

CHAIRMAN'S REPORT

Pioneer Foods has maintained momentum against the backdrop of a difficult macro-economic environment. Locally, the bearish view of our economic environment is juxtaposed with a rising consumption economy.

Our strong brands in food and beverage categories provide reliable anchors and relative defensive qualities to enable the delivery of sustainable returns.

South Africa is facing structural challenges compounded by low growth, increasing costs in the wake of the weakening rand, growing unemployment and more frequent incidents of social and political unrest. Labour unrest, policy uncertainty, energy disruption and infrastructure constraints present challenges to profitable growth. On the favourable side, we see increasing demand following rising migration into South Africa, increasing numbers of middle-class consumers, social grants boosting expenditure and improved standards of living for more of our people.

A wave of South African companies are externalising their positions and venturing beyond the country's borders to mitigate concerns about stability and growth potential in the local market. Although Pioneer Foods has been on this trajectory for many years, it continues focusing on potential new acquisitions and operational joint venture opportunities.

Our brands will continue to deliver on their health and nutritional promises to its consumers.

Committed to good governance and transformation

The Board's compass remains firmly set on ensuring that Pioneer Foods can create value on a sustainable basis. The Group's strategy was revisited at the end of the financial year to test and refine our plans, given the reality of changing markets, increased competition and growth imperatives. The business retains a firm focus on the aggressive implementation of initiatives that support the achievement of the twin objectives: strengthening its brand positions and expanding its margins.

To ensure that we continue to act in an ethical manner, the Group reviewed its code of ethics and disseminates monthly awareness messages across our employee base. We are also seeing the benefits of increased assurance delivered by the Group's outsourced internal audit partners.

Employee wellness is core to our ability to maintain momentum. We recognise that a high-performance culture can only be created by engaged employees and a diverse talent pool.



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CHAIRMAN'S REPORT (CONTINUED)

The Group creates significant value through its Phase I B-BBEE scheme launched in 2006 and has benefitted more than 11 000 employees. The scheme has generated R374 million in pre-tax value for employees since inception. The main purpose of the scheme was to broaden and increase direct black ownership and economic participation by employees in the group.

The new B-BBEE codes present practical challenges for some elements of the scorecard: we embarked on a structured process to address these and achieve meaningful progress. For the 2015 financial year, the Group was rated according to the agricultural sector scorecard and retained a level 4 status.

Milestones

Pioneer Foods' solid performance for 2015 was driven by demand creation, centralisation and focused improvement initiatives, including:

- The re-engineering of the bakeries business, which delivered incremental performance improvement ahead of plan.
- Category-leading performance from our power brands: *Weet-Bix*, *Sasko*, *Spekko*, *Ceres*, *Liqui-Fruit*, *White Star* and *Safari*.
- Strategic review of the brand portfolio resulting in the exit of loss-making businesses and categories.
- A reset of the cost base across the total scope of operating activities with most notable contributions from the containment of conversion costs and outbound distribution.
- Selective acquisitions and joint ventures.
- Embedding a performance culture through robust performance management.

Prospects

Pioneer Foods bedded down a more streamlined structure and business model, sustaining the Group's value creation drive. The next growth chapter will be more onerous and will require tenacity to continue outperforming the industry.

The Group's most valued intellectual capital resides in its brands and people, as both represent Pioneer Foods' competitive edge in the market. Leveraging these pools of potential will enable us to increase market penetration and innovation enabled by a lean and efficient organisation.

Appreciation

I extend my gratitude to all Pioneer Foods stakeholders for their commitment to the Group in its growth and transformation initiatives. I would like to thank Phil Roux in particular for his leadership, insight and dedication in realising the potential of our Group towards 2018 and beyond.



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