

# GROCERIES

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

### Business environment

Inflationary increases in raw materials and packaging, exacerbated by reduced spending power of consumers, had an adverse effect on the local market. Rand depreciation was the major contributor to raw and packaging material inflation. Cereals, long-life juice and ice tea achieved strong

volume growth in the local market while the rest of the basket remained flat.

South Africa is one of a handful of major fruit-producing regions in the world and is well positioned to market a range of fruit-based products to the international retail, industrial and catering sectors. A substantial dried fruit crop on the back of the previous season's bumper crop, coupled with favourable pricing conditions, led to value and volume growth in international markets.

The African market was buoyant with very good volume growth, specifically in the juice category.

### Performance overview

The Groceries division delivered overall revenue growth of 15% through healthy volume growth in cereals, fruit and beverage (domestic and international). The Groceries merger of Bokomo Foods and Ceres Beverages resulted in overall synergies, which together with stringent cost management and conversion efficiencies, resulted in operating profit increasing by 36% to R736 million (2013: R543 million). Operating profit margins expanded from 8.8% to 10.4%.

### FINANCIAL PERFORMANCE: BOKOMO FOODS

Revenue	Operating profit	Operating profit margin	Capital spend
↑ R3 728m +18%	↑ R407m +46%	10.9%	↓ R38m
2013: R3 148m	2013: R279m	2013: 8.9%	2013: R84m



### PRODUCT CATEGORIES: BOKOMO FOODS

Category	Price change	Volume change	Performance*
<b>Breakfast cereals</b> The business produces a range of leading cereal brands to South African and international markets, including <i>Weet-Bix</i> , <i>Nature's Source</i> , <i>ProNutro</i> and <i>Bokomo</i> .	South Africa <b>+5%</b>  UK <b>-9%</b>	South Africa <b>+5%</b>  UK <b>+36%</b>	Total industry <ul style="list-style-type: none"> <li>• Top-end grocer (TEG) volume up by 0.3%</li> <li>• Increased competitiveness of smaller brands</li> </ul> Bokomo Foods <ul style="list-style-type: none"> <li>• Short-term TEG volume up by 4.1%</li> <li>• Significant second-half turnaround with volume growth ahead of the market</li> <li>• Strong performances from flagship <i>Weet-Bix</i> and <i>Bokomo Corn Flakes</i> brands</li> <li>• Health and wellness consumer trends led to product innovation opportunities</li> </ul>
<b>Dried fruit and nut products</b> Dried fruit 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 while a range of dried fruits and nuts are exported across the globe.	<b>+0%</b>	<b>+29%</b>	Total industry <ul style="list-style-type: none"> <li>• TEG volume down by 2.5%</li> <li>• Increased local vine and tree fruit crop supply increased international demand</li> </ul> Bokomo Foods <ul style="list-style-type: none"> <li>• TEG volume declined by 3.7%, made up by gains in industrial market</li> <li>• Material increase in export volumes</li> </ul>
<b>Desserts</b> A variety of value-added dessert products, including jelly, instant pudding, cake mixes and baking aids, forms part of the <i>Moir's</i> branded range.	<b>+5%</b>	<b>-4%</b>	Total industry <ul style="list-style-type: none"> <li>• TEG volume down by 2.9%</li> </ul> Bokomo Foods <ul style="list-style-type: none"> <li>• TEG volume up by 1.3%</li> <li>• Strong first half performance from custard</li> </ul>

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

## OPERATIONAL REPORT (CONTINUED)

### FINANCIAL PERFORMANCE: CERES BEVERAGES

Revenue	Operating profit	Operating profit margin	Capital spend
↑ R3 341m +11%	↑ R329m +25%	9.8%	↓ R49m
2013: R3 021m	2013: R264m	2013: 8.7%	2013: R56m

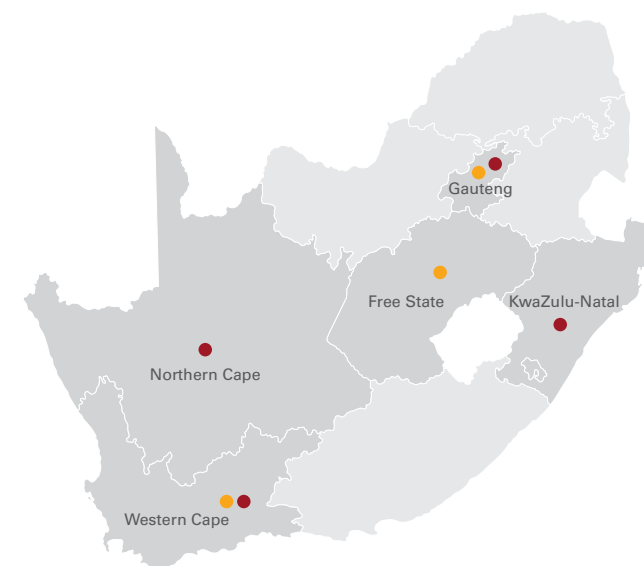
### PRODUCT CATEGORIES: CERES BEVERAGES

Category	Price change	Volume change	Performance*
<b>Fruit juice</b> The business produces a range of long-life fruit juice products, catering to the still and sparkling markets. <i>Liqui-Fruit</i> and <i>Ceres</i> brands form the bulk of products and <i>Ceres</i> is the major export brand, particularly into African markets.	South Africa <b>+3%</b>  International <b>+14%</b>	South Africa <b>+5%</b>  International <b>+10%</b>	Total industry <ul style="list-style-type: none"> <li>• Top-end grocer (TEG) volume down by 3.3%</li> </ul> Ceres Beverages <ul style="list-style-type: none"> <li>• TEG volume up by 5%</li> <li>• Significant export volume growth</li> <li>• Satisfactory local value market share growth</li> <li>• Good volume growth in the African markets</li> </ul>
<b>Dilutables</b> A range of dairy-based and fruit-based concentrate mixes are produced and marketed to the local and international market.	<b>-4%</b>	<b>+4%</b>	Total industry <ul style="list-style-type: none"> <li>• TEG volume down by 0.6%</li> <li>• Dairy fruit blends declining, while squashes are growing</li> </ul> Ceres Beverages <ul style="list-style-type: none"> <li>• TEG volumes down by 0.8%</li> <li>• Significant cost saving initiatives implemented</li> <li>• Growth of <i>Caribbean</i> economy label provides portfolio strength</li> </ul>
<b>Carbonated soft drinks</b> The Group has 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> .	<b>+1%</b>	<b>-7%</b>	Total industry <ul style="list-style-type: none"> <li>• TEG volume up by 1.4%</li> </ul> Ceres Beverages <ul style="list-style-type: none"> <li>• TEG volume declined by 6.6%</li> <li>• Volumes declined as a result of limited pricing power and market penetration</li> <li>• Strategic review of business is nearing completion</li> </ul>
<b>Ice tea</b> <i>Lipton Ice Tea</i> is a leader in the international ice tea category and is bottled by Ceres Beverages by agreement with the Pepsi Lipton International joint venture.	<b>-1%</b>	<b>+18%</b>	Total industry <ul style="list-style-type: none"> <li>• TEG volume up by 9.6%</li> </ul> Ceres Beverages <ul style="list-style-type: none"> <li>• TEG volume up by 17.9%</li> <li>• Significant volume and share growth achieved</li> <li>• Improved production output and increased trade activations yielding good results</li> </ul>

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

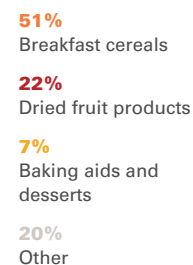
### PRODUCTION FOOTPRINT

- 18 Bokomo Foods facilities
- 3 Ceres Beverages facilities



### REVENUE CONTRIBUTION

#### Bokomo Foods



#### Ceres Beverages



## OPERATIONAL REPORT (CONTINUED)



### SUSTAINABILITY PROGRESS

#### Bokomo Foods

- Installed systems to reduce electricity consumption.
- Reduced water consumption by installing water efficiency systems.

#### Ceres Beverages

- Water recovery pasteurisation systems to reduce water consumption.
- Upgraded effluent treatment plant.
- Lightweighting of plastic bottles.

#### Warehouses

- Installed energy-saving lights with day/night switches to reduce electricity consumption.



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

### INNOVATION

- *Oat-Bix*: Ready-to-eat breakfast biscuits made from oats for the discerning consumer looking for a high-protein, oats-based breakfast cereal.
- *Oat pops*: A ready-to-eat oats-based chocolate cereal for children.
- *Protein Oats*: South Africa's first whole grain, high-protein oats product, responding to high-end consumer preferences for hot breakfasts and protein-rich, high-fibre food.
- Premiumising of *Ceres* fruit juices with new sophisticated packaging and the inclusion of fruit cells.
- A new chocolate flavour to expand the popular *Bokomo Corn Flakes* range.
- *Fruitree Squash*: A new orange flavour squash product was introduced to the market.

### OUTLOOK

Prospects in the local market remain subdued while export conditions into various geographies continue to offer higher growth opportunities. Domestically, growth and share gains are an imperative while relentlessly targeting cost and efficiency opportunities.

Underperforming products are being assessed with the objective of honing the overall Groceries product portfolio. The optimisation of manufacturing plants, as well as the support provided by centralised logistics services, will enable further implementation of the corporate strategy.

