with his or her individual performance contract, must be at least satisfactory to participate

in any STI pay-out. Individual performance targets are determined and evaluated by the employee's manager on a six monthly basis. These targets are the basis of the performance contract of a specific employee. A percentage achievement of at least 65% is required for a satisfactory performance score and participation in any STI pay-out. These performance conditions are considered to be sufficiently stretching and appropriate to Quantum Foods' business model.

For financial year 2018, the STI mechanism/design will remain largely the same, except that the Growth in the Group's HEBT target will be measured on a per share basis and that the weighting of the targets will be adjusted as follows:

- Growth in the Group's headline earnings before tax per share ("HEBTPS") (50%);
- Growth in the Group's EP (25%); and
- Achievement of farming production efficiency targets (25%).

### RHCC discretion

The RHCC has the discretion to review STI payments in the interest of all stakeholders. This decision may be guided by contextual realities that may have impacted the performance of the Group in the year under review.

### LTI scheme

Selected employees, including executives, are given the opportunity to participate in the LTI scheme at the sole discretion of the Board.

### Share appreciation rights:

Shareholders approved the scheme and rules of the equity-settled Phantom SAR Plan ("the SAR plan"), in compliance with the JSE Listings Requirements. In terms of the SAR Plan, selected employees are granted the opportunity to receive shares in the Company. The quantum of their awards is based on the future increase in the value of the SARs awards. The SAR plan is intended to promote the continued financial growth of the Group. The RHCC determines the allocation to qualifying employees on an annual basis.

### LTI allocation methodology

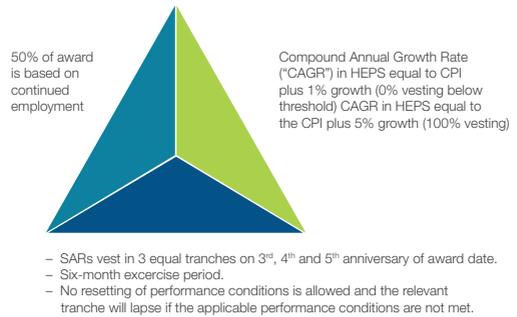
The SAR allocation levels are set out below

Position	Annual SAR allocation level (as a multiple of TGP)
CEO	7
Executives	3
Senior management	1

Multiples of annual TGP are used to determine the annual allocation of SARs to qualifying employees. Employees are "topped up" each year to ensure that their unvested SARs are equal in value to the multiple. In determining annual top-up allocations, only unvested past allocations are taken into account. Awards are made annually.

### Performance conditions for vesting

The LTI performance conditions are illustrated below:



### Settlement

Quantum Foods may settle SAR awards on the exercise date by issuing additional shares or purchasing shares in the market for transfer to qualifying employees.

### Dilution limit

The total number of ordinary shares that may be transferred to qualifying employees under the SAR scheme is limited to 14.5 million shares, which amounts to 6.5% of Quantum Foods' issued share capital. The individual employee limit is 1 million shares, which amounts to 0.45% of the Company's issued share capital.

### Early termination

For fault leavers as defined in the SAR scheme rules, vested but unexercised SARs may be exercised within 30 days of termination of employment. All SARs (vested and unvested) will lapse thereafter. For no fault leavers as defined in the SAR scheme rules, the participant will be entitled to the same rights, and subject to the same conditions, as they would have been if they remained employed by the Company.

## Executive directors' service agreements

Executive directors' service agreements are prepared with input from the RHCC. These service agreements are similar to employment agreements for other employees, apart from a longer notice period of three months versus one month for most other employees. The three-month period applies to executive directors, as well as all senior managers. Executive directors' service agreements do not contain restraint of trade provisions. Sign-on awards will only be made in exceptional circumstances to attract extraordinary talent. No such awards have been made to date. Executive contracts do not contain provisions that require the RHCC to make severance or balloon payments on termination of employment. Executives may serve on the boards of other companies with the approval of the CEO. The survey and benchmark that is used in determining executive directors' remuneration is the Executive directors' remuneration practices and trends report (PwC). The RHCC is satisfied that the use of this report is appropriate in the context of Quantum Foods and its business.

## Non-executive director fees

NEDs are paid a quarterly retainer fee in cash. The fee reflects the NED's assigned responsibilities. The fee is evaluated annually, and every two years movements are informed using the Non-executive directors' fees practices and trends report (PwC). The RHCC is satisfied that the use of this report is appropriate in the context of Quantum Foods and its business. NEDs are paid an all-inclusive retainer fee, and are not paid per-meeting. NEDs do not receive supplementary fees for an increased workload or ad hoc meeting attendance, however, NEDs are reimbursed for any related disbursements.

The table below sets out the proposed NED fees from 1 April 2018 onwards (exclusive of VAT). The proposed fees will be tabled before shareholders for approval by special resolution at Quantum Foods' AGM on 23 February 2018:

Role	2018/2019 Rand	2017/2018 Rand	% change
Chairman of the Board	315 000	295 000	6.8%
Lead independent director	270 000	N/A	N/A
Member of the Board	224 000	210 000	6.7%
Chairman of the ARC	54 000	50 000	8.0%
Member of the ARC	50 000	47 000	6.4%
Chairman of the SEC	54 000	50 000	8.0%
Member of the SEC	50 000	47 000	6.4%
Chairman of the RHCC	54 000	50 000	8.0%
Member of the RHCC	50 000	47 000	6.4%

## Shareholder engagement methods

Previously, only the remuneration policy was placed before shareholders at the AGM for a non-binding advisory vote. In line with King IV™ and the JSE Listings Requirements, the remuneration policy and implementation report will be placed before shareholders for two separate non-binding advisory votes from 2018 onwards. In the event that 25% or more of shareholders vote against either of or both the remuneration policy and implementation report, the RHCC will initiate communication with shareholders

via a SENS announcement following the AGM. This communication will aim to determine and address shareholders' concerns, including the manner and timing of the engagement. The RHCC may, inter alia, schedule a meeting with dissenting shareholders to discuss their concerns, if practical.

Taking into account feedback from shareholders, the RHCC reserves the right to modify aspects of the remuneration framework in line with best practice and shareholders' interests.

## IMPLEMENTATION OF THE REMUNERATION POLICY IN 2017

### TGP

The RHCC approved a salary increase mandate of 7.0% of total cost to company for non-sectoral employees and executives, and a 7.4% basic pay increase for sectoral employees. The RHCC is satisfied

that the salary increase levels for executive directors are in line with salary increase levels throughout the Company.

### STI outcomes

The table below sets out the STI performance outcomes for 2017:

Performance measure	Weighting	Actual achievement
HEBT	40%	40.0%
EP	40%	0%
Farming production efficiency	20%	8.7%
<b>Total</b>	<b>100%</b>	<b>48.7%</b>

The table below sets out the STIs of executive directors and prescribed officers in 2017, based on the achievement of performance targets:

Participant	2017 STI amount R'000	Actual STI (as % of TGP)	STI earning potential (as % of TGP)
Hennie Lourens	1 516	48.7%	100%
André Muller	707	36.5%	75%
Heather Pether	475	36.5%	75%

### LTI outcomes

There are no LTI outcomes to report this year, as the first tranche of SARs (made in 2015) are due to vest in 2018. During the year under review, 7 560 630 SARs, at a strike price of R3.09 per share, were granted. The baseline HEPS of 28.2 cents per share for the 2017 allocation is the actual HEPS recorded for 2016.

The Board did not increase the baseline HEPS for the 2017 allocation. Therefore, the total 100% vesting for the performance component of the 2017 allocation will be realisable at CAGR in HEPS of CPI plus 5%, from the baseline of 28.2 cents per share.

## Unvested LTIs

The table below discloses the value of each executive director and prescribed officer's LTIs, whether allocated, settled, or forfeited, as well as the indicative value of SARs not yet settled. The indicative value of the closing number of SARs was calculated based on the number of SARs at the Company's year-end share price, less the grant price of the particular SARs granted.

	Date awarded	Vesting date	Opening number	Granted during the year	Grant price Cents	Forfeited during the year	Settled during the year	Closing number	Indicative value R'000
Hennie Lourens	2015/02/27	Note 1	774 376		315	-	-	774 376	Nil
	2016/02/18	Note 2	634 240		266	-	-	634 240	216
	2017/02/23	Note 3		2 280 786	309	-	-	2 280 786	Nil
André Muller	2015/02/27	Note 1	477 854		315	-	-	477 854	Nil
	2016/02/18	Note 2	187 902		266	-	-	187 902	64
	2017/02/23	Note 3		510 736	309	-	-	510 736	Nil
Heather Pether	2015/02/27	Note 1	224 410		315	-	-	224 410	Nil
	2016/02/18	Note 2	122 190		266	-	-	122 190	42
	2017/02/23	Note 3		402 570	309	-	-	402 570	Nil

Note 1: Vesting in three equal tranches on 27/02/2018, 27/02/2019 and 27/02/2020

Note 2: Vesting in three equal tranches on 18/02/2019, 18/02/2020 and 18/02/2021

Note 3: Vesting in three equal tranches on 23/02/2020, 23/02/2021 and 23/02/2022

## Remuneration outcomes for 2017

The table below sets out the single figure remuneration (i.e. TGP (Basic salary and Benefits), STI and LTI) received by executive directors and prescribed officers in 2017 and 2016, respectively:

	Basic salary R'000	Benefits R'000	STI R'000	LTI* R'000	Directors' fees R'000	Total R'000
<b>30 September 2017</b>						
Hennie Lourens	2 698	356	1 516	-	-	4 570
André Muller	1 635	271	707	-	-	2 613
Heather Pether	1 013	251	475	-	-	1 739
<b>Total</b>	<b>5 346</b>	<b>878</b>	<b>2 698</b>	<b>-</b>	<b>-</b>	<b>8 922</b>

## 30 September 2016

Hennie Lourens	2 481	580**	77	-	-	3 138
André Muller	1 524	259	36	-	-	1 819
Heather Pether	900	235	23	-	-	1 158
Jimmy Murray <sup>#</sup>	1 510	370	38	-	-	1 918
<b>Total</b>	<b>6 415</b>	<b>1 444</b>	<b>174</b>	<b>-</b>	<b>-</b>	<b>8 033</b>

\* Number of SARs exercised during the year under review multiplied by the share price on exercise date less the strike price payable of the SARs on grant date. The first vesting of SARs allocated is in 2018.

\*\* Includes a long-service award of R242 584

<sup>#</sup> Jimmy Murray resigned from the SEC during 2017 and is no longer regarded as a prescribed officer

## NED fees

The table below sets out the fees paid to NEDs in 2017:

Name	2017 R'000
André Hanekom	338
Norman Celliers	247
Prof. Mohammad Karaan	293
Patrick Burton	294
Geoffrey Fortuin	247

## Approval

The RHCC is satisfied that there were no material deviations from the remuneration policy during 2017. This remuneration report was approved by the RHCC on 9 November 2017.

# VALUE-ADDED STATEMENT

The contribution of the Group to its various stakeholders is indicated in the table below:

	2017 R'000	%	2016 R'000	%
Revenue	4 051 890		3 913 078	
Less: Cost of production and services	(3 463 995)		(3 444 303)	
Value added from operating activities	587 895		468 775	
Profit on disposal of assets	20 619		34 947	
Interest received – net	6 411		6 814	
<b>Total value added</b>	<b>614 925</b>		<b>510 536</b>	
Value distributed as follows:				
<b>To employees</b>				
Salaries, wages and employee benefits	372 950	61	322 078	63
<b>To the government</b>				
Income tax	49 994	8	39 991	8
Skills development levies	2 290	–	2 160	–
<b>To providers of capital</b>				
Interest paid	–	–	–	–
Dividends to shareholders	13 829	2	23 325	5
<b>Total distributions</b>	<b>439 063</b>		<b>387 554</b>	
Income retained in the business				
Depreciation and amortisation	62 074	10	54 953	11
Retained profit for the year	113 788	19	68 026	13
<b>Total value distributed and reinvested</b>	<b>614 925</b>		<b>510 536</b>	

# SUMMARY CONSOLIDATED FINANCIAL STATEMENTS



## DIRECTOR'S RESPONSIBILITY

In accordance with the requirements of the Companies Act, the Board is responsible for the preparation of the summary consolidated financial statements of Quantum Foods. The audited annual financial statements of the Group for the year ended 30 September 2017, from which these summary consolidated financial statements have been derived, were prepared in accordance with the requirements of the Companies Act.

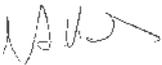
It is the responsibility of the independent external auditors to report on the fair presentation of the financial statements.

The Board is ultimately responsible for the internal control processes of Quantum Foods. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of financial records and of the financial statements and to adequately safeguard, verify and maintain accountability for the Group's assets. Appropriate accounting policies, which are supported by reasonable and prudent judgements and estimates, are applied on a consistent and going concern basis. Systems and controls include the proper delegation of responsibilities, effective accounting procedures and adequate segregation of duties.

Based on the information and reasons given by management and the internal auditors, the Board is of the opinion that the accounting controls are sufficient and the financial records may be relied upon for preparing the financial statements and maintaining accountability for the Group's assets and liabilities.

Nothing has come to the attention of the directors to indicate that any breakdown in the functioning of these controls, resulting in material loss, has occurred during the financial year and up to the date of this report. The Board has a reasonable expectation that the Group and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future and continue adopting the going concern basis in preparing the financial statements.

The summary consolidated financial statements of the Group were approved by the Board on 22 November 2017 and are signed on its behalf by:



**WA Hanekom**  
Chairman



**HA Lourens**  
Chief Executive Officer

## NOTICE IN TERMS OF SECTION 29 OF THE COMPANIES ACT

The summary consolidated financial statements comprise a summary of the audited annual financial statements of the Group for the year ended 30 September 2017. The annual financial statements have been audited in compliance with the Companies Act. The annual financial statements have been prepared under the supervision of AH Muller CA(SA), chief financial officer. A copy of the full audited annual financial statements of the Group is available on [www.quantumfoods.co.za](http://www.quantumfoods.co.za).

## COMPANY SECRETARY CERTIFICATE

In accordance with section 88 of the Companies Act, for the year ended 30 September 2017, it is hereby certified that the Company and its subsidiaries have lodged with the Companies and Intellectual Property Commission all such returns that are required of a public company in terms of the Companies Act and that such returns are true, correct and up to date.



**INT Makomba**  
Company Secretary

# AUDIT AND RISK COMMITTEE REPORT

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The ARC is constituted in terms of a charter which outlines the statutory duties in terms of the relevant provisions of the Companies Act and responsibilities highlighted in King IV™.

## AUDIT AND RISK COMMITTEE CHARTER

The ARC is guided by formal terms of reference. An annual work plan serves as a guideline for the ARC in the execution of its mandate. Both the charter and work plan are reviewed annually and amended as necessary.

The ARC's role and responsibilities outlined in the charter include both the statutory duties and responsibilities as required by the relevant provisions of the Companies Act as well as those highlighted in King IV™.

## MEMBERS OF THE AUDIT AND RISK COMMITTEE

As at 30 September 2017, the ARC comprised of three independent non-executive directors namely, Prof. ASM Karaan, Mr GG Fortuin and is chaired by Mr PE Burton.

These members will retire and avail themselves for re-election at the fourth AGM of the Company in terms of section 94(2) of the Companies Act. All members are required to act objectively and independently, as described in the Companies Act and in King IV™.

The Group chief executive officer and the chief financial officer are permanent invitees of the ARC. In addition, relevant senior managers are invited to attend meetings from time to time. The company secretary is the statutory secretary of the ARC.

## MEETINGS

The ARC held three meetings during the year. The internal and external auditors attended the ARC meetings in their capacity as assurance providers.



*Attendance of the meetings is shown on page 55.*

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## FUNCTIONS AND RESPONSIBILITIES OF THE AUDIT AND RISK COMMITTEE

During the period under review, the ARC was able to discharge the following functions outlined in its charter and ascribed to it in terms of the Companies Act and King IV™:

- Reviewed the interim, preliminary and summary results as well as the year-end financial statements, culminating in a recommendation to the Board for approval. In the course of its review, the ARC:
  - took the necessary steps to ensure that the financial statements are prepared in accordance with IFRS and the requirements of the Companies Act;
  - considered and, when appropriate, made recommendations on internal financial controls; and
  - ensured that a process is in place to be informed of any reportable irregularities (as per the Auditing Professions Act, Act 26 of 2005) identified and reported by the external auditor; and relating to the accounting practices and internal audit of the Group, the content of the financial statements, the internal financial controls of the Group or any related matter during the financial year. No such material concerns and/or complaints were raised during the financial year.

- Reviewed the external audit reports on the consolidated annual financial statements
- Oversaw the integrated reporting process. The ARC considered the Group's information pertaining to its non-financial performance as disclosed in the integrated report and has assessed its consistency with operational and other information known to the ARC members, and for consistency with the annual financial statements
- Reviewed and confirmed that the non-audit services provided by the external auditors were not material. Any non-audit services to be performed above R500 000 must be approved by the Board
- Reviewed and confirmed the suitability of PwC as audit firm and Mr DG Malan as the designated auditor of the Group as required by the JSE Listings Requirements
- Recommended the reappointment of PwC as the external auditor and Mr DG Malan as the designated auditor, after satisfying itself through enquiry that PwC is independent as defined in terms of the Companies Act. This will be Mr DG Malan's fifth year as designated auditor of the Company. The re-appointment of PwC as the recommended external auditor will be formally proposed to the shareholders at the AGM
- Confirmed that PwC and the designated auditor are accredited by the JSE
- Confirmed and approved the internal audit charter and annual risk based internal audit year plan
- Reviewed the internal audit risk reports and tip-offs anonymous reports
- Reviewed and approved the risk management policy and plan
- Reviewed business continuity capability, disaster management plans and insurance cover
- Provided oversight over the combined assurance arrangements, including the external and internal auditors and satisfied itself of the effectiveness of the combined assurance model implemented by the Group
- Reviewed the effectiveness of the internal audit function and the head of internal audit

The ARC is satisfied that sufficient time was dedicated to risk governance and that it discharged its responsibilities as set out in the charter and work plan for the period under review.

The ARC is satisfied with the assurance of the internal and external auditors, with the effectiveness of the design and implementation of internal financial controls. There were no significant weaknesses noted which resulted in material financial loss, fraud, corruption or error.

## **INTERNAL AUDIT**

The internal audit function is a key element of the combined assurance structure. The Group outsourced its internal audit function to Deloitte and Touche. The ARC was satisfied that the internal auditor fulfilled its roles and responsibilities, as outlined in the charter and the assessment of the internal control environment.

## **CHIEF FINANCIAL OFFICER AND FINANCE FUNCTION**

The ARC considered and satisfied itself of the appropriateness of the expertise and experience of Mr AH Muller as chief financial officer.

In addition, the ARC considered and has satisfied itself of the appropriateness of the expertise and adequacy of resources of the financial function and experience of the senior members of management responsible for the financial function.

## GOING CONCERN

The ARC has considered and reviewed a documented assessment, including key assumptions, as prepared by management of the going concern status of the Group and has made recommendations to the Board in accordance. The Board's statement regarding the going concern status of the Group, as supported by the ARC, is included in the directors' responsibility report on page 74.

## SIGNIFICANT AUDIT MATTERS AND QUALITY OF EXTERNAL AUDIT

The ARC considered and is satisfied with the appropriateness of the key audit matters reported on by the external auditors. The ARC was satisfied with the quality of the external audit.



### PE Burton

Chairman: Audit and risk committee

Wellington

22 November 2017

## INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Quantum Foods Holdings Limited

### Opinion

The summary consolidated financial statements of Quantum Foods Holdings Limited, set out on pages 79 to 87 of the Integrated Report, which comprise the summary consolidated statement of financial position as at 30 September 2017, the summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Quantum Foods Holdings Limited for the year ended 30 September 2017.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the JSE Limited's (JSE) requirements for summary financial statements, as set out in note 1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

### Summary Consolidated Financial Statements

The summary 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 summary 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 22 November 2017. 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.

### Director's Responsibility for the Summary Consolidated Financial Statements

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the JSE's requirements for summary financial statements, set out in note 1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

### Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary 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*.



### PricewaterhouseCoopers Inc.

Director: DG Malan  
Registered Auditor  
Paarl  
22 November 2017

**SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

as at 30 September 2017

	2017 R'000	2016 R'000
<b>Assets</b>		
<b>Non-current assets</b>	<b>1 076 838</b>	1 071 729
Property, plant and equipment	1 051 259	1 048 280
Intangible assets	13 304	15 559
Investment in associate	8 083	6 988
Deferred income tax	4 192	902
<b>Current assets</b>	<b>1 177 817</b>	1 194 300
Inventories	201 789	307 424
Biological assets	299 345	323 950
Trade and other receivables	411 395	481 480
Derivative financial instruments	1 876	–
Current income tax	1 943	1 935
Cash and cash equivalents	261 469	79 511
<b>Total assets</b>	<b>2 254 655</b>	2 266 029
<b>Equity and liabilities</b>		
<b>Capital and reserves attributable to owners of the parent</b>	<b>1 691 645</b>	1 596 148
Share capital	1 552 670	1 581 402
Other reserves	(200 991)	(211 432)
Retained earnings	339 966	226 178
<b>Total equity</b>	<b>1 691 645</b>	1 596 148
<b>Non-current liabilities</b>	<b>237 034</b>	242 372
Interest-bearing liability	6 227	6 318
Deferred income tax	223 199	228 878
Provisions for other liabilities and charges	7 608	7 176
<b>Current liabilities</b>	<b>325 976</b>	427 509
Trade and other payables	321 549	417 172
Derivative financial instruments	–	4 224
Current income tax	4 336	6 029
Interest-bearing liability	91	84
<b>Total liabilities</b>	<b>563 010</b>	669 881
<b>Total equity and liabilities</b>	<b>2 254 655</b>	2 266 029

## SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2017

	Notes	2017 R'000	2016 R'000
Revenue		4 051 890	3 913 078
Cost of sales		(3 257 803)	(3 224 202)
Gross profit		794 087	688 876
Other income		19 775	16 603
Other gains/(losses) – net	3	199 910	155 800
Sales and distribution costs		(215 953)	(194 904)
Marketing costs		(12 056)	(12 087)
Administrative expenses		(108 643)	(98 972)
Other operating expenses		(507 005)	(431 042)
Operating profit		170 115	124 274
Investment income		8 066	7 736
Finance costs		(1 665)	(922)
Share of profit of associate company		1 095	257
Profit before income tax		177 611	131 345
Income tax expense		(49 994)	(39 991)
<b>Profit for the year</b>		<b>127 617</b>	<b>91 354</b>
<b>Other comprehensive income for the year</b>			
Items that may subsequently be reclassified to profit or loss:			
Fair value adjustments to cash flow hedging reserve		4 039	(2 283)
For the year		(12 096)	4 737
Deferred income tax effect		(568)	47
Current income tax effect		3 955	(1 374)
Realised to profit or loss		17 706	(7 907)
Deferred income tax effect		(47)	–
Current income tax effect		(4 911)	2 214
Movement on foreign currency translation reserve			
Currency translation differences		2 340	25 026
<b>Total comprehensive income for the year</b>		<b>133 996</b>	<b>114 097</b>
Profit for the year attributable to owners of the parent		127 617	91 354
Total comprehensive income for the year attributable to owners of the parent		133 996	114 097
Basic and diluted earnings per ordinary share (cents)	4	56	39

**SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the year ended 30 September 2017

	2017 R'000	2016 R'000
<b>Share capital</b>	<b>1 552 670</b>	1 581 402
Opening balance	<b>1 581 402</b>	1 585 386
Shares repurchased and cancelled	<b>(28 732)</b>	(3 984)
<b>Other reserves</b>	<b>(200 991)</b>	(211 432)
Opening balance	<b>(211 432)</b>	(228 968)
Other comprehensive income for the year	<b>6 379</b>	22 743
Recognition of share-based payments	<b>4 062</b>	2 492
Adjustment to common control reserve	<b>–</b>	(7 699)
<b>Retained earnings</b>	<b>339 966</b>	226 178
Opening balance	<b>226 178</b>	158 149
Profit for the year	<b>127 617</b>	91 354
Dividends paid	<b>(13 829)</b>	(23 325)
<b>Total equity</b>	<b>1 691 645</b>	1 596 148

## SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 September 2017

	2017 R'000	2016 R'000
<b>Net cash flow from operating activities</b>	<b>257 688</b>	(42 061)
Net cash profit from operating activities	200 373	164 250
Working capital changes	115 232	(173 622)
Cash effect of hedging activities	3 413	(3 002)
Net cash generated from/(utilised in) operations	319 018	(12 374)
Income tax paid	(61 330)	(29 687)
<b>Net cash flow from investing activities</b>	<b>(32 745)</b>	(48 762)
Additions to property, plant and equipment	(72 227)	(98 759)
Additions to intangible assets	(812)	–
Proceeds on disposal of property, plant and equipment	32 228	122 080
Business combinations	–	(79 819)
Interest received	8 066	7 736
<b>Net cash surplus/(deficit)</b>	<b>224 943</b>	(90 823)
<b>Net cash flow from financing activities</b>	<b>(43 709)</b>	(27 668)
Repayment of interest-bearing liability	(84)	(46)
Shares repurchased	(28 732)	(3 984)
Interest paid	(1 073)	(371)
Dividends paid to ordinary shareholders	(13 820)	(23 267)
Net increase/(decrease) in cash and cash equivalents	181 234	(118 491)
Effects of exchange rate changes	724	10 499
Net cash and cash equivalents at beginning of year	79 511	187 503
<b>Net cash and cash equivalents at end of year</b>	<b>261 469</b>	79 511

## NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 September 2017

SEGMENT INFORMATION	2017 R'000	2016 R'000
<b>Segment revenue</b>	4 051 890	3 913 078
Eggs	1 051 375	1 005 221
Farming	1 310 907	1 326 746
Animal feeds	1 485 255	1 420 758
Other African countries	204 353	160 353
<b>Segment results – excluding items of a capital nature</b>	149 496	89 327
Eggs	46 460	(26 881)
Farming	47 285	61 022
Animal feeds	77 786	72 532
Other African countries	(9 655)	(234)
Head office costs	(12 380)	(17 112)
<b>Items of a capital nature per segment included in other gains/(losses) – net</b>		
Profit/(loss) on disposal of property, plant and equipment before income tax	20 619	34 947
Eggs	(1 457)	291
Farming	18 422	35 297
Animal feeds	3 441	(641)
Other African countries	213	–
<b>Segment results</b>	170 115	124 274
Eggs	45 003	(26 590)
Farming	65 707	96 319
Animal feeds	81 227	71 891
Other African countries	(9 442)	(234)
Head office costs	(12 380)	(17 112)
<b>A reconciliation of the segment results to operating profit before income tax is provided below:</b>		
Segment results	170 115	124 274
Adjusted for:		
Investment income	8 066	7 736
Finance costs	(1 665)	(922)
Share of profit of associate company	1 095	257
Profit before income tax per statement of comprehensive income	177 611	131 345

## NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS (continued)

### for the year ended 30 September 2017

#### 1. BASIS OF PREPARATION

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE for summary financial statements, and the requirements of the Companies Act applicable to summary financial statements. The JSE requires summary financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and 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. The accounting policies applied in the preparation of the consolidated annual financial statements from which the summary consolidated financial statements were derived are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

#### 2. ACCOUNTING POLICIES

These summary consolidated financial statements incorporate accounting policies that are consistent with those applied in the Group's consolidated financial statements for the year ended 30 September 2017 and with those of previous financial years, except for the adoption of the following amendments to the published standards that became effective for the current reporting period beginning on 1 October 2016:

- Amendments to IAS 1 – Presentation of Financial Statements

The adoption of these amendments to the standard did not have any material impact on the Group's results and cash flows for the year ended 30 September 2017 and the financial position at 30 September 2017.

	2017 R'000	2016 R'000
<b>3. OTHER GAINS/(LOSSES) – NET</b>		
Biological assets fair value adjustment	40 810	50 293
Unrealised – reflected in carrying amount of biological assets	17 425	(7 303)
Realised – reflected in cost of goods sold	23 385	57 596
Agricultural produce fair value adjustment	143 754	86 475
Unrealised – reflected in carrying amount of inventory	2 325	(1 012)
Realised – reflected in cost of goods sold	141 429	87 487
Foreign exchange differences	1 891	(6 212)
Foreign exchange contract fair value adjustments	(3 563)	(9 291)
Foreign exchange contract cash flow hedging ineffective losses	(3 601)	(412)
Profit on disposal of property, plant and equipment	20 619	34 947
	<b>199 910</b>	<b>155 800</b>

	2017 R'000	2016 R'000
<b>4. EARNINGS PER ORDINARY SHARE</b>		
<b>Basic and diluted</b>		
The calculation of basic and diluted earnings per share is based on profit for the period attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the year:		
Profit for the year	127 617	91 354
Headline earnings are calculated in accordance with Circular 2/2015 issued by the South African Institute of Chartered Accountants.		
The Group has no dilutive potential ordinary shares.		
<i>Reconciliation between profit for the period attributable to owners of the parent and headline earnings</i>		
Profit for the year	127 617	91 354
Remeasurement of items of a capital nature		
Profit on disposal of property, plant and equipment	(15 314)	(25 516)
Gross	(20 619)	(34 947)
Tax effect	5 305	9 431
Headline earnings for the year	112 303	65 838
Weighted average number of ordinary shares in issue ('000)	229 124	233 128
<b>Earnings per share (cents)</b>		
Basic and diluted	56	39
<b>Headline earnings per share (cents)</b>		
Basic and diluted	49	28

**NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS** (continued)  
for the year ended 30 September 2017

	2017 R'000	2016 R'000
<b>5. CONTINGENT LIABILITIES</b>		
Guarantees in terms of loans by third parties to contracted service providers	24 355	28 872

**Litigation**

*Customer claim*

The Group received a summons in the previous reporting period in respect of a claim for performance of day-old pullets delivered to the customer. The matter will be defended in the High Court.

Management is of the view, based on legal advice regarding the merits of the claim against the Group, that the Group will not incur any material liability in this respect.

*Allegations of anti-competitive trade practices – Zambia*

The Group received a notice of investigation in the previous reporting period from the Zambian Competition and Consumer Protection Commission regarding alleged breach of the Competition and Consumer Protection Act. The investigation is currently still underway and no final report has been received.

Management is of the view that the Group will not incur any material liability in this regard.

**6. FUTURE CAPITAL COMMITMENTS**

Capital expenditure approved by the Board and contracted for amounts to R23.9 million (2016: R12.8 million). Capital expenditure approved by the Board, but not yet contracted for, amounts to R42.5 million (2016: R156.6 million).

## 7. EVENTS AFTER THE REPORTING PERIOD

### *Dividend*

A final dividend of 34 cents per ordinary share has been declared and approved for the year ended 30 September 2017, on 22 November 2017. This will only be reflected in the statement of changes in equity in the next reporting period.

Additional information disclosed:

These dividends are declared from income reserves and qualify as a dividend as defined in the Income Tax Act, Act 58 of 1962.

Dividends will be paid net of dividends tax of 20%, to be withheld and paid to the South African Revenue Service by the Company. Such tax must be withheld unless beneficial owners of the dividend have provided the necessary documentary proof to the relevant regulated intermediary that they are exempt therefrom, or entitled to a reduced rate as result of the double taxation agreement between South Africa and the country of domicile of such owner.

The net dividend amounts to 27.2 cents per ordinary share for shareholders liable to pay dividends tax. The dividend amounts to 34.0 cents per ordinary share for shareholders exempt from paying dividends tax.

The number of issued ordinary shares is 222 314 657 as at the date of this declaration.

There have been no other events that may have a material effect on the Group that occurred after the end of the reporting period and up to the date of approval of the summary consolidated financial statements by the Board.

## 8. PREPARATION OF FINANCIAL STATEMENTS

The summary consolidated financial statements have been prepared under the supervision of AH Muller, CA(SA), Chief Financial Officer.

## 9. AUDIT

The annual financial statements were audited by PricewaterhouseCoopers 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.

The Group's auditors have not reviewed nor reported on any of the comments relating to prospects.

# CORPORATE INFORMATION

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## QUANTUM FOODS HOLDINGS LTD

Incorporated in the Republic of South Africa  
Registration number: 2013/208598/06  
Share code: QFH ISIN code: ZAE000193686

## DIRECTORS

WA Hanekom (chairman)  
PE Burton (lead independent)  
GG Fortuin  
Prof. ASM Karaan  
N Celliers  
HA Lourens (chief executive officer)\*  
AH Muller (chief financial officer)\*

\* *Executive*

## COMPANY SECRETARY

INT Makomba  
Email: [Ntokozo.Makomba@quantumfoods.co.za](mailto:Ntokozo.Makomba@quantumfoods.co.za)

## COMPANY DETAILS

11 Main Road  
Wellington 7655  
PO Box 1183  
Wellington 7654  
South Africa  
Tel: 021 864 8600  
Fax: 021 873 5619  
Email: [info@quantumfoods.co.za](mailto:info@quantumfoods.co.za)

## TRANSFER SECRETARIES

Computershare Investor Services (Pty) Ltd  
PO Box 61051  
Marshalltown 2107  
South Africa  
Tel: 011 370 5000  
Fax: 011 688 5209

## SPONSOR

PSG Capital (Pty) Ltd  
(Registration number 2006/015817/07)  
1st Floor, Ou Kollege  
35 Kerk Street  
Stellenbosch, 7600  
PO Box 7403  
Stellenbosch  
7599  
Tel: 021 887 9602  
Fax: 021 887 9624

And

Building 3  
2nd Floor  
11 Alice Lane  
Sandton 2196  
PO Box 650957  
Benmore 2010

# SHAREHOLDERS' DIARY

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Financial year-end:	30 September 2018
Annual general meeting:	23 February 2018

## Reports

Interim report for the half-year ending 31 March 2018	May 2018
Announcement of results for the year ending 30 September 2018	November 2018
Integrated report for the year ending 30 September 2018	December 2018

## Dividends

Interim	Announcement	May 2018
	Payment	July 2018
Final	Announcement	November 2018
	Payment	February 2019

