

PIONEER FOODS INTERNATIONAL

Pioneer Foods' international (PFI) business was created as a stand-alone and focused division from 1 October 2014. The division comprises a well-established fruit juice and dried fruit export business with a global footprint.

Southern African Development Community ("SADC") markets such as Namibia and Botswana are also well-penetrated and managed via Pioneer Foods' joint ventures, Bokomo Botswana and Bokomo Namibia. These joint ventures are with prominent local business partners and are integral to Pioneer Foods' presence in these markets. More recently a similar joint venture was established in Nigeria via a small baked goods operation. This is aligned to the Group's low risk African acquisition strategy which focuses on smaller yet scalable operations, once fundamental systems and controls have been implemented within the local operations.

In addition, Pioneer Foods has strengthened its credentials within the United Kingdom breakfast cereal category as a private label manufacturer and supplier to the larger UK retail chains.

The creation of a focused international division allows Pioneer Foods to leverage its extensive geographical

footprint and long-standing relationships within selected strategic markets to deliver on its international growth strategy.

Business environment

The international business environment remains challenging, given the complexity and diversity of markets. These range from advanced first-world market economies such as North America and Europe, where consumer demand is complicated by an extensive range of localised product offerings with a significant rate of innovation to developing market economies in Africa, where product availability is the dominant challenge given route-to-market challenges.

PFI continues to develop flexibility and skill to deal with fluid tariff and non-tariff trading barriers that create protectionism for local competitors within export markets. These range from increased duties to onerous language and labelling requirements.

Volatile and devaluing emerging market currencies in several markets also affected the division's ability to maximise profit margins in a weaker rand environment. Profit growth was balanced with a focus on driving market penetration and volume growth to build sustainable brand positions as well as deepen customer relations in these countries.

Financial performance

Revenue
R2 616m

15%

2014: R2 274m

Operating profit
R445m

23%

2014: R363m

Operating profit margin

17.0%

2014: 16.0%

Capital spend

R41m

2014: R9m



Food and beverage categories remain highly competitive across most international markets. In advanced first world markets, strong local players dominate across product categories, with well-established consumer brand loyalty. Multinational FMCG companies are increasingly looking at developing markets in Africa and Asia to capture the longer term growth opportunities offered by its growing middle class and younger consumer base. Imported global brands continue to remain relevant in these markets as the growing aspirational consumer base looks to the West for latest consumption trends. Multinational companies invest significantly in above and below the line marketing activities as the focus is on the aggressive recruitment of new emerging consumers. This is creating a significant level of competitive intensity in emerging markets. With the increased focus on emerging markets, there are numerous investors looking to partner with local companies resulting in an increased source of funds which allows local companies to evolve across the value

chain. This ensures that competitive value propositions are presented to their historical consumer base, thereby intensifying competition.

Performance overview

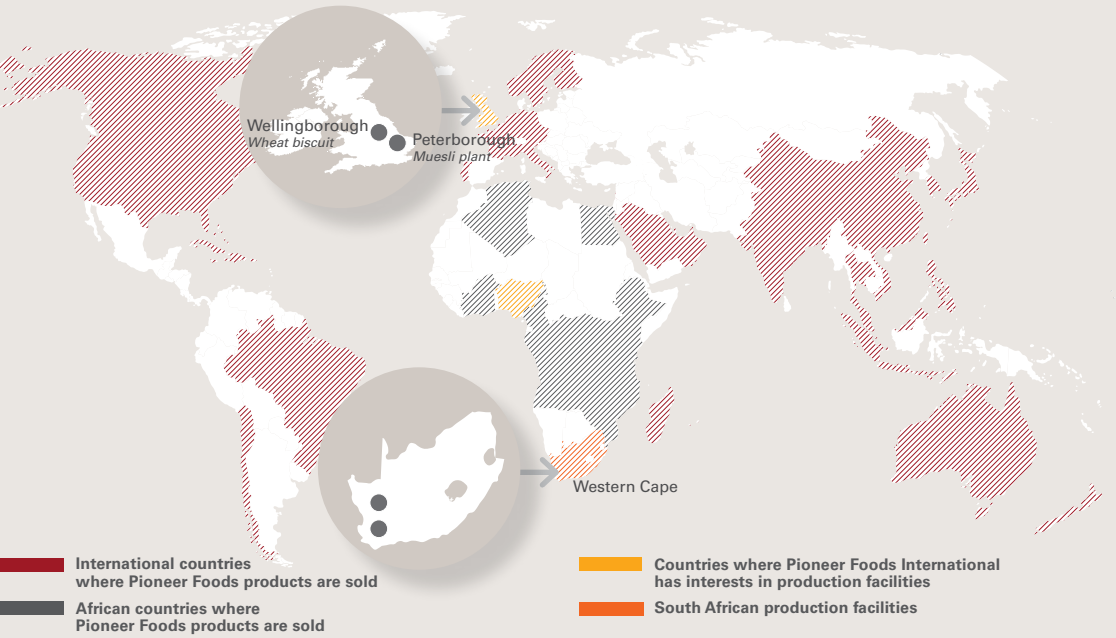
The results of the division were pleasing, given that a significant amount of time and effort was invested in building a world-class management team and consolidating the international businesses of Pioneer Foods into one entity. This includes the necessary controls and systems in keeping with the Group's high standards of global best practice.

While embedding the short-term operational and corporate governance requirements, PFI also ensured that the longer term strategic vision of the Group was given appropriate focus. The international strategy was developed, focusing on organic exports and inorganic acquisitive growth opportunities. A significant piece

Channel	Volume change
<p>Exports into Africa</p> <p>Beverage sales in Africa grew over 8% compared to the previous financial period despite market volatility, legislative and operational complexities. This increase is due to the broadening of the brand offering together with country-specific pricing regimes. Improvements in the portfolio strategy and pack format innovation further enhanced market penetration while additional geographic expansion opportunities are being assessed. Competition from local producers as well as imports resulted in pricing pressure and distribution channels are being maximised to maintain volumes and profitability.</p> <p>The significant increase in the sale of essential foods was driven by product expansion and package size diversification while sales of groceries improved despite regulations in key markets preventing the sale of products with genetically modified ingredients. This was rectified post year-end and product basket and country extension strategies are being implemented.</p>	12.8%
<p>Exports into the rest of the world</p> <p>Fruit volumes improved by 18.7% compared to the previous year on the back of a record vine fruit crop in South Africa while focussed initiatives resulted in improved relationships in key markets, contributing to market growth. The double-digit growth in beverage sales in the Rest of the World sector is primarily attributable to growth in key Asian markets and further expansion opportunities are being investigated.</p>	11.3%
<p>Bokomo UK</p> <p>Bokomo UK is one of only two wheat biscuit manufacturers in the UK and holds a significant proportion of the own-brand market. Furthermore the company was a finalist in the FMT Best Manufacturer and winner of the "Q" Award. During the year prices were maintained across the biscuit category while higher sales as well as the branded partnership with Fuel yielded volume growth.</p> <p>Bokomo UK manufactures and packs granolas, crunches, porridges and mueslis for most of the UK retailers and has a number of brand partnerships. The higher volumes sold during the year are attributable to organic growth, new product lines as well as organisational re-design.</p>	19.7%

OPERATIONAL REPORT (CONTINUED)

Production footprint



of work was completed across all markets using various quantitative and qualitative measures to assess commercial opportunities. Organic growth is premised on the segmentation of export markets into strategic and priority countries to invest appropriately relative to the expected return. Inorganic growth focuses on partnerships with local players in markets that provide export opportunities with attractive macro-economic factors within the identified strategic markets. This will allow the Group to access a local management team, regional production and brands, and a route to market that can be further leveraged through the Pioneer Foods product basket offering.

Examples include the integration of the international joint venture with Food Concepts Pioneer Limited in Nigeria and the partnering with regional beverage packers in Mauritius, Reunion, Nigeria and Kenya. This essentially reduces the complexity in the South African business and results in a lower tariff option.

The establishment of the Food Concepts Pioneer Limited joint venture in Nigeria within the baked goods

category, required a significant amount of management time and effort as integration throughout the value chain ensured that Pioneer Foods' standards and practices were being implemented.

The best performing PFI business units were Bokomo UK, despite the difficult UK trading environment, and the industrial dried fruit exports, which excelled as global pricing lifted due to a poor harvest in Turkey. Tough market conditions were experienced in key export markets such as Angola, Nigeria, Ghana, Korea and India.

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The higher volumes sold are attributable to organic and volume growth as well as new product lines.

The price change is due to the weakening of the Rand against the British Pound countering Bokomo UK volume discounts.

Fruit volumes improved by 18.7% vs the previous year, mainly as a result of significant growth experienced by vine fruit. This is attributable to an increased crop size and additional market opportunities. The intake tree fruit increased compared to the prior year but were affected by declining sales trends in the local and export markets.

Beverages sold in the Rest of the World recorded year-on-year volume growth primarily due to development of Asian markets while pricing benefitted from weaker exchange rates.

Sustainability progress

With the range of markets being served by the division, sustainability factors and mitigations are diverse in nature, impact and measurability. Compliance requirements per market for packaging material remain the biggest challenge. In some African markets, food produced from genetically modified organisms is a concern. This is mitigated through alternative product options and, where applicable, full disclosure on product labels.

A further sustainability factor for the division is the security of supply in dried fruit, as this is dependent on crop size, which is in turn weather dependent. This is mitigated by expanding regional sourcing options.

Innovation

With the focus on export markets, consumer and product portfolio segmentation ensure the full commercial opportunity is being realised. The emphasis is on broadening the PFI product basket to offer more value-for-money and mass-market offerings to compete in informal trade channels, primarily across Africa. Pack formats and product engineering are critical in developing a consumer value proposition that remains relevant for local consumers.

Outlook

PFI is embedding a clearly articulated and Group aligned strategy towards its 2018 vision to build Pioneer Foods into a multinational organisation. The division will focus on real growth opportunities, given the size of the Pioneer Foods product basket and the number of international markets where opportunities exist.

From an improvement perspective, PFI is optimising its distribution network to manage freight forwarding and clearing as an additional service to customers. Strategic export markets in Africa will see investment in brands and basket expansion, whereas the focus for the rest of the world will be on developing dried fruit and beverages markets. The division will optimise its supply chain in the UK and drive increasing capacity and route-to-market capability in Nigeria.

PFI will continue to seek acquisition in geographies that offer value creation potential.

Brands

- Ceres
- Safari (industrial)
- Fruitree
- Liqui-Fruit
- Moir's
- Bokomo
- White Star
- Champion

Revenue contribution

