



**CSSS
Consumer
Conference
June 2008**

Agenda

- Consumer patterns
 - Current situation
 - Volume growth
 - Food production capacity under pressure
 - Working capital and market pressure
 - Inflationary environment
 - Outlook
 - Opportunities for manufacturers to reduce price point values
 - Production value chain
 - Consumption patterns
 - Pricing outlook
- Pioneer Foods
 - Key strategies and focus areas
 - Prospects



Consumer Patterns Current Situation



Volume growth

- Sales volume growth holding up, surprisingly so – bread, wheaten flour, pasta, rice and Weet-Bix
- However maize volume growth flat
- Escalating food prices forcing smaller food producers out of business, leading to further volume growth for larger producers

Food production capacity under pressure

- Increasing demand pressure from major retailers due to volume growth
- Serial undersupply to the trade, resulting in poor service levels
- Adding additional production capacity is expensive (rising steel, cement and staff costs) and prone to long lead times due to infrastructure constraints, regulatory hurdles and site specific delays
- Risk of a switch to importation if local suppliers continue to undersupply
- Limited manufacturing capacity is enhancing producer pricing power
- High barriers to installing new capacity is restricting new entrants

Working capital under pressure

- Escalating food prices are placing strain on working capital and margins
- Forcing smaller producers out of business

Pioneer Foods working capital

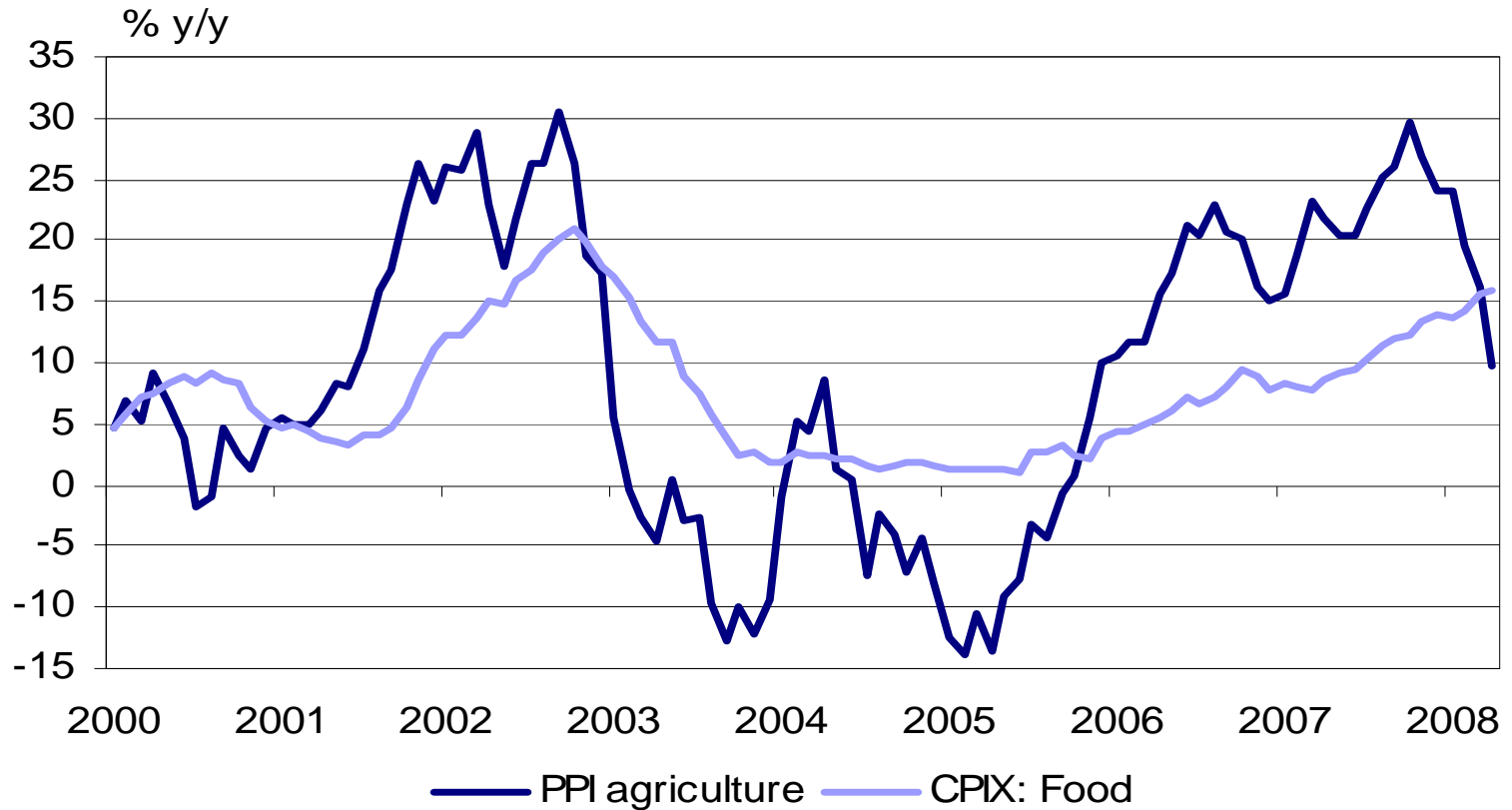
	Mar 08	Sept 07	Sept 06	Sept 05
	R'm	R'm	R'm	R'm
Inventory	2122	1622	1380	970
Accounts receivable	1787	1510	1209	1017
	3909	3132	2589	1987
Trade payables	(1403)	(1214)	(988)	(934)
	2506	1918	1601	1053

Net cash profit generated from operating activities R2.6bn over the last 30 months with R1.5bn invested in working capital

Inflationary environment

- Very high raw material prices – wheat, maize, rice, soy
- Reduced crop sizes and downscaled exports (India predominantly) increasing rice prices
- Pasta price increased with durum wheat now more expensive than bread wheat
- Wheat price at import parity is more than double the maize price, currently trading at export parity
- Rising interest rates also contributing to inflationary pressure as higher interest cost has to be recouped from the consumer

Food price inflation



Source: Stats SA, Standard Bank Group





Consumer Patterns Outlook



Opportunities for manufacturers to reduce price point values

Manufacturers need to reduce price point values to enhance affordability

- Efficiency across all disciplines very important
- Focus on procurement
- Reformulation of ingredients without compromising quality and functionality

Opportunities for manufacturers to reduce price point values (cont)

- **Pasta**

New technology installed enables us to substitute dearer durum wheat with bread wheat without compromising quality

- **Smaller pack sizes**

Scale down on pack sizes to lower price points

- **Maize and wheat – down-trading from 10 kg to 5 kg pack sizes**

Need to address production capacity to accommodate increased demand for smaller pack sizes

Production value chain

- Cost of bread unlikely to reduce if the wheat price reduces
- Other costs such as energy, transport and staff costs are rising and will negate any short term drop in the wheat price

White bread retail price

% Share of white bread retail price	
Producer	17.9%
Infrastructure	4.4%
Miller	9.8%
Baker	43.9%
Retailer	11.8%
Government	12.2%
Total	100.0%

SOURCE : NAMC

Draft - Not for distribution



Bread value chain

% of total cost of a loaf of bread	
Flour, ingredients and packaging	54%
Manpower	22%
Energy & Fuel	8%
Other	16%
Total	100%

SOURCE : Pioneer Foods own estimates

Draft - Not for distribution

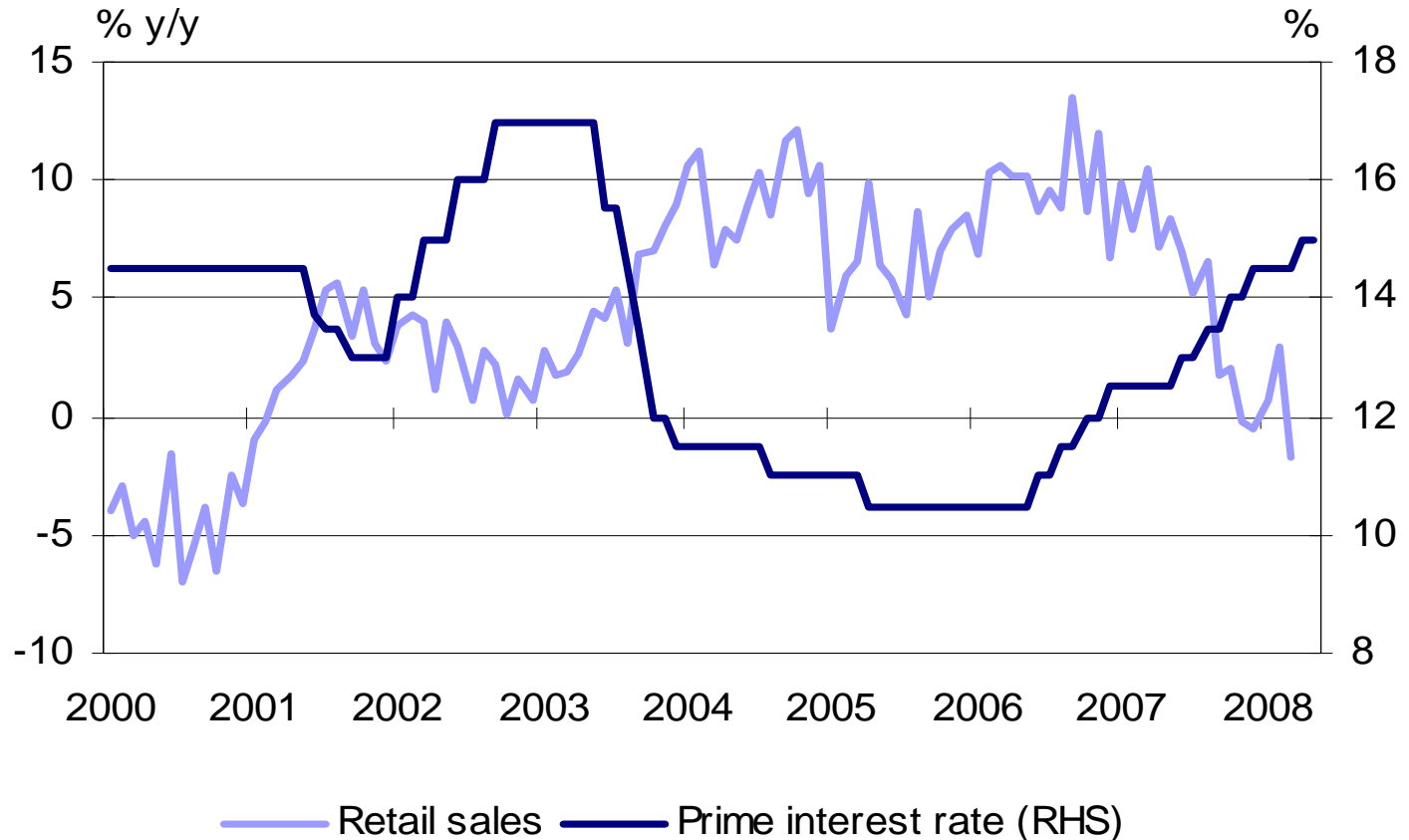




Consumer Patterns



Household spending is starting to suffer



Source: Stats SA, Standard Bank Group

Food vs. fuel as a component of monthly spend per LSM

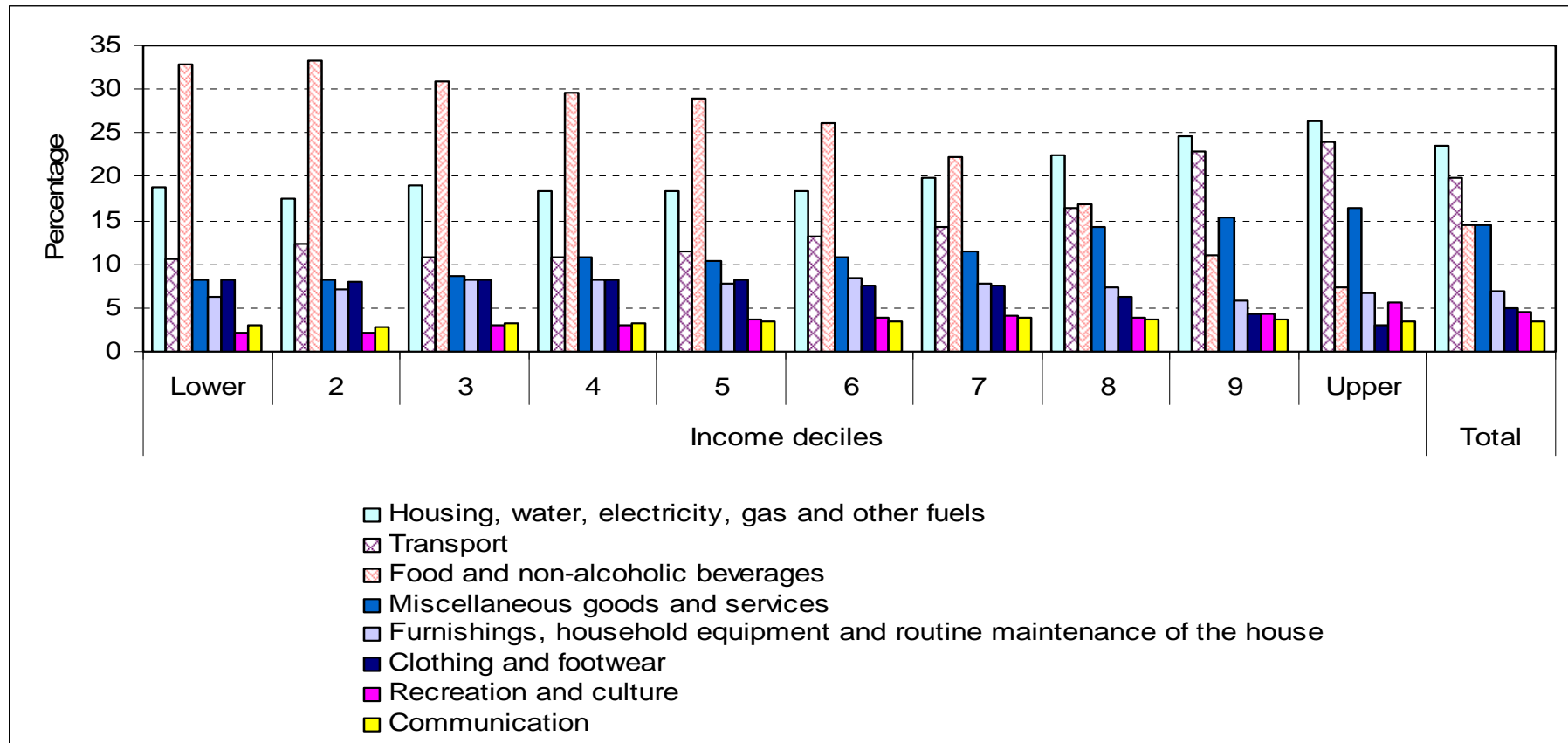
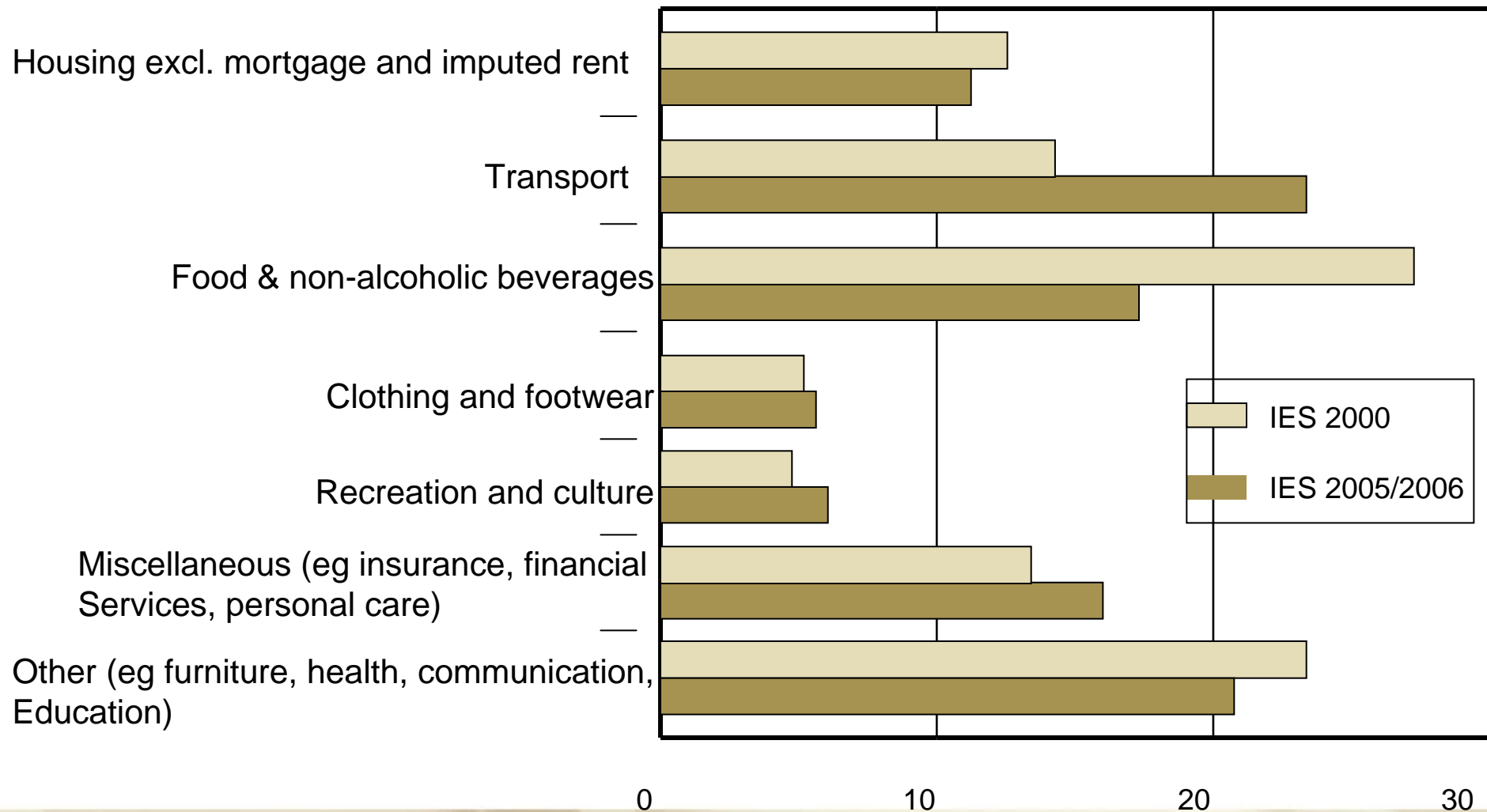


Figure 10:
Percentage distribution of annual household consumption expenditure by main expenditure group and income deciles

Source: StatSA, IES 2005/06

Household consumption expenditure (%) excl. mortgage & imputed rent



Consumption patterns

- We believe consumers have started to “buy down” – discretionary spend under pressure
- Volume growth in key staple categories may slow from continuing price hikes
- Wage increase cycle to contribute to increased consumption?
- Will high wheat prices move consumption to cheaper priced maize?
- Will housebrands outperform manufacturers brands?

Pricing outlook

- Large local maize crop keeping maize prices at export parity
- Large wheat crop in northern hemisphere expected, should lead to lower prices
- Larger rice crops expected
- Low international inventory levels are contributing to volatile prices until replenished by larger crops
- Raw materials used less like soy and sorghum and other costs like transport put further pressure on selling prices



Pioneer Foods Key Strategies and Focus Areas Prospects



Key strategies and focus areas

Organic growth in revenue

- Capacity expansion
- Strong demand for products
- Strategic Group Sales and Merchandise partner appointed from Aug 08

New category and geographic expansion

- Evaluate opportunities to enter new categories
- Africa will become a focus in the medium term

Key strategies and focus areas continued

Margin improvement

- Raw material input cost increases being passed on to consumer
- Driving efficiencies through process optimisation
- Capacity growth from capex spend
- Strengthening brand positioning

Prospects

- Managing profit margins difficult in the challenging trading environment
- Further price increases to follow, may cause volume growth to slow
- Agri division's performance significant swing factor in the short term
- Group will do well to achieve growth in earnings for the year to September 2008
- Earnings growth momentum maintained in the medium to long term by added capacity and defensive product mix

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