

CHIEF EXECUTIVE OFFICER'S REPORT

Pioneer Foods' growth and business operating model assisted the Group to mitigate external discontinuities and competition.

Culturally, there is a rhythm to the business, which is powered by strong brands that deliver profitable growth. A high-performance culture underpins our output supported by a relentless efficiency focus.

Revenue increased by 6% to R18.7 billion compared to 2014, and operating profit ended 28% higher than the previous year. Pioneer Foods delivered results that seem incongruent with its environment, where business confidence has reached near record low levels. Fortunately, demand in our core consumer categories remains strong as the South African middle class continues expanding and our competitive ability strengthens.

Strong management will remain an imperative. External discontinuities continue to challenge the cost base of the business which demands greater agility and commercial rigour. Strategic clarity and precision in execution will be core to sustained progress.

Strategy implementation

Pioneer Foods continued refining its strategy while staying fully committed to the five strategic themes. Significant progress was made on delivering expanded margins from 7.1% in 2013 to 11.5% in 2015. Our "self-help" programme delivered real value.

Maintaining the momentum will require tenacity from the management team.

A focus area in the past year was a significant investment in integrated demand planning in support of our strategic themes of embedding strategic customer management and building power brands. Building team and process capability in this area of the business is critical.

While the quality of earnings was of a high standard across the corporate portfolio, the improvement in the profitability of the bakeries business was a highlight for the year. A relentless focus on their value drivers and strong leadership means that the Group is harvesting returns ahead of expectations.

We continue strengthening our brands through increased marketing support. One of the core appointments for the year was a new chief marketing officer, Martin Neethling, who comes with a wealth of experience and new ideas.

With the establishment of Pioneer Foods International as a stand-alone division, we are clearly stating our intention to increase our international drive organically and acquisitively. Pioneer Foods has developed a strong footprint in Africa over the years: we are now expanding



PM Roux
Chief Executive Officer

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our regional presence, while also considering markets beyond Africa.

Deliberate and considered corporate activity remains a strategic driver of growth. The \$7 million purchase of a 50.1% stake in Food Concepts, a food business in Nigeria, is expected to contribute to shaping a winning corporate portfolio over the medium to long term.

To shape a winning portfolio also entails purging non-core and underperforming assets where we do not see medium-term turnaround potential. This included the Pepsi business, biscuits and vinegar, all of which were exited during the year.

Performance summary

Pioneer Foods' three-year compounded growth in adjusted headline earnings reached 23% this year – a remarkable achievement. This amounted to R1 534 million for the current year or 832 cents per share (2014: 678 cents). Measured by the Group's improved economic value add, we generate real returns after tax on a total asset base relative to our cost of capital.

Essential Foods delivered excellent results with a 6% growth in revenue and 31% in operating profit. Although revenue growth in Groceries remained flat due to Pepsi and biscuits, operating profit increased by 25%. Pioneer Foods International achieved a 17% operating margin with a 15% growth in revenue. Read more about the initiatives behind these results in the operational reports.

A final dividend of 237 cents per share was declared, which brings the total dividend for the year to 332 cents, an increase of 50%.



Read more about Pioneer Foods' financial performance in the financial review on page 34.

Challenges and opportunities

Interrupted electricity supply had a significant impact on the business. Cost and productivity suffered from downtime, product waste and electrical and mechanical damage. We appointed energy consultants to advise all areas of the business on alternatives to improve efficiency, manage costs and consider more environmentally friendly energy options. These initiatives contributed to material cost containment. We remain concerned about labour costs, which are increasing at a rate higher than inflation.

We continue the search to find good talent, balancing the natural tension between experience and employment equity targets. That said, 82% of new appointments were black employees. As the external talent pool remains shallow, we invest in building internal capability. In the past year, Pioneer Foods allocated the highest amount in its history (R22.8 million) to skills development and training. As an even longer-term investment, the Group contributed R7.7 million through the Pioneer Foods Education and Community Trust to the redevelopment of the Mbekweni Youth Centre in Paarl. We believe that this will bring new energy and opportunity to a community suffering from unemployment and neglect.

Pioneer Foods is committed to conducting business in a responsible and ethical manner that adheres to stakeholders' expectations of a Group that manufactures and supplies trusted brands and high-quality food and beverages. The industry remains subject to evolving and increasing regulation, which is addressed through a rigorous and risk-based compliance approach.

Pioneer Foods' most strategic risks relate to economic challenges and the ability to keep pace with competitor activities, consumer shifts and changes in preferences, which are, inter alia, mitigated by the Group's cost reduction and efficiency focus to support investment in growth opportunities.

Outlook

Pioneer Foods' short-term priority will be to continue outperforming the industry. As a Board and executive management team we shall focus on generating profitable top-line growth in a constrained market.

The Group will continue investing in additional capacity where the investment case is solid, as we believe in fastidious management of fixed-capital allocations. For the next financial year, capital investments have been approved to create further capacity in *Weet-Bix* and bakeries, as we are confident in the growth potential to deliver the required returns.

 Read more about these investments in the operational reports from page 42.

Additional centralisation benefits are expected to realise from the appointment of a supply chain executive, Piet Burger. Optimisation will be realised by the implementation of various systems and processes.

Opportunities in new geographies will be explored to create additional growth vectors to further diversify our income streams.

I would like to thank our committed employees who performed with energy and resilience in a dynamic and changing business environment. A special word of thanks goes to Leon Cronjé, who retired as financial director during the year after serving more than 28 years with the Group. My appreciation also goes to the senior teams for their dedication to the implementation of the strategy and to the Board for its continuous guidance and support.



PM Roux
Chief Executive Officer

+46%

Skills development expenditure:

R22.8 million

2014: R12.3 million

+23%

Headline earnings*:

R1.53bn

2014: R1.24bn

* Adjusted for the impact of the Phase I B-BBEE charge.

+52%

Final dividend per share:

237 cents

2014: 156 cents

+50%

Total dividend per share for the year:

332 cents

2014: 221 cents