

STRATEGY OVERVIEW

The Pioneer Foods Board reviewed the Group strategy after evaluating the progress made to 2015.

The Board considered global and local food and beverage trends as important considerations for the strategy to 2018.

 Read more about consumer trends in a global context on page 12.

The vision statement was refined to clearly indicate the Group's intention to become the leading FMCG company in South Africa. The Board recognised that step changes and transformational activity have the potential to significantly enhance performance by 2018.

The differentiating elements of the **vision statement** are measured and defined according to the following:

1

LEADING

Financial indicators: return on invested capital, return on equity, earnings before interest and tax margins, and earnings per share

Market share | Top 40 index | Employer of choice

2

FMCG

Mainstream food and beverage branded goods

Selective private label

Strategic alliance with global brands (with equity participation)

3

STRONG AFRICAN FOOTPRINT

All strategic African markets

4

GLOBALLY RECOGNISED SCALE

Highly focused and relevant global expansion

Global acquisition where appropriate

Vision

To be the **leading** South African **FMCG** company with a **strong African footprint** and **globally recognised scale**.

In driving a growth agenda to 2018, the Group remains committed to the five strategic themes:



**SHAPE
A WINNING
CORPORATE
PORTFOLIO**



**FOCUS ON
POWER
BRANDS**



**EMBED
STRATEGIC
CUSTOMER
MANAGEMENT**








**RESET THE
COST BASE
AND STEP UP
PRODUCTIVITY**




**BUILD
A HIGH-
PERFORMANCE
TEAM**

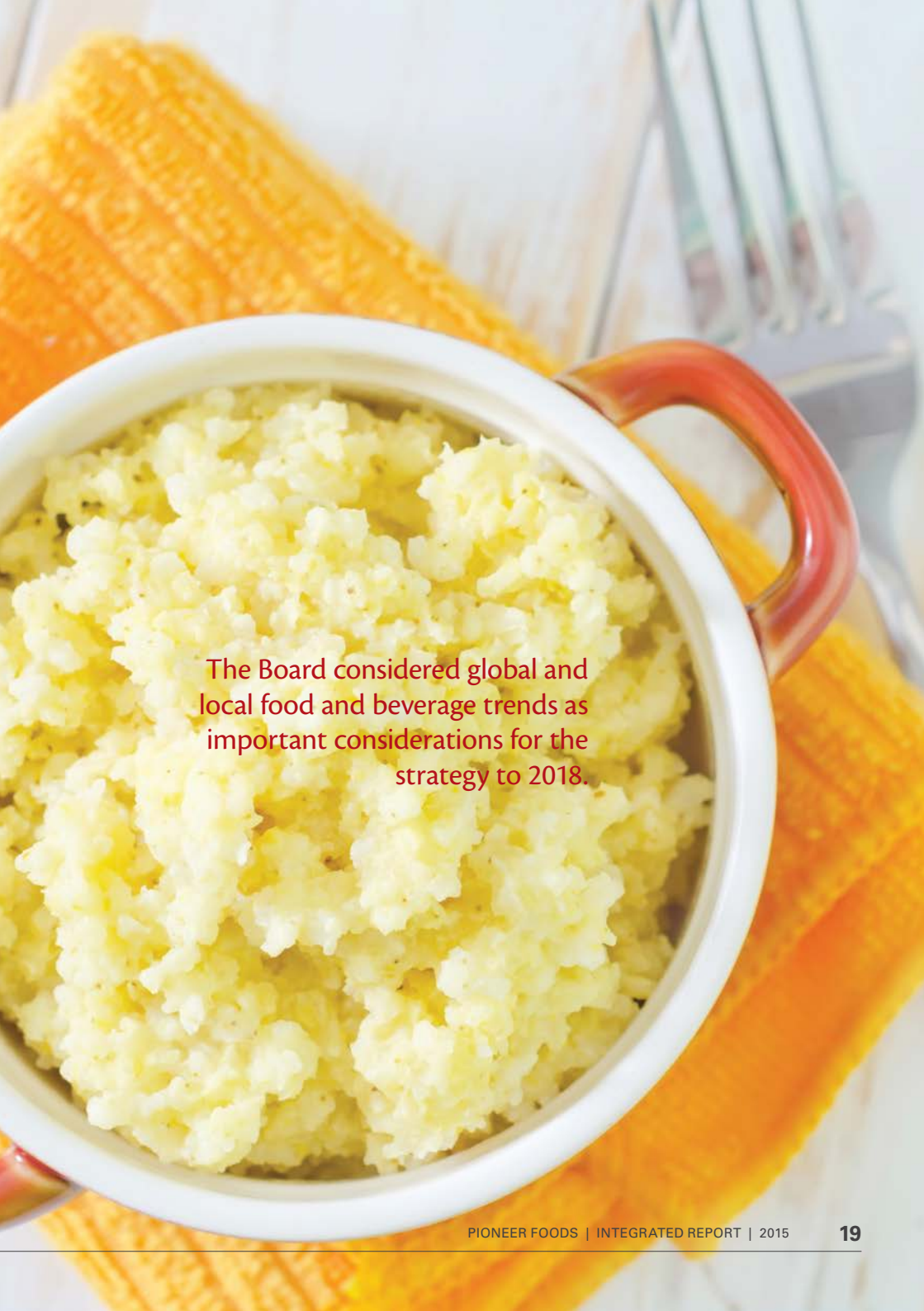
STRATEGY OVERVIEW (CONTINUED)

Strategy implementation – progress in 2015

Strategic theme	2015 progress	Related risks
 SHAPE A WINNING CORPORATE PORTFOLIO	<ul style="list-style-type: none"> Re-engineering of bakeries Achieved all segmental targets Divested two non-strategic assets <ul style="list-style-type: none"> Targets not achieved by all joint ventures/associates Portfolio stock-keeping unit rationalisation not fully implemented 	<ul style="list-style-type: none"> Low economic growth rates Increased competition Limited acquisition targets Innovation failure
 FOCUS ON POWER BRANDS	<ul style="list-style-type: none"> Increased corporate market share Improved marketing investment efficiency <ul style="list-style-type: none"> Standardised insight-led category, portfolio and brand strategies not yet implemented across all brands Increased revenue contribution from innovation did not achieve target 	<ul style="list-style-type: none"> Loss of market share due to private label growth and increased competition Talent retention
 EMBED STRATEGIC CUSTOMER MANAGEMENT	<p>In progress:</p> <ul style="list-style-type: none"> Building an operational integrated demand management process Delivering category scorecards 	<ul style="list-style-type: none"> Loss of market share due to increased competition Constrained consumer spending Product safety and the risk of contamination
 RESET THE COST BASE AND STEP UP PRODUCTIVITY	<p>Cost-saving targets achieved for:</p> <ul style="list-style-type: none"> Manufacturing conversion costs Procurement Logistics Shared services centre <p>In progress:</p> <ul style="list-style-type: none"> Workforce optimisation Phased SAP optimisation project 	<ul style="list-style-type: none"> Ability to achieve efficiency and cost benefits Deployment of full savings to be competitive Input cost volatility Business interruption
 BUILD A HIGH-PERFORMANCE TEAM	<ul style="list-style-type: none"> Improved engagement scores 100% of individual performance agreements completed <p>In progress:</p> <ul style="list-style-type: none"> Labour turnover reduction target not achieved Employment equity target not achieved 	<ul style="list-style-type: none"> Ability to achieve human resource efficiency and cost savings Ability to realise transformation targets and retain talent

 Delivered on target/milestone

 In progress or not yet fully achieved

A close-up photograph of a white ceramic bowl with a red handle, filled with a thick, yellow, textured porridge (congee). The bowl is placed on a light-colored wooden table. In the background, a silver fork and a yellow textured napkin are visible, slightly out of focus.

The Board considered global and local food and beverage trends as important considerations for the strategy to 2018.

STRATEGY OVERVIEW (CONTINUED)

Financial performance summary

	2015	2014	Change
Financial results (R'm)			
Revenue for continuing operations	18 748	17 699	6%
Operating profit, before items of a capital nature for continuing operations:			
Actual	1 846	1 493	24%
Adjusted*	2 153	1 680	28%
Headline earnings:			
Actual	1 227	1 055	16%
Adjusted*	1 534	1 242	24%
Headline earnings for continuing operations*	1 534	1 169	31%
Net cash profit from operating activities	2 512	2 134	18%
Net cash generated from operations	1 982	2 154	(8%)
Capital and reserves	6 959	6 102	14%
Performance per share (cents)			
Headline earnings:			
Actual	665	576	15%
Adjusted*	832	678	23%
Headline earnings for continuing operations*	832	637	31%
Dividend**	332	221	50%
Net asset value	3 758	3 318	13%
Price at year-end	19 576	11 800	66%
Core ratios (%)			
Operating profit margin for continuing operations*	11.5	9.5	
Return on average net assets for continuing operations*	28	26	
Return on average shareholders' funds*	23	20	
Net debt-to-equity	6	9	

Notes:

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

** The dividend for 2014 excludes the *dividend in specie* declared with the unbundling of Quantum Foods.

Non-financial indicators

	2015	2014
Number of employees	7 782	9 724
B-BBEE level	4	4
CSI spend	R13.5 million	R11.2 million
Energy consumption (MWh)	722 263	692 919
Water withdrawal (m ³)	2.5 million	3.1 million
Scope 1 and 2 emissions (tCO ₂ e)	400 034	380 539

Group five-year financial review

	2015	2014	2013	2012*	2011*
	R'm	R'm	R'm	R'm	R'm
Consolidated statement of comprehensive income					
Revenue	18 748.2	21 290.0	19 811.1	18 609.8	16 853.1
Profit before items of a capital nature and income tax	1 814.5	1 541.2	930.9	922.0	1 050.8
Before adjustments	2 121.3	1 728.5	1 076.8	1 047.1	1 095.8
Broad-based employee share incentive scheme share-based payment charge	(306.8)	(187.3)	(145.9)	35.6	(45.0)
Once-off share-based payment charge on B-BBEE equity transaction	–	–	–	(160.7)	–
Items of a capital nature	(75.9)	(123.0)	(220.2)	(5.4)	(0.8)
Income tax expense	(606.3)	(451.9)	(210.6)	(311.9)	(319.9)
Profit for the year	1 132.3	966.3	500.1	604.7	730.1
Attributable to:					
Owners of the parent	1 130.4	965.2	498.6	603.6	728.8
Non-controlling interest	1.9	1.1	1.5	1.1	1.3
	1 132.3	966.3	500.1	604.7	730.1
Operating profit before items of a capital nature	1 845.9	1 583.6	1 008.0	1 036.8	1 191.3
Headline earnings for the year	1 227.3	1 055.1	706.7	606.2	726.2
Consolidated statement of financial position					
Property, plant and equipment, intangible assets and biological assets	5 087.7	6 005.8	5 996.6	5 393.7	4 941.6
Deferred income tax	0.2	6.8	77.2	2.7	2.6
Investments in and loans to associates and joint ventures	574.0	408.4	350.9	56.9	29.9
Non-current trade receivables and available-for-sale financial assets	166.1	93.4	79.7	73.2	63.6
Current assets	6 343.0	6 395.8	5 230.0	5 079.6	4 825.3
Total assets	12 171.0	12 910.2	11 734.4	10 606.1	9 863.0
Capital and reserves attributable to owners of the parent	6 958.7	6 102.4	6 581.3	6 184.9	5 488.3
Non-controlling interest	12.3	10.4	9.3	8.2	7.5
Total equity	6 971.0	6 112.8	6 590.6	6 193.1	5 495.8
Non-current borrowings	1 300.2	1 513.5	1 457.3	497.7	849.0
Provisions, non-current derivative financial instruments and share-based payment liability	506.2	362.3	381.0	227.4	259.3
Non-current liability – accrual for Competition Commission penalties	–	–	–	–	202.1
Deferred income tax	471.8	644.1	671.9	652.4	580.6
Current liabilities, excluding accrual for Competition Commission penalties	2 921.8	4 277.5	2 633.6	2 820.0	2 260.7
Current liability – accrual for Competition Commission penalties	–	–	–	215.5	215.5
Total equity and liabilities	12 171.0	12 910.2	11 734.4	10 606.1	9 863.0

Note:

* Not restated for the impact of IFRS 11 – Joint Arrangements and IAS 19 (revised) – Employee Benefits.

STRATEGY OVERVIEW (CONTINUED)

Group five-year financial review (continued)

	2015	2014	2013	2012*	2011*
	R'm	R'm	R'm	R'm	R'm
Consolidated statement of cash flows					
Net cash profit from operating activities	2 512.2	2 133.9	1 556.3	1 514.9	1 563.3
Working capital changes	(546.4)	275	66.8	(266.2)	(446.8)
Accrual for Competition Commission penalties paid	–	–	(216.7)	(216.7)	(66.7)
Cash effect from hedging activities	16.2	(7.8)	22.7	(32.2)	14.2
Income tax paid	(475.5)	(386.4)	(233.1)	(257.7)	(261.5)
Net cash flow from operating activities	1 506.5	1 767.2	1 196.0	742.1	802.5
Net cash flow from investment activities	(422.7)	(392.7)	(1 287.2)	(753.0)	(933.4)
Net cash surplus/(deficit)	1 083.8	1 374.5	(91.2)	(10.9)	(130.9)
Net cash flow from financing activities	(603.5)	(422.0)	(200.2)	44.6	(232.3)
Net cash, cash equivalents and bank overdrafts on unbundling of Quantum Foods	(105.6)	–	–	–	–
Net cash and short-term borrowings from business combinations and disposal of subsidiaries	–	–	–	(11.3)	–
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	374.7	952.5	(291.4)	22.4	(363.2)

	2015	2014	2013	2012*	2011*
	R'm	R'm	R'm	R'm	R'm
		Restated			
Segments**					
Revenue					
Essential Foods	11 334.5	10 651.9	10 314.4	9 940.4	9 054.6
Quantum Foods	–	3 591.4	3 575.6	3 097.6	2 714.6
Groceries: Cereals and other (formerly Bokomo Foods)	2 420.3	2 361.8	3 148.4	3 071.6	2 760.3
Groceries: Beverages (formerly Ceres Beverages)	2 377.1	2 411.3	3 021.2	2 798.2	2 577.4
International	2 616.3	2 273.6	–	–	–
	18 748.2	21 290.0	20 059.6	18 907.8	17 106.9
Less: Internal revenue	–	–	(248.5)	(298.0)	(253.8)
	18 748.2	21 290.0	19 811.1	18 609.8	16 853.1

Note:

* Not restated for the impact of IFRS 11 – Joint Arrangements and IAS 19 (revised) – Employee Benefits.

** Segment revenue and segment results were restated for 2014 to:

- Reflect the operations of all exports, other than to Botswana, Namibia, Lesotho and Swaziland, as well as the operations of all foreign operations to a new segment, capital international; and
- Allocate corporate results to the operating segments, except for the B-BBEE Phase I share-based payment charge, the results of the legal entities for the ultimate holding company and the insurance captive, corporate legal costs, costs relating to BEE socio-economic and enterprise development and mergers and acquisitions.

Group five-year financial review (continued)

	2015	2014	2013	2012*	2011*
	R'm	R'm	R'm	R'm	R'm
		Restated			
Segments** (continued)					
Operating profit before items of a capital nature					
Essential Foods	1 278.5	975.5	784.3	941.6	879.2
Quantum Foods	–	21.6	(18.9)	(42.3)	116.0
Groceries: Cereals and other (formerly Bokomo Foods)	252.0	220.7	279.0	263.8	223.2
Groceries: Beverages (formerly Ceres Beverages)	182.5	124.7	263.8	88.3	136.5
International	444.5	363.4	–	–	–
Other	(4.8)	10.3	(154.3)	(89.5)	(118.6)
Adjusted operating profit before items of a capital nature	2 152.7	1 716.2	1 153.9	1 161.9	1 236.3
Once-off share-based payment charge on B-BBEE equity transaction	–	–	–	(160.7)	–
Reversal of depreciation charge in Quantum Foods legal entities (asset held for sale)	–	54.7	–	–	–
Share-based payment charge on Phase I B-BBEE transaction	(306.8)	(187.3)	(145.9)	35.6	(45.0)
Operating profit before items of a capital nature	1 845.9	1 583.6	1 008.0	1 036.8	1 191.3
Depreciation and amortisation					
Essential Foods	191.9	173.1	137.7	137.3	121.9
Quantum Foods	–	–	56.1	44.5	34.9
Groceries: Cereals and other (formerly Bokomo Foods)	59.2	62.7	70.5	70.2	61.6
Groceries: Beverages (formerly Ceres Beverages)	61.1	68.7	62.9	53.6	47.1
International	23.4	21.5	–	–	–
Other	–	–	45.6	39.0	36.0
	335.6	326.0	372.8	344.6	301.5
Profitability (%)					
Revenue growth	(11.9)	7.5	6.5	10.4	7.1
Operating profit margin (Note 1)	9.8	7.4	5.1	5.6	7.1
Operating profit margin (Note 2)	11.5	8.3	5.8	6.2	7.3
Effective tax rate	34.9	31.9	29.6	34.0	30.5
Return on average net assets (Note 1)	24.2	19.4	12.9	14.3	19.3
Return on average net assets (Note 2)	28.3	21.7	14.8	16.1	20.0
Return on average shareholders' funds (Note 1)	18.8	16.6	11.1	10.4	14.2
Return on average shareholders' funds (Note 2)	23.5	19.6	13.4	12.5	15.1
Liquidity and solvency					
Net debt to equity ratio (%)	5.7	9.2	21.8	16.1	13.8
Current ratio (times)	2.2	1.5	2.0	1.7	1.9
Acid test ratio (times)	1.2	0.8	0.9	0.8	0.9
Cash profit interest cover (times)	24.2	18.8	15.1	12.9	11.0
Net dividend cover (times)	17.6	13.9	9.7	8.8	8.4
Dividend cover (times)	2.1	2.5	2.9	2.9	4.7

Notes:

1. Calculated after the once-off share-based payment charge on the Phase II B-BBEE equity transaction (only 2012) and the annual share-based payment charge on the Phase I B-BBEE equity transaction.
2. Calculated before the once-off share-based payment charge on the Phase II B-BBEE equity transaction (only 2012) and the annual share-based payment charge on the Phase I B-BBEE equity transaction.

* Not restated for the impact of IFRS 11 – Joint Arrangements and IAS 19 (revised) – Employee Benefits.

** Refer to note on previous page for further detail on restatement of 2014 segments.

STRATEGY OVERVIEW (CONTINUED)

Group five-year financial review (continued)

	2015 R'm	2014 R'm Restated	2013 R'm	2012* R'm	2011* R'm
Performance per share (cents)					
Earnings	612.8	526.5	275.0	335.6	408.4
Headline earnings (Note 1)	665.3	575.6	389.8	337.1	407.0
Headline earnings (Note 2)	831.6	677.8	470.3	406.6	432.3
Dividend	332.0	221.0	132.0	114.0	80.0
Net asset value	3 757.5	3 318.1	3 598.1	3 415.3	3 059.7
Productivity					
Revenue to net asset cover (times)	2.7	3.5	3.0	3.0	3.1
Revenue per employee (R'000)	2 314.9	2 066.2	1 703.4	1 494.0	1 349.5
Net assets per employee (R'000)	859.2	592.2	565.9	496.5	439.5
Number of permanent employees	8 099	10 304	11 630	12 456	12 488
Share trading statistics					
Price per share (cents):					
At year-end	19 576	11 800	8 750	5 300	5 900
High	20 799	12 849	8 860	6 500	6 350
Low	11 149	7 802	5 250	5 150	4 765
Net number of issued shares ('000):					
Total number of issued shares	232 739	231 692	231 007	230 314	201 237
Number of treasury shares – share incentive trust	(730)	(1 110)	(1 422)	(2 545)	(3 881)
Number of treasury shares – subsidiary	(17 982)	(17 982)	(17 982)	(17 982)	(17 982)
Number of treasury shares – participants to B-BBEE equity transaction	(18 092)	(18 092)	(18 092)	(18 092)	–
Number of treasury shares – BEE Trust	(10 745)	(10 600)	(10 600)	(10 600)	–
	185 190	183 908	182 911	181 095	179 374
Market capitalisation (R'000)	45 561 051	27 339 642	20 213 099	12 206 642	11 872 983
Dividend yield (%)	1.7	1.9	1.5	2.2	1.4
Headline earnings yield (%) (Note 1)	3.4	4.9	4.5	6.4	6.9
Headline earnings yield (%) (Note 2)	4.2	5.7	5.4	7.7	7.3
Earnings yield (%)	3.1	4.5	3.1	6.3	6.9
Price earnings ratio (times) (Note 1)	29.4	20.5	22.4	15.7	14.5
Price earnings ratio (times) (Note 2)	23.5	17.4	18.6	13.0	13.6

Notes:

1. Calculated after the once-off share-based payment charge on the Phase II B-BBEE equity transaction (only 2012) and the annual share-based payment charge on the Phase I B-BBEE equity transaction.
2. Calculated before the once-off share-based payment charge on the Phase II B-BBEE equity transaction (only 2012) and the annual share-based payment charge on the Phase I B-BBEE equity transaction.

* Not restated for the impact of IFRS 11 – Joint Arrangements and IAS 19 (revised) – Employee Benefits.

Definitions

Operating profit margin

Operating profit, before items of a capital nature, as a percentage of revenue.

Effective tax rate

Income tax expense included in profit or loss as a percentage of profit before income tax.

Return on average net assets

Operating profit, before items of a capital nature, as a percentage of total assets, excluding any investment in and loans to joint ventures, investments in associates, available-for-sale financial assets, non-current trade and other receivables, cash and cash equivalents, current income tax assets and deferred income tax assets, reduced by trade and other payables, provisions for other liabilities and charges, derivative financial instruments, accruals for Competition Commission penalties and share-based payment liabilities. The average is based on the carrying values as at the beginning and end of the year.

Return on average shareholders' funds

Headline earnings as a percentage of average capital and reserves attributable to owners of the parent, as determined at the beginning and end of the year.

Net debt to equity ratio

Borrowings, net of cash and cash equivalents, as a percentage of capital and reserves attributable to owners of the parent.

Current ratio

Ratio of current assets to current liabilities.

Acid test ratio

Ratio of current assets less inventories and current biological assets to current liabilities.

Cash profit interest cover

Net cash profit from operating activities plus dividends received, divided by net interest.

Net interest cover

Operating profit, before items of a capital nature, plus dividends received, divided by net interest.

Dividend cover

Headline earnings for the year adjusted for the IFRS 2 share-based payment charge on the Phase I B-BBEE transaction, and in 2012 the once-off IFRS 2 share-based payment charge on the Phase II B-BBEE equity

transaction, divided by total dividends declared (including dividends on class A ordinary shares).

Net asset value per share

Capital and reserves attributable to owners of the parent divided by the total number of issued ordinary shares, excluding treasury shares held by a subsidiary, treasury shares held by the share incentive trust, treasury shares held by the participants to the B-BBEE equity transaction and treasury shares held by the Pioneer Foods Broad-Based BEE Trust.

Revenue to net asset cover

Revenue divided by net assets.

Revenue per employee

Revenue divided by permanent employees at year-end.

Net assets per employee

Capital and reserves attributable to owners of the parent divided by permanent employees at year-end.

Market capitalisation

Market price per ordinary share at year-end multiplied by the total number of issued ordinary shares.

Dividend yield

Dividend per ordinary share divided by the market price per ordinary share at year-end.

Headline earnings yield

Headline earnings per ordinary share divided by the market price per ordinary share at year-end.

Earnings yield

Earnings per ordinary share divided by the market price per ordinary share at year-end.

Price earnings ratio

Market price per ordinary share at year-end in relation to headline earnings per ordinary share.

Ordinary share/shares

For the purposes of all the above definitions ordinary share/shares exclude(s) class A ordinary shares.

Impact of Phase I B-BBEE transaction

Annual cash-settled IFRS 2 share-based payment charge on class A ordinary shares issued to employees in terms of a broad-based employee share scheme.

Impact of Phase II B-BBEE transaction

Once-off non-cash flow IFRS 2 share-based payment charge on ordinary shares in terms of a B-BBEE equity transaction.