

PIONEER FOODS PHASE II BROAD-BASED BLACK ECONOMIC EMPOWERMENT TRANSACTION

1. INTRODUCTION

1.1 Pioneer Foods is pleased to propose the second phase of its Broad-based Black Economic Empowerment ("B-BBEE") strategy to increase and broaden direct black ownership of the Company ("Phase II B-BBEE Transaction"). The Phase II B-BBEE Transaction will result in an additional 13.53% black shareholding in the Company post the implementation of the transaction and will result in an approximate R565 million cash injection into Pioneer Foods with a further R468.6 million plus preference share dividends accruing to the Company at the maturity of the Phase II B-BBEE Transaction. The cash injection is earmarked to accelerate Pioneer Foods' growth strategy. The Phase II B-BBEE Transaction is structured to be a representative range of black entities working in a diverse range of communities that benefit the growth and development of the Company and its corporate social commitments, including an Education and Community Trust (which value will equate to R637 million), black members of the board of the Company and strategic B-BBEE partners which will include broad-based women's groupings. The transaction total value is therefore approximately R1.67 billion.

1.2 In furthering Pioneer Foods' commitment to B-BBEE, the Company is proposing, subject to the fulfillment, inter alia, of the conditions precedent set out in paragraph 7 below, to facilitate a subscription for shares in the issued share capital of Pioneer Foods by black participants ("the Proposed Phase II B-BBEE Specific Issue"). The Proposed Phase II B-BBEE Specific Issue will involve the issue of shares equivalent to 13.53% of Pioneer Foods' ordinary issued share capital post-implementation of the Proposed Phase II B-BBEE Specific Issue ("enlarged issued share capital"). The enlarged issued share capital of Pioneer Foods has been based on the number of shares in issue prior to the Proposed Phase II B-BBEE Transaction less shares held by subsidiary companies of Pioneer Foods plus the Proposed Phase II B-BBEE Specific Issue.

1.3 The Phase II B-BBEE Transaction follows the successful implementation of the first phase of Pioneer Foods' B-BBEE strategy in 2006 in terms of which Pioneer Foods issued 10% of its then issued share capital to a BEE trust for the benefit of employees of wholly-owned South African subsidiaries of Pioneer Foods ("Phase I B-BBEE Transaction"). The effective black economic empowerment ("BEE") shareholding in Pioneer Foods pertaining to the Phase I B-BBEE Transaction currently amounts to 4.73%. The Phase I B-BBEE Transaction has been highly successful in creating value for participants. To date, Pioneer Foods has paid more than R17 million in dividends to the beneficiaries of the Phase I B-BBEE Transaction, and a further R49.8 million, as a result of the growth in the share price, to beneficiaries of the Phase I B-BBEE Transaction who have left the employment of Pioneer Foods.

2. THE PROPOSED PHASE II B-BBEE SPECIFIC ISSUE

2.1 The total value of the Proposed Phase II B-BBEE Specific Issue is approximately R1.67 billion based on a 30 day volume weighted average share price ("VWAP") of R60.10 per Pioneer Foods ordinary share ("Ordinary Share") as at the close of trading on Friday, 2 December 2011 ("indicative market price"). The effective market price for the transaction will be determined based on the 30 day VWAP price of Pioneer Foods Ordinary Shares as on a future date ("effective market price").

2.2 It is intended that the Pioneer Foods Ordinary Shares to be issued as a consequence of the Proposed Phase II B-BBEE Specific Issue, will comprise approximately 28,670,982 Pioneer Foods Ordinary Shares, being 13.53% of Pioneer Foods' enlarged issued share capital post the implementation of the Phase II B-BBEE Specific Issue.

2.3 The Proposed Phase II B-BBEE Specific Issue will be made to the following black participants (collectively, "the BEE Participants"):

2.3.1 The Pioneer Foods Education and Community Trust, a broad-based ownership scheme in terms of the BEE Codes, which will hold, 10,599,988 Ordinary Shares, being 5.00% of Pioneer Foods enlarged issued share capital ("the Pioneer Foods Education and Community Trust" or "PFEC Trust");

2.3.2 The following strategic B-BBEE partners ("the B-BBEE Partners"):

- Thembeke Capital Limited ("Thembeke"), which will hold, through a ring-fenced special purpose vehicle ("SPV"), 9,326,640 Ordinary Shares, being 4.40% of Pioneer Foods' enlarged issued share capital;
- Identity Capital Partners (Pty) Limited ("Identity Partners"), which will hold, through a ring-fenced SPV 2,755,997 Ordinary Shares, being 1.30% of Pioneer Foods' enlarged issued share capital;
- Kwa-Zulu Natal Agribusiness Women's Trust ("KZN Trust"), which will hold, through a ring-fenced SPV 2,755,997 Ordinary Shares, being 1.30% of Pioneer Foods' enlarged issued share capital;
- Sekunjalo Investments Limited ("Sekunjalo"), which will hold, through a ring-fenced SPV 1,589,998 Ordinary Shares, being 0.75% of Pioneer Foods' enlarged issued share capital; and
- Riparian Investments Consortium 1 (Pty) Limited ("Riparian"), which will hold, through a ring-fenced SPV 1,059,999 Ordinary Shares, being 0.50% of Pioneer Foods' enlarged issued share capital.

2.3.3 The following current and former black members of Pioneer Foods' board (collectively referred to as "the Black Directors"), with all shares to be issued to them in their personal capacity and be held through a SPV structure. A collective allocation of approximately 582,363 Ordinary Shares, being 0.28% of Pioneer Foods' enlarged share capital has been made to the Black Directors:

- Mr Zitulele Luke (KK) Combi, the independent non-executive chairman of Pioneer Foods;
- Mr Andile Hesperus Sangqu, an independent non-executive director of Pioneer Foods;
- Prof Abdus Salam Mohammad Karaan, an independent non-executive director of Pioneer Foods;
- Mrs Nonhlanhla Sylvia Mjoli-Mncube, an independent non-executive director of Pioneer Foods;
- Dr Mohammed Iqbal Survé, the independent non-executive vice-chairman of Pioneer Foods; and
- Dr Franklin Abraham Sonn, former independent non-executive director of Pioneer Foods.

3. RATIONALE AND PIONEER FOODS BEE STRATEGY

Pioneer Foods is resolute in its commitment to BEE in order to ensure the transfer of ownership as, inter alia envisaged in the relevant BEE codes. This has been demonstrated through the successful implementation of the Phase I B-BBEE Transaction. Building on this momentum, and should the Phase II B-BBEE Transaction be implemented, Pioneer Foods would have ensured empowerment of at least 23.50%.

Implementing the Proposed Phase II B-BBEE Specific Issue will strengthen and broaden the direct black ownership of Pioneer Foods with a representative range of black entities working in a diverse range of communities that benefit the growth and development of the Company and its corporate social commitments. The Proposed Phase II B-BBEE Specific Issue confirms the Company's commitment to sustainable BEE ownership and transformation.

Its successful implementation will improve and sustain the level of black ownership of the Company and the Company's BEE status. Pioneer Foods has been active in strengthening all areas of BEE activity and is currently ranked as a Level Five BEE Contributor in terms of the dti Codes.

4. DETAILS OF THE B-BBEE PARTNERS AND THE PIONEER FOODS EDUCATION AND COMMUNITY TRUST

4.1 Thembeke is a broad-based black-owned and controlled investment company that focuses on private equity and BEE transactions. It has a proven track record of adding strategic value to its portfolio of investment companies. Thembeke's shareholders include over 500 individual black shareholders and several 100% black broad-based trusts representing thousands of beneficiaries. The executive chairman of Thembeke is Mr ZL Combi.

Thembeke has a strong balance sheet with long-term investment objectives. It has investments in numerous sectors of the economy, including financial services and agricultural related businesses.

4.2 Identity Partners is a black women owned and controlled investment firm which invests in established and growing businesses primarily in the following sectors: mining and engineering services, resources and energy, transport, and agriculture. Identity Partners' objective is to bring black women into the mainstream of the economy through equity participation in businesses directly and through consortia and seeks to be a facilitator for other women and BEE businesses to access opportunities as professionals and as entrepreneurs. Its financing activities are carried out through the Identity Development Fund, which manages two funds focusing on financing youth and women entrepreneurs. The leading executives and majority shareholders of Identity Partners are Mmes Sonja Sebotsa and Polo Radebe.

4.3 KZN Trust is a 100% black women owned economic empowerment initiative formed to pursue opportunities that would benefit previously disadvantaged women engaged in agriculture and rural development efforts in KwaZulu-Natal. It consists of two companies and 200 individual women, forming part of some twenty four agricultural co-operatives, mainly from rural areas of KwaZulu-Natal. The KZN Trust aims to empower women and to have an impact in the fight against poverty, through agriculture and other rural development initiatives.

These women are engaged in various agricultural activities including, inter alia vegetable production and processing, poultry farming, egg production and meat processing. Apart from agriculture, the KZN Trust's women are also engaged in other activities such as handwork, brick-making and tourism in order to augment their income. While the KZN Trust represents just over 200 women, the impact of its work will be far reaching within the families and communities of its members.

4.4 Sekunjalo is a listed majority black-owned and black-controlled investment holding company. Its major investments are in fishing, aquaculture, pharmaceuticals, biotechnology, information technology and telecommunications, financial services, property and enterprise development supporting broad-based BEE and small, medium and micro enterprises.

Sekunjalo currently employs over 740 employees directly and over 8 000 people benefit from its investments and associated companies. The executive chairman and majority shareholder of Sekunjalo is Dr Mohammed Iqbal Survé.

4.5 Riparian is a majority black-owned and controlled investment holding company established by Prof ASM Karaan. 24% of the economic benefits of Riparian's issued share capital is held by two broad-based ownership schemes as contemplated in the BEE Codes, namely the Fruit Workers Development Trust and the Green Olive Trust. The beneficiaries of these trusts include permanent workers on fruit farms. By providing its beneficiaries with an exposure to shares in Riparian, these beneficiaries will gain an indirect economic exposure to the Pioneer Foods shares that are proposed to be issued to Riparian as part of the Proposed Phase II B-BBEE Specific Issue.

4.6 The Pioneer Foods Education and Community Trust will be created as a perpetual BEE trust, for the purpose of benefitting black people in the areas and communities in which Pioneer Foods operates in South Africa. The objectives of the PFEC Trust is to assist in the provision of school facilities or equipment for public schools and/or other educational institutions engaged in public benefit activities and the provision of scholarships, bursaries, awards and loans for study, research and teaching.

It is envisaged that the PFEC Trust share issue will ensure black equity ownership in the Company into perpetuity.

5. DETAILS OF THE PROPOSED PHASE II B-BBEE SPECIFIC ISSUE

5.1 The Proposed Phase II B-BBEE Specific Issue will be implemented through a specific issue of Ordinary Shares for cash by Pioneer Foods (equal to 13.53% of Pioneer Foods' enlarged issued share capital).

5.2 The subscription price at which each of the BEE Participants will subscribe for their respective Ordinary Shares will depend on the commercial terms and funding structure relevant to that BEE participant, as set out below.

5.3 THE B-BBEE PARTNERS

5.3.1 The specific issue to the B-BBEE Partners will be made at a 5% discount to the effective market price ("The BP Specific Issue"). The BP Specific Issue will be issued in terms of Pioneer Foods' articles of association (now referred to as the memorandum of incorporation in terms of the Companies Act 71 of 2008, as amended ("MOI")) and on the terms and conditions and with the rights and restrictions contained in the relevant subscription agreements ("the BP Subscription Agreements").

5.3.2 The BP Subscription Agreements provide for a lock-in period of 7 years, during which time the B-BBEE Partners will not be entitled to dispose of the Ordinary Shares subscribed to in terms of the Proposed Phase II B-BBEE Specific Issue.

5.3.3 The approximate total combined subscription price payable by the B-BBEE Partners in terms of the BP Specific Issue will amount to R1 billion based on the indicative market price. Each B-BBEE Partner will be required to capitalise its SPV with 55% of the subscription price payable by that B-BBEE Partner. The SPVs will accordingly be capitalised by a total amount of R550 million consisting of 10% B-BBEE Partner own funding and 45% third party funding from Rand Merchant Bank ("RMB") in the form of an A Preference Share subscription ("A Preference Share Subscription"). The A Preference Shares will be subscribed for on terms and conditions standard for transactions of this nature including the following terms:

5.3.3.1 A Preference Share dividends will accrue at an annual rate amounting to 75% of the prevailing prime interest rate on the outstanding principal A Preference Share Subscription amount and outstanding preference share dividends.

5.3.3.2 The A Preference Share Subscription will be structured as a capital bullet facility with the dividends on the A Preference Shares being serviced from dividends received by the B-BBEE Partner SPV in respect of the Pioneer Foods Ordinary Shares issued under the Proposed Phase II B-BBEE Specific Issue.

5.3.4 Pioneer Foods will subscribe for B Preference Shares in the SPVs of the B-BBEE Partners for the balance of the subscription price payable by the BEE Partners amounting in total to R450 million ("the B Preference Shares") or 45% of the approximate combined total subscription price. The B Preference Shares will be subscribed for on the following terms and conditions:

5.3.4.1 B Preference Share dividends will accrue at an annual rate amounting to 90% of the prevailing prime interest rate on the outstanding principal B Preference Share subscription amount and outstanding preference share dividends ("the Preference Shares Balance").

5.3.4.2 B Preference Share dividends will be rolled up as the dividends received by the B-BBEE Partner SPV on the Ordinary Shares issued to the B-BBEE Partners SPV under this Proposed Phase II B-BBEE Specific Issue, will first be utilised against the RMB A Preference Share Subscription plus rolled up A Preference Share dividends.

5.3.4.3 It is proposed that Pioneer Foods (Pty) Ltd provide a guarantee to RMB, with a view to facilitating the provision of the RMB A Preference Share Subscription to the B-BBEE Partners and Black Directors. The guarantee will be limited to a maximum liability of R100 million for Pioneer Foods (Pty) Ltd.

5.4 THE BLACK DIRECTORS

5.4.1 The Proposed Phase II B-BBEE Specific Issue to the Black Directors will be made at the effective market price at no discount (The BD Specific Issue). The BD Specific Issue will be issued in terms of MOI and on the terms and conditions and with the rights and restrictions contained in the relevant subscription agreements ("the BD Subscription Agreements").

5.4.2 The BD Subscription Agreements provide for a lock-in period of 7 years, during which time the Black Directors will not be entitled to dispose of the Ordinary Shares subscribed to in terms of the BD Specific Issue.

5.4.3 The total combined subscription price payable by the Black Directors in terms of the BD Specific Issue will amount to R35 million. Each Black Director will be required to capitalise his SPV with 45% of the subscription price payable by that Black Director. The SPVs will accordingly be capitalised by a total amount of R15.75 million consisting of 45% funding from RMB in the form of an A Preference Share Subscription. The A Preference Shares carry the same terms as in the case of the B-BBEE Partners.

5.4.4 Pioneer Foods will subscribe for B Preference Shares in the SPVs of the Black Directors for the balance of the BD Specific Issue amounting in total to R19.25 million or 55% of the total combined subscription price payable by the Black Directors. The B Preference Shares carry the same terms as in the case of the B-BBEE Partners.

5.5 THE PIONEER FOODS EDUCATION AND COMMUNITY TRUST

5.5.1 The PFEC Trust will subscribe for 10,599,988 Ordinary Shares as part of the Proposed Phase II B-BBEE Specific Issue at the effective market price (which value will equate to R637 million) at no discount. The subscription price per Ordinary Share will be at the par value of Pioneer Foods Ordinary Shares amounting to R0.10 per Pioneer Foods Ordinary Share which will be funded by an amount of R1.1 million through a donation by Pioneer Foods (Pty) Ltd. The difference between the effective market price and the subscription price times the Ordinary Shares issued to the PFEC Trust will be financed by Pioneer Foods providing notional funding ("the Notional Funding").

5.5.2 The Ordinary Shares will be issued to the PFEC Trust in terms of the MOI and conditions and with the rights and restrictions contained in the relevant subscription agreement ("the PFEC Trust Subscription Agreement").

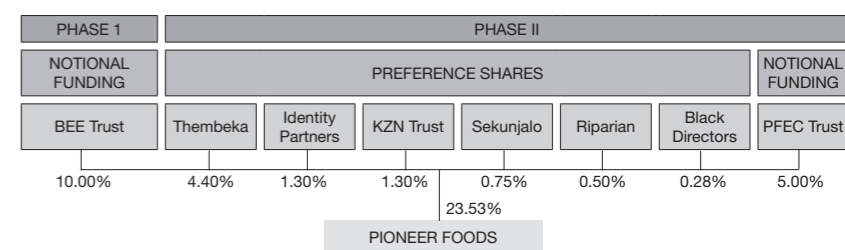
5.5.3 The specific issue to the PFEC Trust and Notional Funding provided by Pioneer Foods will be effected on the following terms and conditions:

5.5.3.1 Until the Notional Funding balance has been paid off, the PFEC Trust will not be entitled to any distributions (as defined in the PFEC Trust Subscription Agreement, which includes Ordinary Share dividends) by Pioneer Foods ("Distributions") other than a 10% trickle Distribution.

5.5.3.2 The Notional Funding balance will be calculated as follows:

- The Notional Funding amount increased by a rate equal to 85% of the prevailing prime interest rate; less
- An amount equal to 80% of the Distributions not received by the PFEC Trust as a result of 5.5.3.1 above.

6. SHAREHOLDING STRUCTURE POST IMPLEMENTATION



7. CONDITIONS PRECEDENT TO THE PROPOSED PHASE II B-BBEE SPECIFIC ISSUE

The Proposed Phase II B-BBEE Specific Issue will be subject to the conditions precedent inter alia as set out below.

7.1 The shareholders of Pioneer Foods in a general meeting pass the ordinary and special resolutions required to approve and implement the Proposed Phase II B-BBEE Transaction;

7.2 The successful completion of a due diligence investigation by the Company into the B-BBEE Partners (and their direct and indirect shareholders);

7.3 Pioneer Foods confirming that it is satisfied with the BEE rating placed on the Proposed Phase II B-BBEE Transaction by a verification agency;

7.4 All transaction agreements being entered into and becoming unconditional; and

7.5 The unconditional approval to the extent necessary, by all regulatory authorities having jurisdiction in respect of the Proposed Phase II B-BBEE Specific Issue, including the JSE, be obtained or, if such approvals are conditional, on such conditions as are acceptable to the parties, acting reasonably, affected thereby.

In the unlikely event of a B-BBEE Partner failing to perform in terms of the above and any other relevant undertaking and/or agreement, such party will be disqualified.

8. COST TO SHAREHOLDERS AND DILUTION IMPACT ON EARNINGS

The cost of the Proposed Phase II B-BBEE Specific Issue, calculated in accordance with the statement on share based payments in terms of International Financial Reporting Standards ("IFRS 2"), is R142.5 million ("IFRS 2 Cost") and equates to 1.3% of the Pioneer Foods market capitalisation on the JSE as calculated based on the indicative market price. It is important to note that this cost will be charged to the Company's income statement upfront with minimal cost in subsequent years (resulting from the trickle dividend on the PFEC Trust) and it does not reflect a cash cost.

The Proposed Phase II B-BBEE Specific Issue has a zero diluting impact on earnings due to the PFEC Trust being consolidated in perpetuity and the B-BBEE Partners' and the Black Directors SPVs being consolidated for the duration of the lock-in period save for the IFRS 2 Cost mentioned above.

9. UNAUDITED PRO FORMA FINANCIAL INFORMATION

The pro forma financial effects set out below have been prepared to assist Pioneer Foods ordinary shareholders to assess the impact of the Proposed Phase II B-BBEE Specific Issue on the Earnings Per Share ("EPS"), Headline Earnings Per Share ("HEPS"), Net Asset Value ("NAV") and Tangible Net Asset Value ("TNAV") per Pioneer Foods Ordinary Share. The material assumptions are set out in the notes following the table. These pro forma financial effects have been disclosed in terms of the Listings Requirements of the JSE and do not constitute a representation of the future financial position of Pioneer Foods on conclusion of the Proposed Phase II B-BBEE Specific Issue. The pro forma financial effects are the responsibility of the board and are provided for illustrative purposes only, and, because of their nature, may not fairly present Pioneer Foods' financial position, changes in its equity, results of operations or cash flows.

| | Before the Proposed Phase II B-BBEE Specific Issue ¹ | After the Proposed Phase II B-BBEE Specific Issue | Percentage change |
|--|---|---|-------------------|
| | (cents) | (cents) | (%) |
| EPS ² | 408.4 | 325.8 | -20.2% |
| HEPS ² | 407.0 | 324.3 | -20.3% |
| NAV per share ³ | 3 059.7 | 3 112.7 | 1.7% |
| TNAV per share ³ | 2 651.3 | 2 704.4 | 2.0% |
| Weighted average number of shares in issue (millions) ⁴ | 178.4 | 178.4 | 0.0% |
| Number of shares in issue (millions) ⁴ | 179.4 | 179.4 | 0.0% |

Notes

- 1 The EPS, HEPS, NAV and TNAV per Pioneer Foods Ordinary Share "Before the Proposed Phase II B-BBEE Specific Issue" are based on the published audited results for Pioneer Foods for the year ended 30 September 2011.
- 2 The EPS and HEPS per Pioneer Foods Ordinary Share "After the Proposed Phase II B-BBEE Specific Issue" are based on the assumption that the Proposed Phase II B-BBEE Specific Issue was implemented on 1 October 2010.
- 3 The NAV and TNAV per Pioneer Foods Ordinary Share "After the Proposed Phase II B-BBEE Specific Issue" are based on the assumption that the Proposed Specific Issue was implemented on 30 September 2011
- 4 The number and weighted number of Ordinary Shares in issue have no pro forma adjustments thereto due to the fact that the Ordinary Shares issued in terms of the Proposed Phase II B-BBEE Specific Issue will be consolidated.

10. IRREVOCABLE UNDERTAKINGS

Pioneer Foods has received irrevocable undertakings from shareholders holding 50.3% to vote in favour of the Proposed Phase II B-BBEE Specific Issue, subject to any material adjustment, that is not envisaged at this stage.

11. RELATED PARTIES

The Proposed Phase II B-BBEE Specific Issue includes an issue of Pioneer Foods' Ordinary Shares to current and former non-executive directors of Pioneer Foods. Accordingly, the issue of Pioneer Foods' Ordinary Shares to the Black Directors is deemed to be an issue of shares to related parties in terms of the JSE Listings Requirements.

By virtue of Dr MI Survé's interest in Sekunjalo, the company is viewed as an associate of Dr MI Survé and is accordingly considered to be related party to the Company. The issue of shares to Sekunjalo is therefore deemed to be an issue of shares to a related party in terms of the JSE Listing Requirements.

Pioneer Foods has appointed BDO Corporate Finance (Pty) Ltd as an independent professional expert to provide a fairness opinion as to whether the issue of Pioneer Foods Ordinary Shares to the Black Directors and Sekunjalo respectively, is fair to Pioneer Foods shareholders.

Messrs ZL Combi, MI Survé, ASM Karaan, AH Sangqu and Mrs NS Mjoli-Mncube will, due to their participation in the Proposed Phase II B-BBEE Specific Issue, refrain from voting on the resolutions to the extent that these relate to the issue of Pioneer Foods Ordinary Shares to them in their personal capacities, and in the case of Dr MI Survé, the issue of shares to Sekunjalo. They have also recused themselves from all decisions that were taken in respect of the Proposed Phase II B-BBEE Transaction.

12. CIRCULAR TO SHAREHOLDERS

It is envisaged that the required shareholder approval will be sought at a general meeting, held immediately after the annual general meeting of the Company on 17 February 2012. A circular and notice of general meeting will be sent to shareholders in due course.

13. WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

Shareholders are referred to the cautionary announcement dated 4 August 2011, as well as the renewal of the announcement on 19 September 2011 and on 3 November 2011, and are hereby advised that the cautionary announcement is withdrawn. Accordingly caution is no longer required to be exercised by shareholders when dealing in the shares of Pioneer Foods.

Stellenbosch
9 December 2011

Corporate advisor and sponsor



Legal advisor

