

GROCERIES

The Groceries division manufactures, markets and sells a range of food and beverage products in the local market, of which cereals and long-life juices are the primary categories.

Business environment

Although the lower to middle-LSM consumer segment is expanding, economic factors continue to place pressure on disposable income. Most of these categories have shown low single-digit growth. For Pioneer Foods the long-life and cereal categories have, notwithstanding the aforementioned, shown good growth while some smaller brands were under pressure.

The weak rand resulted in upward cost pressure above inflation. The market structure has seen increased competition by large and small participants.

Performance overview

The Groceries division performed very well by gaining market share in most of its categories. Divisional revenue increased by 1% (due to Pepsi and biscuits)

and operating profit by 26% mainly as a result of market share gains in cereals and long-life juice, as well as diligent cost management.

Weet-Bix and *Liqui-Fruit* were the star performers reflecting excellent volume growth. *ProNutro* benefited from increased marketing support, brand awareness and visibility.

The division exited three businesses during or immediately after the financial period, negatively affecting performance:

- Pepsi, due to a lack of efficiency in manufacturing and distribution (particularly in the informal market) and low brand awareness (effective date 14 July 2015).
- Vinegar, due to the industrial nature of the business (effective date 1 October 2015).
- Biscuits, due to limited differentiating factors, strong competition and category fragmentation (effective date 1 May 2015).

Challenges experienced during the year related predominantly to smaller brands and product categories such as nuts, rusks and salads. Turnaround initiatives are being implemented and improved performance is expected in the new financial year.



Product categories: Groceries: Cereals and other

Category	Price change	Volume change	Performance
Breakfast cereals The business produces a range of leading cereal brands, including <i>Weet-Bix</i> , <i>Corn Flakes</i> , <i>Nature's Source</i> , <i>ProNutro</i> and <i>Bokomo</i> .	+7%	+8%	TEG volume increased/decreased by 3.2% for the industry. Pioneer Foods gained further market share with volume growth well ahead of the market, consolidating its position as the number one cereal supplier in South Africa.
Dried fruit and nut products Dried fruit and nut products are produced and marketed to retail, industrial and catering sectors. The <i>Safari</i> brand is a leading brand in the South African market.	+5%	-5%	The dried fruit industry (TEG category) continues to contract with negative volume growth of 7.5%. The nuts category showed volume growth of 4.4%. <i>Safari</i> dried fruit performed well due to deflation in raw material cost and exiting low margin industrial business. <i>Safari</i> nuts experienced operational challenges and lost market share.
Desserts and Baking aids A variety of value-added dessert products, including jelly, instant pudding, cake mixes and baking aids, form part of the <i>Moir's</i> branded range.	+7%	-4%	Total industry TEG volumes in respect of Desserts and Baking Aids increased by 8.8% and 3.8% respectively. Pioneer Foods faced increased competition in desserts and baking aids. Volumes were either stagnant or declined during the year.

Financial performance: Groceries: Cereals and other

Revenue	Operating profit	Operating profit margin	Capital spend
R2 420m	R252m	10.4%	R41m
2014: R2 362m	2014: R221m	2014: 9.4%	2014: R31m



OPERATIONAL REPORT (CONTINUED)

Product categories: Groceries: Beverages

Category	Price change	Volume change	Performance
Fruit juice The business produces a range of long-life fruit juice products, catering to the still and sparkling markets. <i>Liqui-Fruit</i> , <i>Ceres</i> and <i>Fruitree</i> brands form the bulk of products.	+6%	+8%	According to TEG figures, industry volumes increased by 1.8%. Branded volumes increased in general while private label offerings declined in most retail chains. <i>Liqui-Fruit</i> , <i>Ceres</i> and <i>Fruitree</i> showed solid volume growth in the local market. <i>Ceres</i> in particular performed well following the re-launch in a more advanced packaging (prisma pack) format.
Dilutables A range of dairy-based and fruit-based concentrate mixes are produced and marketed.	+6%	+9%	TEG volumes decreased/increased by 0.1%. Total dilutables performed well, driven by volume growth and sound cost management.
Carbonated soft drinks The Group had the sole franchise rights in South Africa to bottle, sell and distribute (under licence from PepsiCo International) the well-known international brands <i>Pepsi</i> , <i>Miranda</i> , <i>7Up</i> and <i>Mountain Dew</i> .	+2%	-32%	Pioneer Foods exited the Pepsi business on 15 July 2015. The exit process was onerous due to closure costs.
Ice tea <i>Lipton Ice Tea</i> is a leader in the ice tea category and is bottled by Ceres Beverages by agreement with the Pepsi Lipton International joint venture.	+3%	+9%	Ice tea is a growing category, with high double-digit growth rates. <i>Lipton Ice Tea</i> had another great year with volume growth ahead of the market.

Financial performance: Groceries: Beverages

Revenue
R2 377m

Operating profit
R183m

Operating profit margin

Capital spend

(1%)

46%

7.7%

R68m

2014: R2 411m

2014: R125m

2014: 5.2%

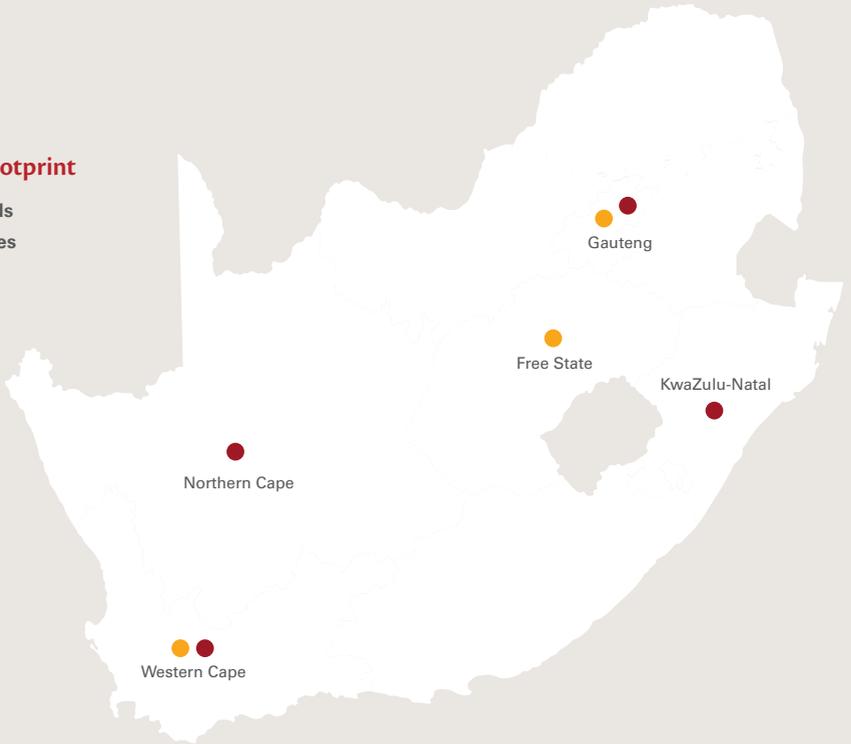
2014: R47m



Production footprint

13 Bokomo Foods

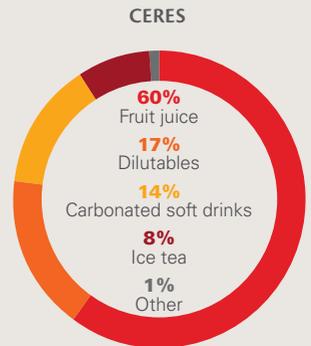
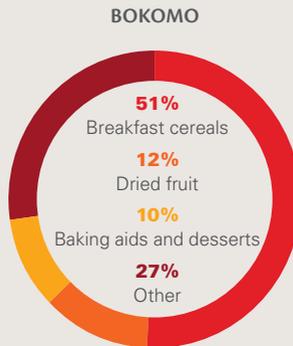
5 Ceres Beverages



Brands

- Weet-Bix
- Safari
- Bokomo
- ProNutro
- Moir's
- Marmite
- Bovril
- Redro
- Peck's Anchovette
- Werda
- Smash
- Maizena
- Liqui-Fruit
- Ceres
- Fruitree
- Wild Island
- Daly's

Revenue contribution



OPERATIONAL REPORT (CONTINUED)

Sustainability progress

A joint initiative with an external service provider enabled the division to improve cost-efficiency on boilers, instigated tariff reviews and created energy consumption awareness among employees. Load-shedding had a significant impact on operations, particularly in the aseptic packaging environment. The Ceres facility has uninterrupted power supply units installed and similar technology will in part be implemented at Wadeville in the next year.

Effluent treatment plants will be installed in Wadeville and at *Werda* to improve water efficiency.

Food safety remains a focus area. The business is expecting the promulgation of further health regulations in the medium term related to sugar and salt levels. Pioneer Foods participates in industry initiatives through the consumer goods council to encourage self-regulation rather than government-led restrictions.



Innovation

- Relaunched *ProNutro* with enhanced nutrition and upgraded packaging
- New *Moir's* cheesecake and *Moir's* milk tart dessert pre-mixes
- *Weet-Bix* gluten free
- *Otees* banana milkshake
- *Lipton* 275 ml slim can
- *Lipton* two summer flavours (Peach/Guava and Strawberry/Kiwi)
- *Ceres* 1 litre in new prisma pack format with one-step opening "closure"
- *Fruitree* Squash: 2 litre

- *Safari* Cranberries, *Safari* Raisins & Cranberries, *Safari* Almonds 300 grams
- *Safari* Treats range
- *Safari* Just Fruit & Nut Bars singles and multi-packs
- *Just Fruit* sticks

Outlook

The Groceries division still has further opportunities to unlock value from factory and logistic improvements. Increased amounts will be invested in the leading brands. Another focus area will be to increase the support of and emphasis on the smaller brands. The integration of Future Life to deliver the forecasted "bolt on" benefits will be a key priority for 2016.

