

CHIEF EXECUTIVE OFFICER'S REPORT

PM Roux

Chief Executive Officer



Introduction

Pioneer Foods is proactively managing current market challenges by focusing on the twin objectives of strengthening the brands and expanding margins. The Group has come through an intense and challenging year defined by difficult external conditions as well as significant internal change.

The good performance is an indication of Pioneer Foods' resilience and commitment to the new business model and structure, thereby enabling its future sustainability. The achievements to date show a positive start along this necessary journey, and will be maintained with clearly articulated growth strategies and rigorous cost management. The promising part is that, while much has been achieved, numerous value creation opportunities remain.

The implementation of the corporate strategy is progressing well as the Group strives towards its goal of being the reference point for fast-moving consumer goods ("FMCG") in South Africa. Chapter one, the internal focus of the strategy, is largely complete, and many of the objectives which the Group committed to have been achieved or are in progress. Chapter two relies on sustaining the aforementioned and ingraining a deeper focus on growth in a more granular way.

Challenges

In a constrained consumer market, competition intensifies. The local market comprises a combination of formal and informal trading platforms, marketing and selling of products to a diverse range of consumers across the socio-economic spectrum. This requires a dynamic demand management approach. Cost push and consequent margin compression remain the primary challenges for the industry.

The pedestrian growth of the South African economy in recent years has not shown any signs of improving in the short term, as unemployment remains crippling high and labour demands continue to outstrip productivity improvements. Hence the imperative of bolstering the power brands, optimising efficiencies and pursuing opportunities to grow and diversify is of paramount importance.

CHIEF EXECUTIVE OFFICER'S REPORT (CONTINUED)

Financial results

In the face of a challenging operating environment, Pioneer Foods delivered a pleasing set of results, with revenue from continuing operations (excluding Quantum Foods) increasing by 9% to R17.7 billion.

Operating profit for continuing operations, adjusted for the impact of the Phase I B-BBEE charge, increased by 46% to R1.680 billion at a margin of 9.5% compared to 7.1% in 2013.

Total Group headline earnings (inclusive of Quantum Foods), as adjusted, grew 46% to R1 242 million, representing 678 cents per share.

A final dividend of 156 cents per share was declared, which brings the total dividend for the year to 221 cents, an increase of 67%.

More information on Pioneer Foods' financial performance can be found in the Financial Review on page 34.

Strategy implementation

Strategy development involved identifying areas with the potential to unlock value with the requisite changes to the business model. This exercise has provided Pioneer Foods with clear direction for a structured journey of continuous improvement into the future. It is imperative that a culture of high performance becomes ingrained within the organisation. Refer to the strategy overview on page 16 for detail on initiatives and implementation progress during the year.

Non-financial performance

Sustainability imperatives underpin the five themes of the corporate strategy as businesses in the world of today cannot be successful at the expense of society or the environment. The milestones achieved over the past 18 months were accompanied by intensified stakeholder engagement across all channels. The major initiatives associated with the centralisation of Group services and the consolidation of the One Pioneer model required the support of employees and business partners.

Reducing energy usage is a priority for all businesses and presents a particular challenge in the production-intensive FMCG industry. The Group has a responsibility to reduce its energy usage and carbon footprint wherever possible, and energy efficiency represents an important component of cost management. This is not only significant in light of the impending carbon taxation, but is part of a global drive to reduce the negative impact of human activity on the environment. Pioneer Foods participated in the Carbon Disclosure Project for the fourth time and publicly disclosed its performance for the first time during the year. The Group recorded an improvement in its overall score, and appropriate benchmarks and goals have been set to reduce energy usage in the short, medium and long term.

Pioneer Foods provides support to a range of community initiatives primarily focused on education, environment and food security programmes. Investment in social and economic development is important to the longevity of the Group, as the development of the local population will ultimately ensure a sustainable consumer environment in future.

More information on Pioneer Foods' sustainability approach, performance and prospects can be found on page 56.

Outlook

The overarching objective for Pioneer Foods is sustaining growth in a difficult market by consistently and diligently aligning operational performance with the corporate strategy. The Group has bolstered its asset base during the capital expenditure cycle of recent years, with 2014 being marked by the full commercialisation of the Shakaskraal bakery and largely completed consolidation of Malmesbury and Paarl mills. Capital expenditure going forward will mainly be linked to asset care and to optimise productivity. Pioneer Foods is geared for growth.

The expansionary focus is not limited to South Africa and opportunities in new geographies will be explored to deleverage the impact of conditions in the local markets. Africa represents opportunities for and challenges to expansionary growth, and the Group is committed to thorough and extensive market research to understand the context of potential markets on the continent. Pioneer Foods International has been positioned as a growth vector to further expand the Group's sizeable existing international platform, both in terms of exports and in-country business partnerships.

I would like to thank our committed employees who have again proved their resilience in the face of necessary change. Thanks go to the senior teams for their dedication to the implementation of the strategy, and to the Board for its continued support and guidance.

PM Roux
Chief Executive Officer



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