OPERATIONAL REPORT

ESSENTIAL FOODS

Essential Foods is a leading manufacturer of essential and value-added foods in South Africa and comprises two business units – Grains and Bakeries.

Business environment

Prices of soft commodities remain driven by supply and demand dynamics currently characterised by good global inventory levels. Exchange rate volatility continues to impact local prices. The latter part of the fiscal year witnessed a sharp fall in maize pricing with a concomitant increase in competition. Consumption levels at an industry level were notably suppressed within most essential foods categories.

Performance overview

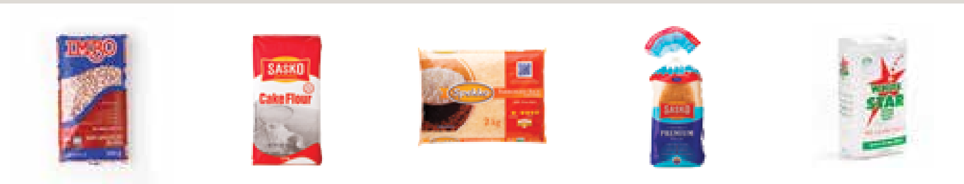
Essential Foods delivered satisfactory overall year-on-year operating revenue growth, with particularly strong second-half performance in the bread category. Operating profit increased significantly despite a challenging business environment, with value creation initiatives such as further rationalisation of the bakery footprint, manpower reduction and overall prudent operating cost management contributing to expanded operating margins.

The major capital expenditure projects of recent years were completed in 2014. The state-of-the-art Shakaskraal bakery in KwaZulu-Natal achieved planned hurdle rates post commissioning and has resulted in improved market penetration. The consolidation of the Malmesbury and Paarl mills will reach completion in the first quarter of the new financial year.

New brand campaigns were developed for both *Sasko* bread and *White Star* maize meal which are expected to have a positive impact on the market position.

FINANCIAL PERFORMANCE

Revenue	Operating profit	Operating profit margin	Capital spend
⬆ R10 928m +6%	⬆ R1 075m +37%	9.8%	⬇ R323m
2013: R10 314m	2013: R784m	2013: 7.6%	2013: R690m



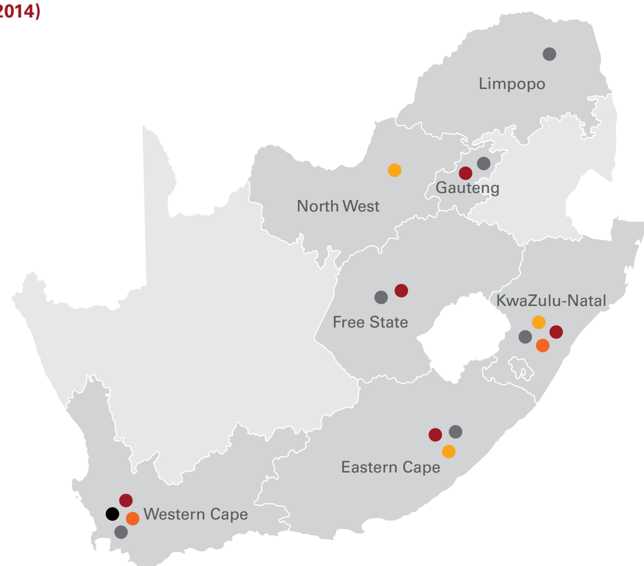
Category	Price change	Volume change	Performance*
Wheaten flour products A large portion of flour produced is transferred to the Group's bread bakeries and pasta plant, and the remainder contributes to a variety of branded and industrial flour products under the *Sasko* brand.	+8%	-1%	Total industry • Industry milling volume up by 4.0% • Total top-end grocer (TEG) volume declined by 4.9% • Increased private label growth Essential Foods • Short-term TEG market share gain
Maize products Maize is manufactured into a variety of staple foods, including maize meal, samp, maize flour and instant porridge, with *White Star* super maize meal as the flagship brand.	+6%	-5%	Total industry • Industry milling volume up by 2.8% • Total TEG volume up by 3.5% • Maize price decrease following exceptional crop Essential Foods • Margin precision in procurement and price modelling • Enhanced the competitiveness of *White Star* in TEG sector in the second half
Rice The Group imports rice products to South Africa which it markets through its extensive distribution footprint, with *Spekko* as the flagship brand.	+6%	+1%	Total industry • Total TEG volume up by 0.2% • Price spreads at origin increased private label competition Essential Foods • Improvements in performance with scope for future expansion • Continued improvement in *Spekko* exposure • Acceptance of the *Select* brand across trade channels provided portfolio strength
Bread The Group supplies fresh bread to the South African market via more than 35 000 delivery points every day.	+6%	+3%	Total industry • Total TEG plant bread volume declined by 0.2% • Aggressive regional price competition • Increased in-store baked bread promotions and participation Essential Foods • Operating profit increase of 54% • Second-half volume and TEG share turnaround • Robust volume gains in traditional markets • Marketing, communication and revitalisation of *Sasko* brand
Pasta A range of wheat-based pasta products are manufactured using local and imported ingredients. The Group produces South Africa's first pasta made from white maize.	+1%	+1%	Total industry • Total TEG volume up by 3.5% • High level of private label participation Essential Foods • Marginal share gains on private label • Continued pressure from imports limits pricing power
Beans and legumes The Group is a major supplier of South Africa's branded beans and legumes.	+12%	+12%	Total industry • Total TEG volume declined by 3.4% Essential Foods • Short-term TEG market share gain

* Industry information as of September 2014. Source: Aztec and SAGIS

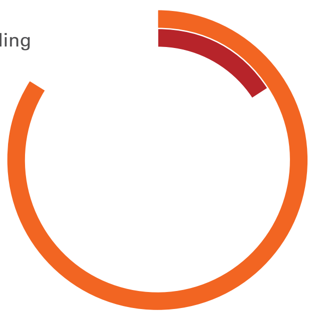
OPERATIONAL REPORT (CONTINUED)

PRODUCTION FOOTPRINT

- 5 Wheat mills (as of December 2014)
- 3 Maize mills
- 2 Rice and legume plants
- 1 Pasta plant
- 15 Bakeries



REVENUE CONTRIBUTION



WHITE STAR
SASKO
Spekko
SELECT rice
NICE RICE
BLUE BIRD
Champion
Puccini pasta
PASTA GRANDE
IMBO
Crossbow

SUSTAINABILITY PROGRESS

- Distribution fleet for bakeries on track to be replaced by more fuel-efficient vehicles by the end of 2016
- All product information, including full genetically modified organisms ("GMOs"), responsibly disclosed on product labels
- Voluntary elimination of legal, but objectionable, substance (ADA) from all bread recipes
- Product life cycle assessment performed on *White Star* super maize meal
- Woodchip boiler at Shakaskraal and Claremont bakeries using sustainable heat energy commissioned

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

INNOVATION

Revitalising the much loved *Sasko* bread brand, and accompanying marketing campaign.

OUTLOOK

The focus for 2015 will be to maintain the levels of operational discipline, cost management and margin precision achieved during the year. The rationalisation of the bakeries' manufacturing footprint, value creation plans, added contribution of the consolidated Malmesbury and Paarl mill and closure of Polokwane mill are all expected to have a positive impact on operating efficiency.

The Group will continue to invest in supporting power brands to drive performance in search of market share in a low-growth environment. Priority will be given to bedding down the new management structure and maintaining the execution of the Group strategy.