



Corporate profile: **Quantum Foods**

Strictly Private and Confidential **August 2014**

Quantum Foods is a diversified feeds and poultry business providing quality animal protein to selected South African and African markets

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BACKGROUND

- Definition of Quantum Foods** ■ Quantum Foods is a diversified feeds and poultry business providing quality animal protein to selected South African and African markets
- Unbundling process** ■ Pioneer Foods has elected to unbundle Quantum Foods from its portfolio of business
- Listing** ■ Quantum Foods intends to list on the JSE on or about 6 October 2014

INDUSTRY OVERVIEW



Industry



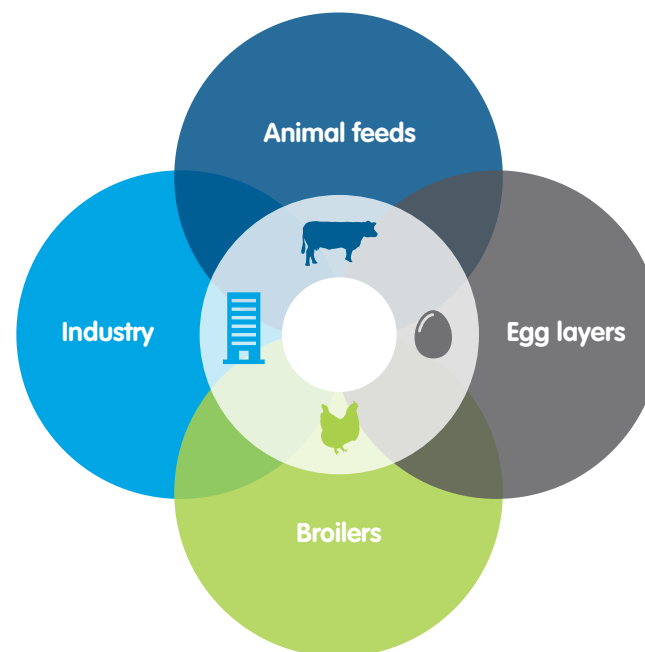
Egg layers
R7.9bn



Broilers
R21.9bn



Animal feeds
R23.4bn



- A mega industry that delivers a basic nutritional need
- Eggs and broiler meat are the cheapest forms of animal protein
- Consumption driven by:
 - Per capita income
 - Urbanisation
 - Population growth

SALIENT FEATURES

Animal feeds

- Animal feed is manufactured and sold under the Nova brand. Close to 42% of sales is to an external customer base.
- This business has a strong regional market share in the Western Cape, with growth opportunities in Gauteng.

Egg layer business

- Eggs are sold under the Nulaid brand. Livestock for the layer industry is sold under the Bergylei chicks brand.
- The egg business is the only national producer with a significant market share in the retail sector.

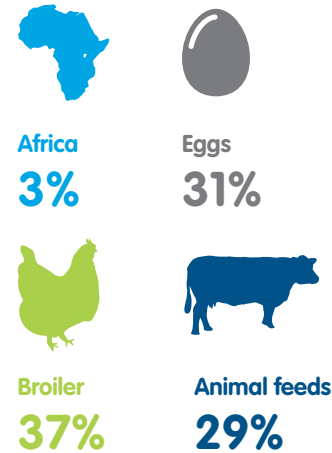
Broiler business

- The Western Cape broiler business focuses on the sale of livestock to abattoirs.
- An abattoir is operated in Gauteng, which has significant spare capacity for future growth.

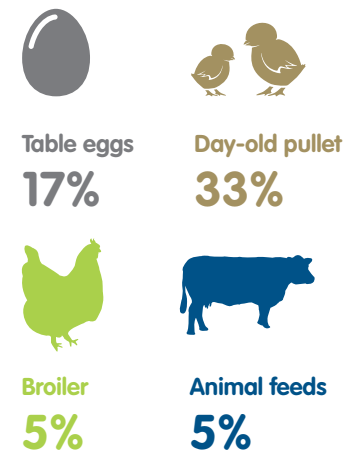
Rest of Africa

- In Zambia, Quantum Foods operates
 - a broiler and layer breeder business
 - a feed business
 - a table egg business
 - a distribution centre
- In Uganda the business comprises
 - a broiler and layer breeder business
 - a feed business
- Both Zambia and Uganda have excellent growth prospects.

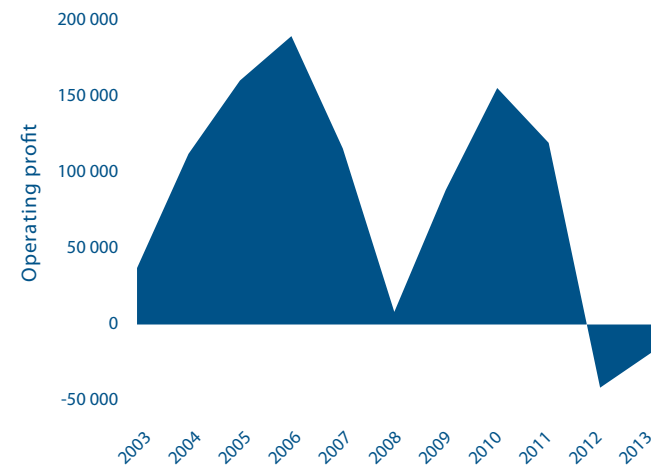
REVENUE CONTRIBUTION BY BUSINESS



SOUTH AFRICAN MARKET SHARE



TOTAL QUANTUM FOODS OPERATING PROFIT (R'000)





SALIENT FEATURES

BENEFITS

SALIENT FEATURES	BENEFITS
1. Honed domestic portfolio	<ul style="list-style-type: none"> • Less exposure to cycles and industry vagaries • Prominent position in the egg layer business • Strong position within animal feeds
2. Africa growth traction and prospects	<ul style="list-style-type: none"> • Track record of success in Africa • Expansion in Zambia under way • Planned market penetration in Uganda • Other geographies being investigated
3. Efficient cost base with further upside	<ul style="list-style-type: none"> • Cost base significantly and sustainably reduced during 2014 • Further improvements targeted within: <ul style="list-style-type: none"> – Supply chain – Centralised procurement
4. Poised for cash generative cycle	<ul style="list-style-type: none"> • Business is debt free • Healthy farm asset base • Working capital fully funded at inception • Lower-cost raw material cycle • Domestic capital programme largely completed
5. Experienced and competent executive team	

HISTORICAL PERFORMANCE




PRO FORMA – UNAUDITED

	Notes	2010 R'000	2011 R'000	2012 R'000	2013 R'000	March 2014	CAGR % (2010 – 2014)
Revenue		2 463 463	2 703 348	3 035 663	3 483 351	1 739 313	
EBIT	1	168 859	115 471	(41 448)	(19 488)	25 461	
Interest – net	2	1 962	(3 997)	(4 740)	(14 821)	610	
Tax	1	(49 410)	(31 983)	15 224	17 309	(4 029)	
Profit after tax	1	121 410	79 491	(30 964)	(17 000)	22 042	
Net assets	4	828 184	943 036	1 026 735	1 133 611	1 300 186	
Operating margin (%)		7	4	(1)	(1)	1	
Shares in issue (million)	3					231.69	
Raw material prices (R/ton)							
– Maize Safex		1 278	1 671	2 380	2 264	2 800	21.7
– Soybean meal		3 442	3 394	4 141	5 672	6 704	18.1
Selling prices							
– Eggs R/dozen		9.68	9.06	9.77	10.60	11.46	4.3
– Broiler meat R/kg		15.08	15.60	16.65	17.88	18.23	4.9
Sensitivities – R100/ton movement 2015 (per year)							
– Maize: R11 million							
– Soybean meal: R3 million							

Notes

1. Excluding impairments
2. Assumed 100% capitalised at beginning of period
3. Quantum Foods Holdings shares at 22 August 2014
4. Capex in period

	R'm
Buy back privatised farms	224
Western Cape broiler expansion	180
Gauteng broiler expansion	248
Investment to improve efficiency	82
Acquisition of Zambia egg business	145

Sources of change	Drivers of change	Impact of change
Industry changes		
	• Tariffs regime supports investment case	• Potential for upward price movement
	• Consolidation in the broiler industry	
	• National layer flock reduced	• Potential for upward price movement
	• Higher global raw material stock	• Lower input cost
Internal changes		
	• Significant structural changes	• Improved cost control
	• Aggressive rationalisation of cost base	• Lower cost base
	• Emphasis on external feed business	• Volume and earnings growth
Portfolio restructured		
	• Investment in Africa	• Africa profit growth traction
	• De-risking of the Western Cape broiler business	• Reduced pricing and trading exposure
	• Cyclical business exposure reduced	• 65% of revenue offers profit stability

STRATEGY

Vision statement

Quantum Foods aims to be the leading feed and animal protein business in Africa delivering sustainable returns.

Purpose





To build the best feed and animal protein business through:

- Lowest-cost operations
- Highest farming efficiency
- Most effective selling and customer relationship management

Quantum Foods' focus areas

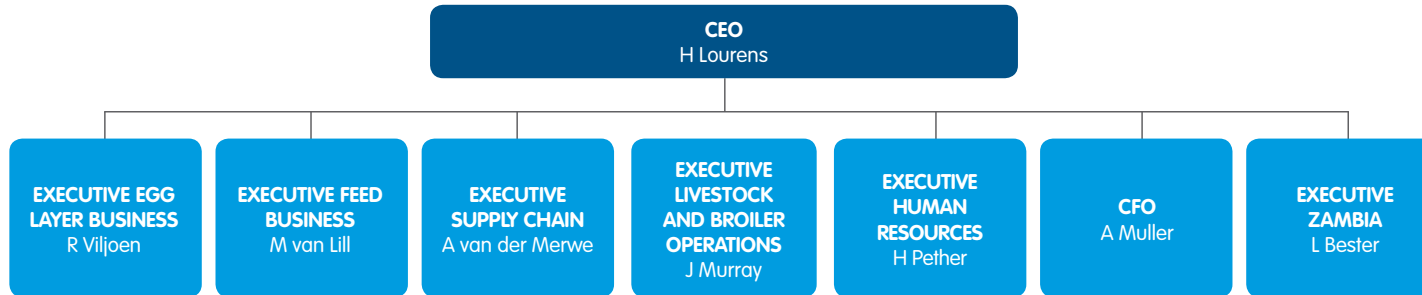
Short term	Medium term
<ul style="list-style-type: none"> • JSE listing • Margin optimisation in South Africa • Value extraction from African investments 	<ul style="list-style-type: none"> • Investment for growth

Strategic intent per business area

Business area	Strategic intent
Animal feeds 	Organic growth of the feeds business Acquisitive growth as opportunities arise
Eggs 	Remain the leading fully integrated national egg business Ensure lowest cost of production Grow sales of layer livestock
Broilers 	Extract value from Gauteng broiler business Exit the broiler meat market in the Western Cape
Related businesses in Africa 	Further expansion on the African continent Zambia Grow the table egg and layer breeder business Uganda Invest in the table egg business Further African opportunities Explore other geographies

Key business enablers

• Significantly reduced cost base
• Rationalised infrastructure
• New egg business model
• Unencumbered assets



CEO – H Lourens (50)

Hennie holds MCom and BProc degrees and has been with Pioneer Foods for 17 years. He joined Pioneer Foods from Transnet during 1996, as a human resources manager. During 2000 Hennie was appointed the general manager for the Sasko grain business of Pioneer Foods. He was appointed as Executive: Agri in 2007.



Executive: Egg Layer Business – R Viljoen (47)

Roelof is a chartered accountant and has 13 years’ service with Pioneer Foods. Roelof served as financial manager and as sales manager of Sasko. He is responsible for the layer egg value chain. Roelof has 14 years’ experience in the food industry, of which six years were spent in the poultry industry.



Executive: Feed Business – M van Lill (43)

Thinus is a professional accountant (SAIPA (PA)). He has been employed in the Nova Foods business since 1997. Thinus has progressed from being a financial manager to becoming the executive responsible for the manufacturing and sales of the feeds value chain.



Executive: Supply Chain – A van der Merwe (42)

Adel has a BCom (Management Accounting) and then joined Pioneer Foods in 1995. She commenced in corporate finance and then moved to central procurement, having gained 15 years’ experience.



Executive: Livestock and Broiler Operations – J Murray (56)

Jimmy has 33 years’ poultry industry experience. Most of his early experience was gained at Rainbow Chickens in various senior farming production roles. Following Rainbow, he spent five years as MD of Hy-Line SA (importer of Hyline grandparent layers), followed by five years as CEO of Grendon (integrated poultry operation in KwaZulu-Natal). Jimmy has a national diploma in Agricultural Extension and Soil Conservation and has been with Pioneer Foods for two years.



Executive: Human Resources – H Pether (45)

Heather has a national diploma in human resources management and has 19 years’ experience in the human resources field. She gained seven years’ service at Pioneer Foods as human resource manager of **Tydstroom** before being appointed as Executive HR for Quantum Foods.



CFO – A Muller (43)

André is a chartered accountant and has 11 years’ service with Pioneer Foods. He started at **Nulaid** as financial manager, followed by his appointment as the farming operations manager for **Nulaid**, a position he held for four years. André spent a year as national sales and marketing manager for **Tydstroom** before being appointed as head of finance for Quantum Foods.



Executive: Zambia – L Bester (54)

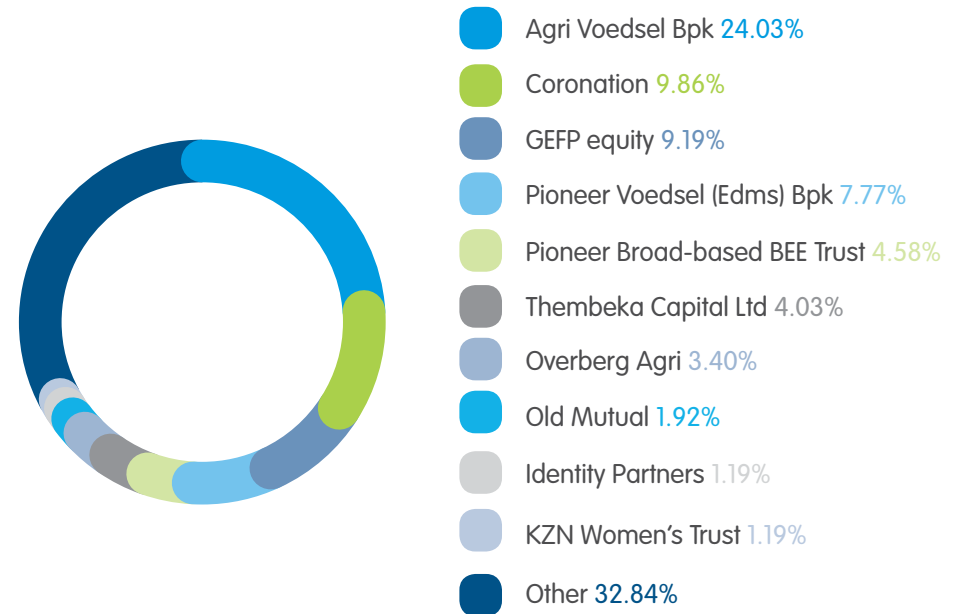
Louis completed his accounting articles with Theron du Toit (now part of PwC), whereafter he joined Pioneer Foods. He started as an internal auditor before becoming financial manager, regional financial manager and moving to general management. Louis has been with the Group for 32 years, of which the last five were in the poultry industry in Zambia.

BOARD OF DIRECTORS



We have a team of talented, experienced and motivated people

MAJOR PIONEER FOODS SHAREHOLDERS: 30 JUNE 2014



Source: Computershare/PSG Capital



Africa



Eggs



Broiler



Animal feeds




NOVA

FEEDS • VOERE

INNOVATION IN ANIMAL NUTRITION


Quantum Foods business in Africa has a historical margin of 12%



Quantum Foods has a full layer value chain in Zambia



Poultry is one of the cheapest sources of protein in South Africa




Quantum Foods owns the Kekkel & Kraai brand

Capacity to grow broilers by **20%**



Quantum Foods owns the strongest egg brand in South Africa – Nulaid



Eggs are the 4th largest animal product sector in South Africa

17% of table egg market in South Africa




Number one supplier of dairy feed in the Western Cape



58% of production absorbed by Tydstroom and Nulaid



Quantum Foods is currently the 2nd largest supplier of table eggs in Zambia



Estimated market share in Uganda
11% of the broiler market
25% of the layer market

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SALIENT FEATURES

Quantum Foods is a diversified and integrated feeds and poultry business providing quality animal protein to selected South African and African markets.

Competitive advantages

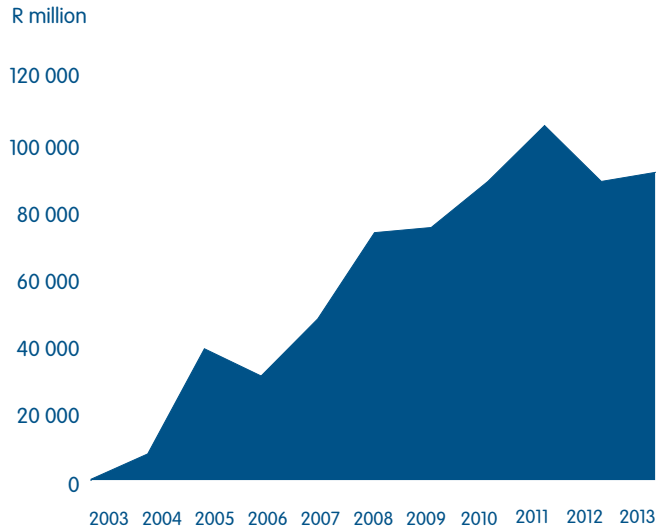
Nulaid brand	The Nulaid brand is the strongest national egg brand in South Africa.
National egg business	Quantum Foods is the only national supplier of eggs, which enables the business to move stock across the country in order to meet demand at the lowest possible cost.
Supply of day-old layer parents	Quantum Foods is one of only three companies in South Africa which can supply day-old layer parents. Due to the large component of own hens, the business is able to use breeding facilities more efficiently than competitors.
Access to superior genetics	Quantum Foods has the licence to supply the Lohmann layer genetics exclusively in South Africa and non-exclusively into sub-Saharan Africa. In the broiler business, Quantum Foods has obtained the right to use throughout its value chain the Cobb500 genetics, one of the two leading broiler breeds globally.
Fully integrated egg and broiler business	Quantum Foods owns the full value chain in its egg and broiler business, from feed supply through to grandparents, breeding, commercial poultry to processing in pack stations and abattoirs. It therefore has the opportunity to extract value at each of these points in the value chain, ensuring low cost of production.
Supplier to award-winning producers of dairy feed	During the past five years, Quantum Foods' customers have won the Western Cape dairy farmer of the year award five times. On a national level, Quantum Foods' customers have won the dairy farmer of the year award twice since 2008. The external feeds business is much less influenced by the cyclical nature of the agricultural business.
Experience in doing business in Africa	Since 1996, Quantum Foods has managed production facilities on the African continent beyond the borders of South Africa and has sold livestock in Namibia, Botswana, Malawi, Angola, Zambia, Uganda and Tanzania.
Capex completed in South Africa	The farming and processing facilities of Quantum Foods are world-class and relatively new. No major plant upgrade is required within the next five years. All strategic capital expenditure projects were completed by September 2013. As a result, Quantum Foods has the capacity to grow its broiler business in Gauteng, its external feed business its layer livestock business, without major capital investment.
Experienced management team	Quantum Foods has an experienced executive and senior management team. They are acknowledged experts in their fields, who deliver papers at industry conferences on a regular basis.

Business profile summaries

Animal feeds

The animal feeds business has been growing strongly, mainly due to the integrated nature of the business (58% of production is absorbed by **Tydstroom** and **Nulaid**) and the technical service offering to clients that assist in strong external volume growth. Eleven-year historical margins for animal feeds are at an average of 5%. No major capital expenditure will be required in the short to medium term.

NOVA/ANIMAL FEEDS

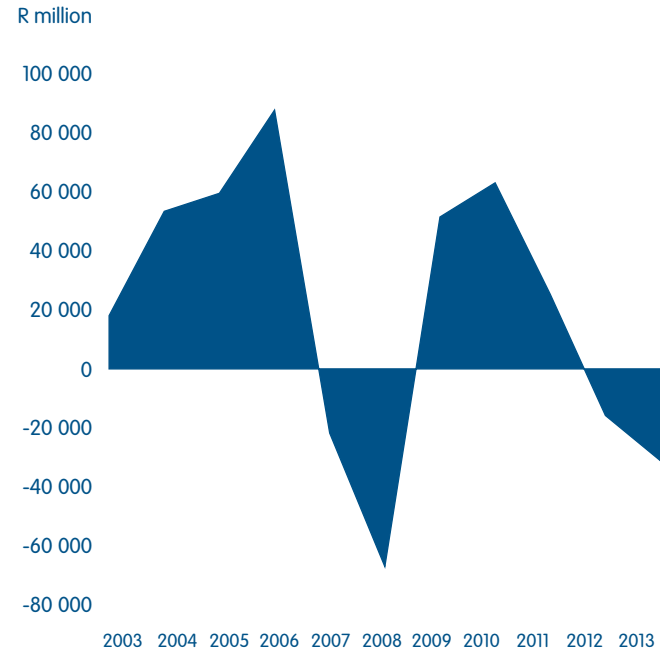


— Operating profit

Eggs

The egg-laying business is cyclical in nature with a historical 11-year average margin of 2%. Quantum Foods owns the strongest egg brand in South Africa and has been able to manage the business successfully through the typical two-to-three-year cycles. The business has been showing an upswing from the low end of a cycle over the past six months.

NULAIID/EGG LAYERS



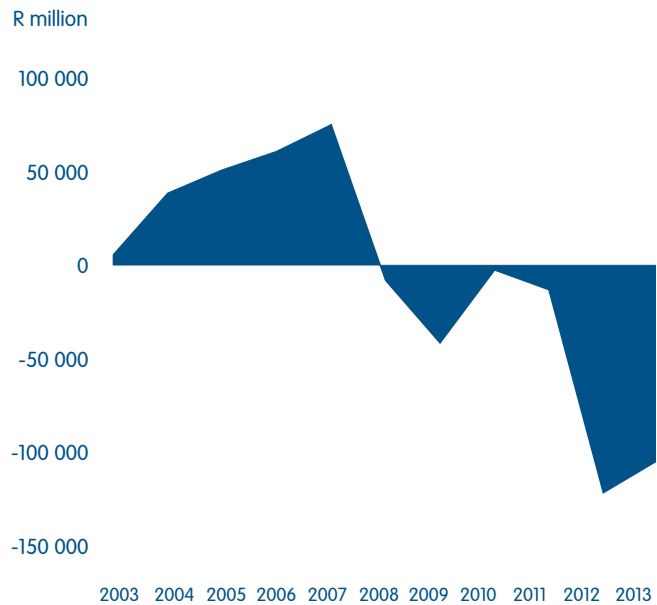
— Operating profit

SALIENT FEATURES CONTINUED

Broilers

The broiler business has been challenged by imports, which has resulted in static prices in the market, and is vulnerable to rising input costs. Quantum Foods has proactively been reducing its exposure to this section of the market, where historical margins have been at an average of -1%.

TYDSTROOM/BROILERS

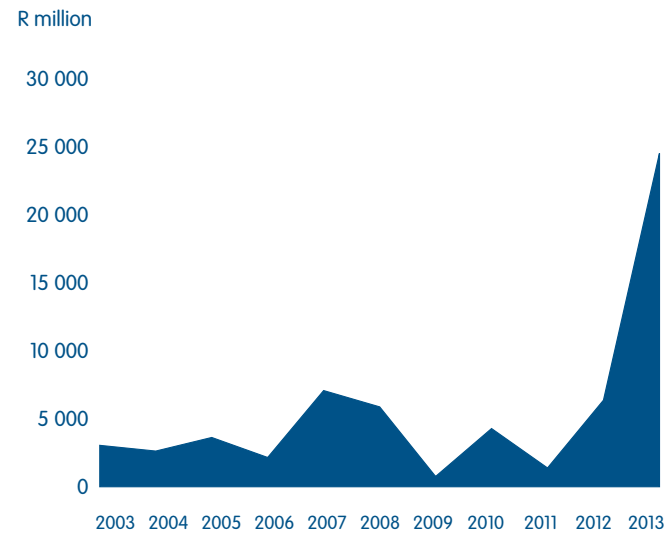


— Operating profit

Africa

Quantum Foods' Africa operations have shown excellent returns. With the recent acquisition of one of the two biggest egg producers in Zambia, the business has the scale and expertise to become a significant player in sub-Saharan Africa. The Quantum Foods business in Africa has a historical margin of 12%.

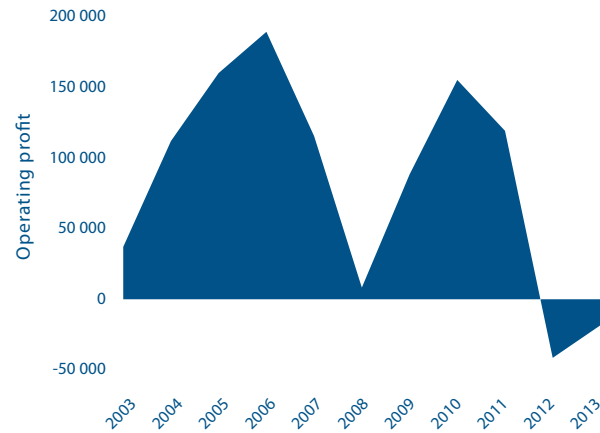
AFRICA



— Operating profit

SALIENT FEATURES CONTINUED

TOTAL QUANTUM FOODS OPERATING PROFIT (R'000)



Although the business remains cyclical, the integrated nature of the business smoothes the severity of the cycles.

Key numbers

Full year 2013	Egg layers	Broilers	Animal feeds	Quantum Foods
Revenue: South Africa	R1 144 million	R1 319 million	R988 million	R3 451 million
Revenue: Zambia and Uganda				R125 million
Domestic volumes				
Eggs	79 540 000 doz			
Liquid egg	5 490 ton			
Day-old chicks	2 729 000			
Point-of-lay hens	2 570 000			
Broilers per week		988 000		
Animal feeds (external)			229 520 ton	
Animal feeds (internal)			317 857 ton	
Market share % (national)	17%	5%	5%	
Brand	Nulaid	Tydstroom Kekkel & Kraai	Nova	
EBITDA				R37 million

OVERVIEW: THE QUANTUM FOODS OPPORTUNITY

Quantum Foods was established (prior to the merger of Sasko and Bokomo into the Pioneer Foods group of today) as a means to benefit from the bran offtake from the Group's wheat mill businesses.

Today Quantum Foods is a self-contained business within the Pioneer Foods Group. It has four focus areas:

- animal feeds;
- eggs;
- broilers; and
- related businesses on the African continent outside South Africa.

Quantum Foods is the owner of the **Nulaid** egg brand, which is the strongest egg brand in South Africa, commanding a premium above its retail competitors. It is the only national supplier of eggs and one of only three companies in South Africa that can supply day-old layer parent stock.

It has a fully integrated egg and broiler business with access to superior genetics in both businesses. It is the owner of the **Tydstroom** and Kekkel & Kraai consumer brands in the chicken meat retail category.

Nova Feeds is a well-established animal feeds business with extensive experience in poultry feed. It is also a leading dairy feed company, supplying many of the top dairy concerns in South Africa.

Due to its historical position in the Pioneer Foods group, Quantum Foods has an independent and well-established operating structure, as well as risk management and governance framework. The experienced management team has more than 15 years' experience in setting up and running primary agricultural businesses on the African continent.

The diversified nature of the four business focus areas limits Quantum Foods' exposure to the volatile broiler meat market in South Africa, which is negatively impacted by imported produce and other imbalances inherent in the industry. The Company is taking steps to guard against import threats by reducing its exposure to the broiler meat market in the Western Cape and increasing its exposure to the egg and feed businesses as well as focusing on further expansion opportunities on the African continent.

Due to Pioneer Foods' refocus to be a branded consumer products business, which does not include primary agriculture, the Board of Pioneer Foods has decided to unbundle Quantum Foods to Pioneer Foods' shareholders by way of a separate listing on the JSE Stock Exchange.

Quantum Foods is an investment for long-term investors seeking an exposure to food production on the African continent. It is a medium-sized business with significant exposure to the production of one of the world's most economical protein sources: eggs. Given the current size, combined with management expertise and exposure to the African continent, it has the ability to expand its egg business on a large scale as the anticipated rise of the African middle class stimulates demand for its products.

Quantum Foods is adequately capitalised and has largely completed its domestic capital expenditure programme. It is in a position to grow its feed, layer livestock, egg and Gauteng broiler business with limited capital expenditure.

Quantum Foods is a stand-alone business within the Pioneer Foods group of companies. Due to the unique nature of the business, it has been operating as a separate business within the Pioneer Foods group for a number of years.

Some of these business units were operating within the Group prior to the merger of Sasko and Bokomo in 1997. With the strategic repositioning of the Pioneer Foods group to a branded consumer product business, there is no longer a natural fit with a business unit in which the financial performance is largely determined by cyclical influences and movements in commodity prices. Consequently, the Board of directors of Pioneer Foods is of the view that Quantum Foods should be unbundled to the Pioneer Foods shareholders.

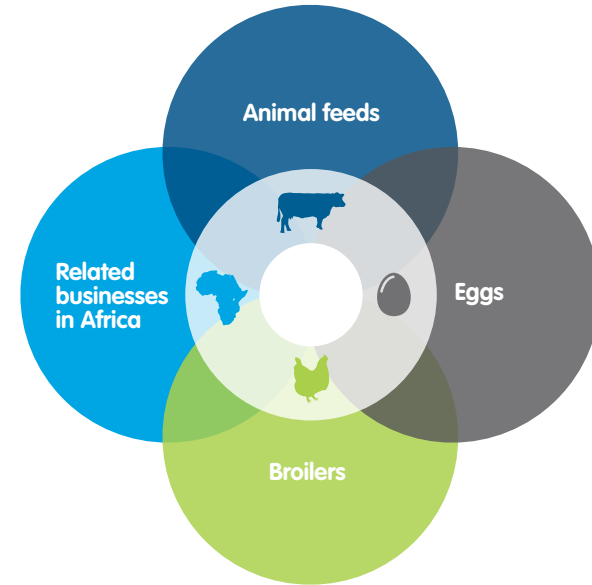
The unbundling of Quantum Foods will have the following positive outcomes:

- It will enable Quantum Foods to develop a shareholder base that has an appetite for a protein/food production business with an expansion drive on the African continent.
- Quantum Foods' management will be allowed to pursue a focused strategy without having to consider the impact on the Pioneer Foods group.
- It will enable Quantum Foods to develop its own management style and culture.
- It will enable Quantum Foods to enter into strategic relationships without having to consider the broader impact on Pioneer Foods.
- It will give Quantum Foods direct access to debt capital and equity markets.
- Management can be appropriately incentivised given the characteristics of the industry.

STRATEGY

Vision statement

Quantum Foods aims to be the leading feed and animal protein business in Africa delivering sustainable returns.



Purpose





To build the best feed and animal protein business through:

- Lowest-cost operations
- Highest farming efficiency
- Most effective selling and customer relationship management

Quantum Foods' focus areas

Short term	Medium term
<ul style="list-style-type: none"> • JSE listing margin • Margin optimisation in South Africa • Value extraction from investments in Africa 	<ul style="list-style-type: none"> • Investment for growth

Strategic intent per business area

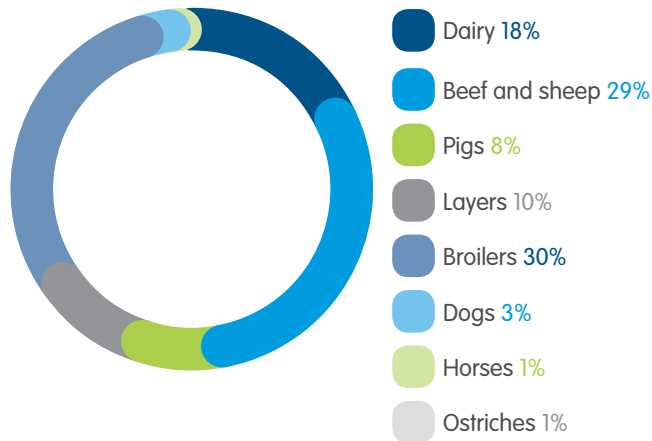
Business area	Strategic intent
Animal feeds 	Organic growth of the feeds business Acquisitive growth as opportunities arise
Eggs 	Remain the leading fully integrated national egg business Ensure lowest cost of production Grow sales of layer livestock
Broilers 	Extract value from Gauteng broiler business Exit the broiler meat market in the Western Cape
Related businesses in Africa 	Further expansion on the African continent Zambia Grow the table egg and layer breeder business Uganda Invest in the table egg business Further opportunities in Africa Explore other geographies

INDUSTRY OVERVIEW: SOUTH AFRICA

Animal feeds

South Africa has a large animal feed industry, with members of Animal Feed Manufacturers Association (AFMA) of South Africa selling over 6 million tons of feed. South African feed sales on a per industry basis are set out in the table below. During the 2012/13 reporting period, national feed sales showed a significant slowdown, growing by only 0.54% to 6 176 151 tons. According to AFMA, this was anticipated, given the challenges experienced by the South African poultry industry over the past number of years, as poultry imports peaked in 2012.

SA NATIONAL FEED SALES 2012/13



Source: AFMA Chairman's report 2012/13

The picture looks somewhat better for the period from April 2013 to October 2013 during which overall growth of 2.9% was achieved when compared to the same period in 2012.

AFMA members	2011/2012	2012/2013	% Change
Dairy	865 846	875 758	1.1
Beef and sheep	730 394	753 039	3.1
Pigs	194 531	229 519	18.0
Layers	861 482	888 328	3.1
Broilers	2 765 740	2 721 295	(1.6)
Broiler breeder	489 381	469 584	(4.0)
Horses	34 776	34 714	(0.2)
Dogs	16 564	20 732	25.2
Ostriches	15 684	11 465	(26.9)
Other mixtures	16 978	24 311	43.2
Aquaculture	2 718	3 727	37.1
Concentrates	148 727	143 679	(3.4)
Total	6 142 821	6 176 151	0.5

Source: AFMA Feed Sale Statistics April 2013 – October 2013

According to AFMA, a contributing factor to increases in food and feed prices in recent years has been the policy of the United States government to convert maize to fuel. Currently, 130 million tons of US maize is converted to ethanol and is thus being channelled away from the food chain. This has largely been priced into the market today but at the time resulted in prices setting themselves at a new level.

Crude oil is also a major cost component of crop production, and the increase in oil prices has affected the prices of fertilizers, pesticides, processing and transport. In addition, climate change is intensifying, with the frequency of droughts and floods becoming problematic.

INDUSTRY OVERVIEW: SOUTH AFRICA CONTINUED

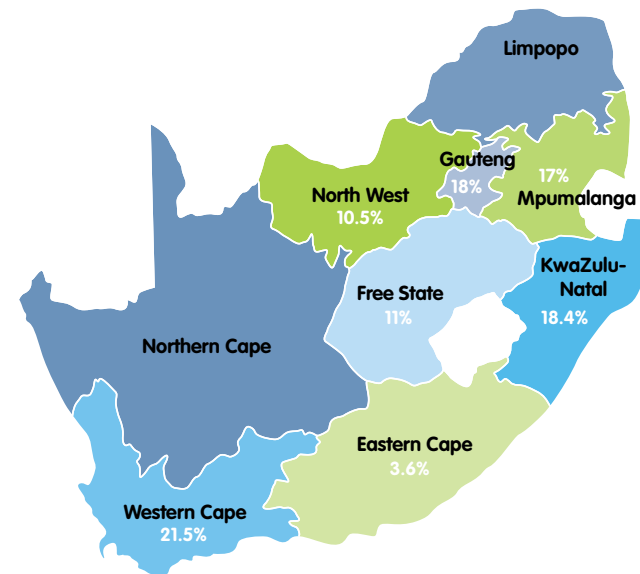
According to the chairman of AFMA, an agricultural revolution is required to ease raw material prices for feed. He stated in his report for the 2012/13 year that there is sufficient land available to feed the world for the foreseeable future, provided the investment in agriculture required to develop these resources is made. Africa can play a significant role in this regard. Research and development aimed at increasing yields in crop production is critical for success. Increased grain and oilseed production, and the associated soybean crushing capacity, will result in African countries becoming less reliant on grain and protein imports.

The challenges that face the local feed industry are an uncertain regulatory environment with regard to feed legislation and international trade, the international supply of quality grain and oilseed, and commodity price volatility.

The South African feed and livestock industry's access to maize was negatively affected by two governmental factors. Firstly, government's Genetic Resource Policy and, secondly, the slow reaction time to market requirements by industry role players in the genetic resources market. This has denied the South African feed and livestock industry access to genetically modified grain markets, such as Brazil and Argentina, and forced the industry to import maize from other regions, such as Eastern Europe and, in particular, Ukraine and Russia, at a premium, thereby adding to cost and, eventually, food prices in general.

Feed sales by AFMA members per province from 1 April 2012 to 31 March 2013 are shown in the map. AFMA members sold 144 586 tons in other countries in the Southern African Development Community (SADC) during the same period. This is an increase of 20 796 tons during the prior reporting period. If the 2012/13 sales are added to the South African sales for the same period, they amount to 2.7%.

FEED SALES PER PROVINCE (1 APRIL 2012 – 31 MARCH 2013)



Note: No figures are provided for Limpopo or the Northern Cape.

Source: AFMA

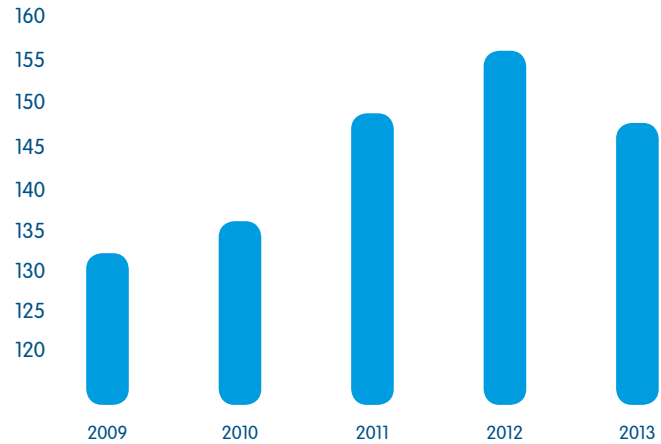
Eggs

At a gross turnover of R7.9 billion at producer level, eggs are the fourth largest animal product sector in South Africa. The total value of eggs at retail level was R8.2 billion in 2012, which is 3.3% of total food retail of R250 billion.

According to the South African Poultry Association (SAPA), eggs are very economical when compared with other sources of protein, as consumers can purchase as little as one egg at a time. Egg prices reached R13.77 per kg during 2012. This compared to R13.98 per kg for broiler meat (at farm gate prices), R18.65 per kg for pork (at abattoir prices) and approximately R25.00 to R29.75 per kg for red meat at abattoir prices. Eggs thus remain one of the cheapest broad-based food proteins available to the South African consumer.

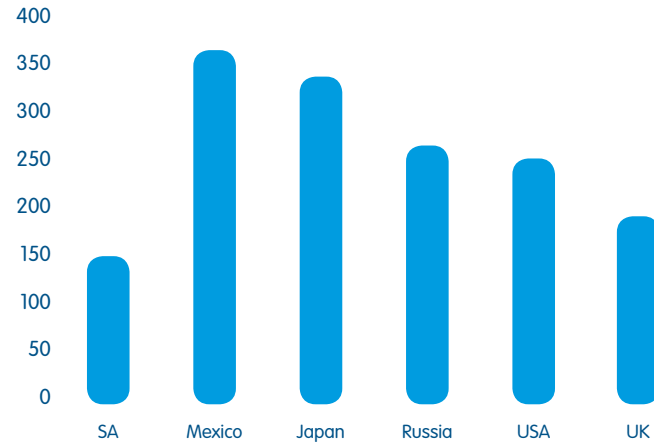
Annual per capita egg consumption has increased steadily over the past five years, from 135 eggs in 2009 to 147 eggs in 2013 (see table below). The gross turnover increased from R6.9 billion in 2009 to R8.5 billion in 2013.

PER CAPITA EGG CONSUMPTION (SOUTH AFRICA)



Source: SAPA

PER CAPITA EGG CONSUMPTION 2011



Source: SAPA

Considerable scope appears to exist for the local industry, given that per capita consumption during 2011 was much higher in countries such as Mexico (358), Japan (329), Russia (260), the USA (247) and the UK (189).

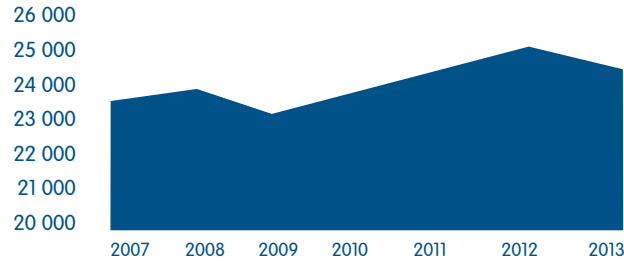
Factors that drive higher egg consumption:

- Per capita income growth
- Pricing against competitive sources of protein
- Availability
- Dietary preferences

INDUSTRY OVERVIEW: SOUTH AFRICA CONTINUED

The average number of egg-laying hens in South Africa is on a downward trend from a high in 2012, boding well for the remaining players.

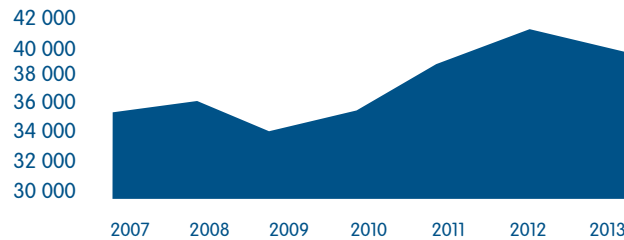
AVERAGE LAYERS PER ANNUM ('000)



Source: SAPA

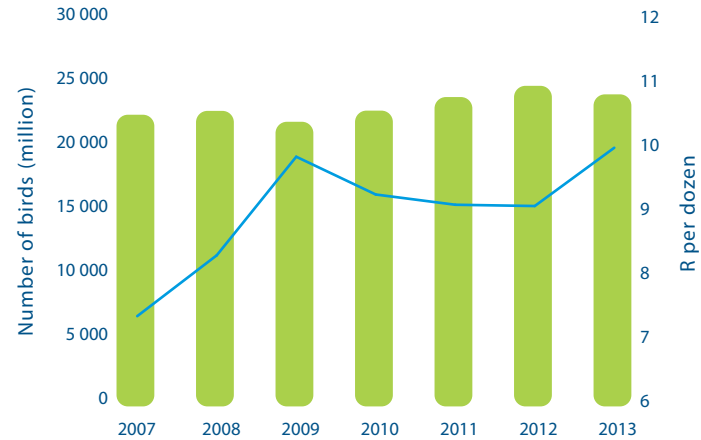
The average flock of 24.371 million layers projected for 2013 is 665 640 (-2.66%) less than the 2012 flock. As a result, the forecast production of 402 000 cases per week for the 12 months of 2013 will be 10 060 (-2.44%) lower than production during the 12 months of 2012 (see below). During this period prices of eggs increased by approximately 10%.

AVERAGE CASES OF EGGS PRODUCED PER WEEK PER ANNUM ('000)



Source: SAPA

HEN NUMBERS AND EGG PRICES



— Producer price

● Layers

From December 2010 to February 2013, there was positive growth in egg production and the producer price for eggs decreased, relative to the overall Producer Price Index (PPI). From March 2013 to November 2013, egg production showed negative growth, while the producer price of eggs indicated a positive growth trend from October 2012 to April 2013, compared to the previous year.

The industry is also affected by movements in feed prices, which in turn are affected mostly by movements in maize prices. A huge maize crop is expected in South Africa and consequently maize prices have decreased from record highs earlier this year.

South African international trade in table eggs and egg product is off a low base and could indicate a growth area for producers. Imports contributed 0.06% and exports 0.7% of the total egg market. Of the 3 254 tons exported, table eggs contributed 43%, the balance being egg product. The destinations of egg exports were mainly Mozambique (65%), Angola (28%) and Zimbabwe (6%). South Africa is protected against the importation of eggs from outside the African continent due to the inherent fresh requirement of the product. At this stage, African countries cannot produce competitively to export to South Africa.

There are no egg producers listed on the JSE.

Broilers (poultry meat)

Poultry is one of the cheapest sources of protein in South Africa. As the population grows and individuals move into higher Living Standard Measurement (LSM) (from 1–3 to 4–6), demand is anticipated to increase accordingly.¹

The South African poultry industry is fragmented, with 75% of the market split between seven producers and the remaining 25% shared between 50 smaller producers. Local consumption of 37 kg of chicken per person per year is above the global average of 15 kg.

Local poultry producers face a challenging future as chicken prices have remained static over the last six years, while feed costs have increased by 18% and electricity costs have trebled. Poultry meat prices have, in fact, decreased in real terms, as they have lagged the increases in the Consumer Price Index (CPI) and feed costs over this period. Added to this, poultry production has increased by 5% per annum since 2004 and chicken imports have increased by 12% per annum. Returns on capital expenditure during this period have therefore been muted for the industry as a whole.

¹ FNB Securities.

² 'Bone-in' chicken portions such as drumsticks and wings account for 70% of local production and 54% of imports (Source: FNB Securities).

³ The International Trade Administration Commission (ITAC) initiated an investigation in October 2013 to probe allegations that the United Kingdom, Germany and the Netherlands had been dumping their bone-in chicken portions.

This conundrum for the broiler industry has been caused by two main factors:

- On the supply side there has been a huge increase in domestic production since 2007. Furthermore, there has been a significant increase in imports from South America and Europe. This increase in supply has put the ability of broiler producers to increase prices under severe pressure.
- The second factor relates to cost pressure. Prices of maize and soybean meal (the major inputs into broiler feed) have reached record highs due to demand pressure as well as weather patterns.

The cost pressure that could not be recovered in the market due to the supply situation has led to a margin squeeze. This margin squeeze has been particularly severe in areas where maize is not grown and areas that are close to imports.

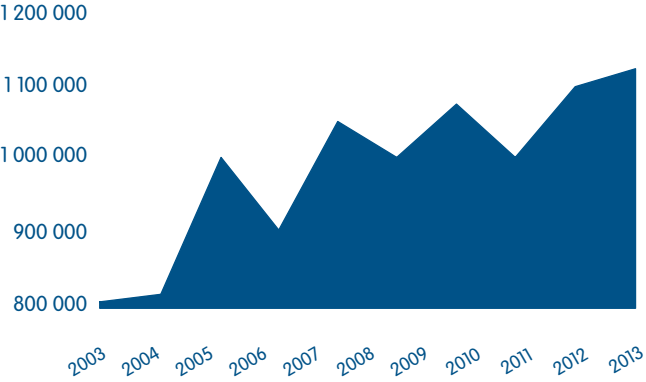
The situation is, however, slowly recovering.

In 2013, the Minister of Trade and Industry announced an average 8.75% import tariff increase that became effective during September of that year. However, these tariffs do not apply to imports from Europe due to the existence of a free-trade agreement. The 'bone-in'² tariff increase from 17% to 37% is lower than producers requested. As a consequence, Europe now accounts for approximately 80% of bone-in imports.³ Anti-dumping provisions against European dumping are being investigated.

Domestic production peaked during 2013 and is in the process of declining. This is due to the number of smaller and medium-sized broiler businesses that have decided to exit the market due to financial pressures.

INDUSTRY OVERVIEW: REST OF AFRICA

TOTAL BROILERS SLAUGHTERED PER ANNUM ('000)

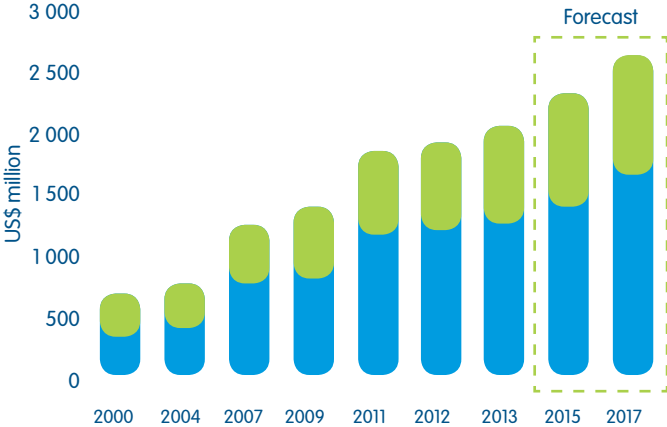


Source: SAPA

The Department of Agriculture, Forestry and Fisheries intends setting a 10% maximum brine-based injection level for whole retail chicken and a 15% maximum injection level for individual pieces. This will have a negative impact on those producers who invested in this technology over the last 10 years as their effectiveness will reduce significantly. Prior to the proposed ban, injection rates were as high as 30% of weight.

The Africa marketplace is one that has attracted much attention since the economic crisis of 2008. This can mainly be attributed to the fact that the continent's US\$2 trillion economy is growing faster than the economies of all other continents. About a third of the 54 African countries is experiencing annual growth in gross domestic product (GDP) in excess of 6%. Only 24% of the growth from 2000 to 2008 is attributable to natural resources. As a result, many companies across the world see the continent as the next growth frontier.

AFRICA'S ECONOMIC OUTPUT



- North Africa
- Sub-Saharan Africa

Source: IMF World Economic Outlook Database, Ernst & Young analysis

Numerous reasons have been cited for this, but those most relevant to Quantum Foods can be summarised as follows:⁴

Fact	Specific	Relevance to Quantum Foods
Africa contains most of the world's uncultivated arable land	The continent possesses 60% of the world's farmland.	The continued commercialisation of farming in Africa (moving away from subsistence farming) will result in the larger-scale farming of maize and soya and an increased global supply, which will provide downward pressure on the prices of these primary input costs. As Quantum Foods expands in Africa, this will benefit Quantum's long-term profitability through margin expansion.
Africa is a large market	The land mass of Africa is greater than the sum total of the land mass of the United States of America, China, India and most of Europe. Africa has a population of over 1 billion people, second only to Asia with strong economic growth prospects.	Africa has many mouths to feed. With above-average economic growth compared to the rest of the world will come increased disposable income and a greater spending power per capita. Individuals will demand a greater quality and better-tasting form of protein and this will provide upside demand pressure on poultry meat and eggs. Quantum Foods will benefit from this demand pressure in Africa through increased demand for its products.
Africa is increasingly stable	In many countries, dictatorships are slowly becoming a thing of the past, more democratic governments are forming, a number of privatisations are taking place and governments have an economic growth focus. Debt and inflation have decreased significantly as governments are now widely aligned with the market economics.	Quantum Foods sees significant opportunities in Africa outside South Africa. However, Quantum Foods will only make investments and spend capital in countries where it is assured of its property rights, where it can do business with relative ease, where the underlying economy is stable with great growth prospects, and where Quantum Foods can achieve an above-average return on capital.
50% of Africans will be living in cities by 2030		Higher rates of urbanisation result in higher disposable incomes and more consumer spending. This results in preference changes for protein products consumption, which results in upward demand for poultry meat and egg products as a form of protein choice. Quantum Foods will benefit from this demand pressure in African cities through increased demand for its products.
Africa will soon have the world's largest workforce	By 2050, Africans will account for 25% of the world's workers and, although lacking sufficient skills at first, those workers will be supporting fewer dependants than elsewhere.	As per capita income increases, people will start demanding and be able to afford better-tasting and quality protein products. This will provide demand pressure on poultry meat and egg products as a form of protein. Quantum Foods will benefit from this demand pressure in African cities through increased demand for its products.

⁴ Much of the content in this section is extracted from an article by Jonathan Berman published in the Harvard Business Review of October 2013.

Fact	Specific	Relevance to Quantum Foods
Intra-African trade is in its infancy	Only 11% of Africa’s trade takes place within its own borders, the lowest on any continent.	Many African countries protect their borders from trade and promote local producers. This provides Quantum Foods with comfort that, in the countries where it sees great opportunities, the local industries are protected from imports and dumping, which result in margin protection and profitability.
Governments are spending on education	On average, 20% of government spending in Africa is on education. This is almost twice the 11% of what OECD governments spend on average.	The higher spending on education should ultimately have a positive effect on economic growth, and per capita income will increase as a consequence. This should have a positive effect on the demand for protein and egg consumption.

Our research has shown that Quantum Foods is one of few, if not the only egg producer, that has the scale and expertise to develop a sizeable commercial egg business in sub-Saharan Africa.

The critical question then is: Which markets are the most attractive from an investment perspective? Typically, markets with an optimal blend between stability and growth potential are ideal:

Risk assessment factors	
1	Quality of governance
2	Level of democracy
3	Strength of institutions
4	Level of corruption
5	Ease of doing business
6	Strength of financial markets

Opportunity assessment factors	
1	Population size
2	Size of largest cities
3	GDP
4	GDP growth trends
5	Investment in infrastructure

Risk	How we approach/mitigate this
Raw material prices (maize and soy meal) are subject to commodity price trends, which are mainly driven by climate and exchange rates – ultimately impacting the feed prices for chickens.	<ul style="list-style-type: none"> - Judicious procurement and the use of trading partners
Oversupply of chickens or eggs in the market can impact margins.	<ul style="list-style-type: none"> - Develop the ability to adjust production output according to market forces - Improve our ability to predict market trends proactively
Changes in regulation can have a negative impact on the competitiveness of the industry.	<ul style="list-style-type: none"> - Lobby government actively through industry associations
The business is dependent on individual buying power. There is a direct correlation between an increase in per capita income and consumption of more protein.	<ul style="list-style-type: none"> - Ability to improve cost-efficient production continuously
Diseases	<ul style="list-style-type: none"> - Geographical spread of production - Association with Avimune veterinary services - Biosecurity protocols

DIVISIONAL REVIEW: SOUTH AFRICA – ANIMAL FEEDS

Animal feeds value chain

The Quantum Foods animal feeds value chain operates under the brand **Nova Feeds**. It has a market share in excess of 25% in the Western Cape⁶ and an estimated market share of 11% in Gauteng and the North West province.⁷ The major players in the South African feed industry in order of size are Meadow Feeds (owned by Astral Foods), Epol (owned by RCL Foods), Afgri Feeds (owned by Afgri), **Nova Feeds** (owned by Quantum Foods) and Nutri Feeds (owned by Country Bird Holdings).

The key raw material input and cost drivers in feed production include maize and soybean meal, which together comprise approximately 65% of raw material costs. The procurement of maize and soybean meal is done on the local and international markets. As a result, the financial performance of the business is largely affected by the commodity acquisition and exchange rate hedging positions it takes.

Nova Feeds has expertise in the production of monogastric and ruminant feeds. The main feed categories produced include broiler, layer, dairy, sheep, ostrich and pig feeds.

Nova Feeds' biggest clients, accounting for approximately 58% of its production, are **Tydstroom** and **Nulaid**.

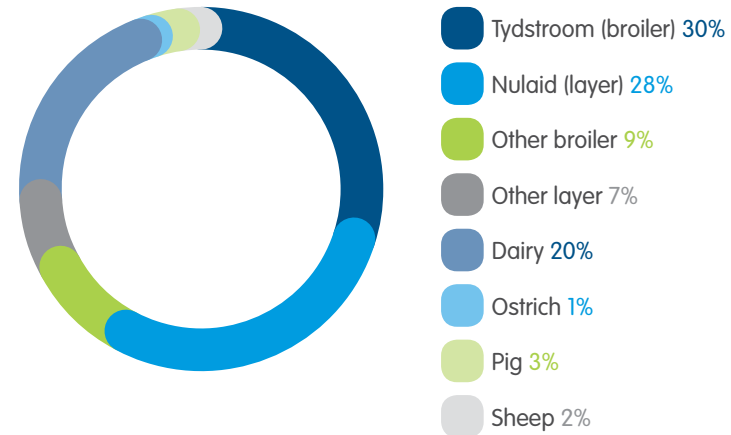
Approximately 42% of the Company's feed sales are to external customers, with nearly 20% of feed sales to dairy farmers, who require custom-made feed. **Nova Feeds** is the number one supplier of dairy feed in the Western Cape and the Company services some of the country's top dairy farmers.

⁶ The Company has two factories in the Western Cape (Malmesbury and George) and one factory in Gauteng.

⁷ This amounts to approximately 8.5% of all sales in South Africa by AFMA members.

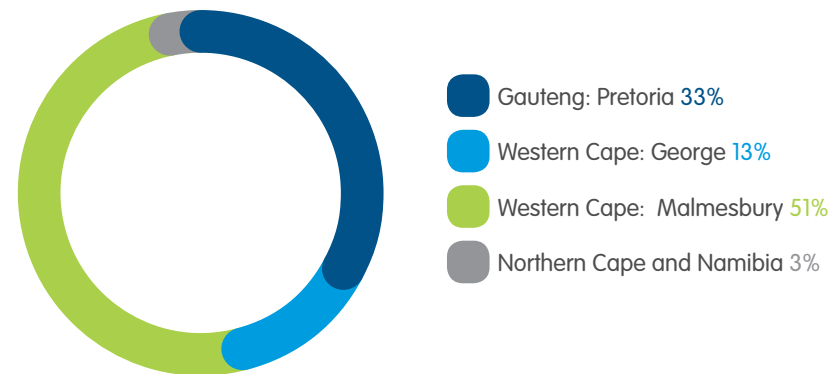
A breakdown of the **Nova Feeds'** customers per industry segment is set out below:

TOTAL SALES BY ANIMAL CATEGORY



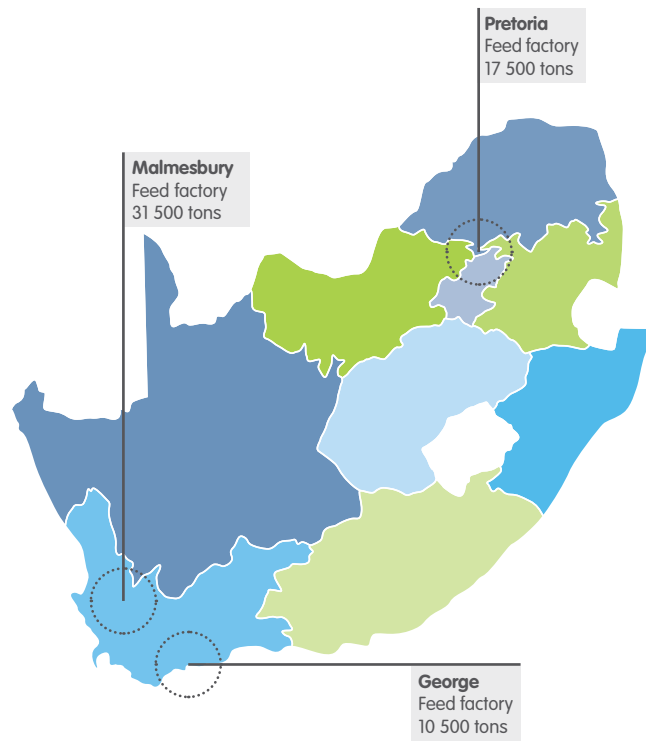
Total monthly sales amount to 45 800 tons spread geographically as follows:

SALES PER REGION



The **Nova Feeds**’ marketing strategy is based on customer intimacy, combined with superior technical input and service. This includes farm visits, information days and sponsorships of specific industry events, such as the Western Cape Master Dairyman competition. Exhibition stands are also set up at industry events such as AVI Africa (the biggest poultry expo in Africa) to attract potential customers.

The Company believes that the brand can only command a small or limited premium, if any. This is due to the fact that customers expect the best quality at competitive prices. A very strong technical and service-orientated business focus and strategy has therefore been implemented to promote quality at market-related prices as a differentiating factor. This strategy includes a well-defined service offering to customers through highly skilled technical advisors and by the segmentation of customers into defined service packages.



Animal feeds strategy

OBJECTIVE 1: Grow the feeds business

Nova Feeds can achieve 10% growth without additional capital by using plants at full capacity. Growth is focused on various aspects to unlock the most value for the business. These include an expansion of the product offering, increasing external sales volumes and optimisation of the product mix in order to grow profitability.

Growth opportunities and strategies are different for the various geographical areas, as well as for the various animal feed categories. An integral part of the business strategy is focused on technical support and customer relationship management.

The business is focused on optimal feed performance and employs highly skilled technical specialists to ensure continuous improvement through dedicated focus on technological advances, world best practices and research and development.

As a large broiler-producing area in South Africa, the Gauteng region has been identified as one of the main growth opportunities.

Other opportunities:

- Dairy feeds in the Western Cape (Overberg region)
- Pig feeds in the Western Cape
- Pig and dairy feeds in Gauteng
- Bagged feed products.

To further support growth, a large portion of capital investment was allocated for the building of additional silo capacity. This has ensured that our operational units have become more flexible and are able to use alternative raw materials when opportunities arise, while also creating additional storage capacity.

Quantum Foods has also entered into a supply agreement with BTG Pactual for the supply of physical maize. This agreement ensures that the sourcing of physical maize for the next season has been secured and enables Quantum Foods to focus on hedging strategies and opportunities.

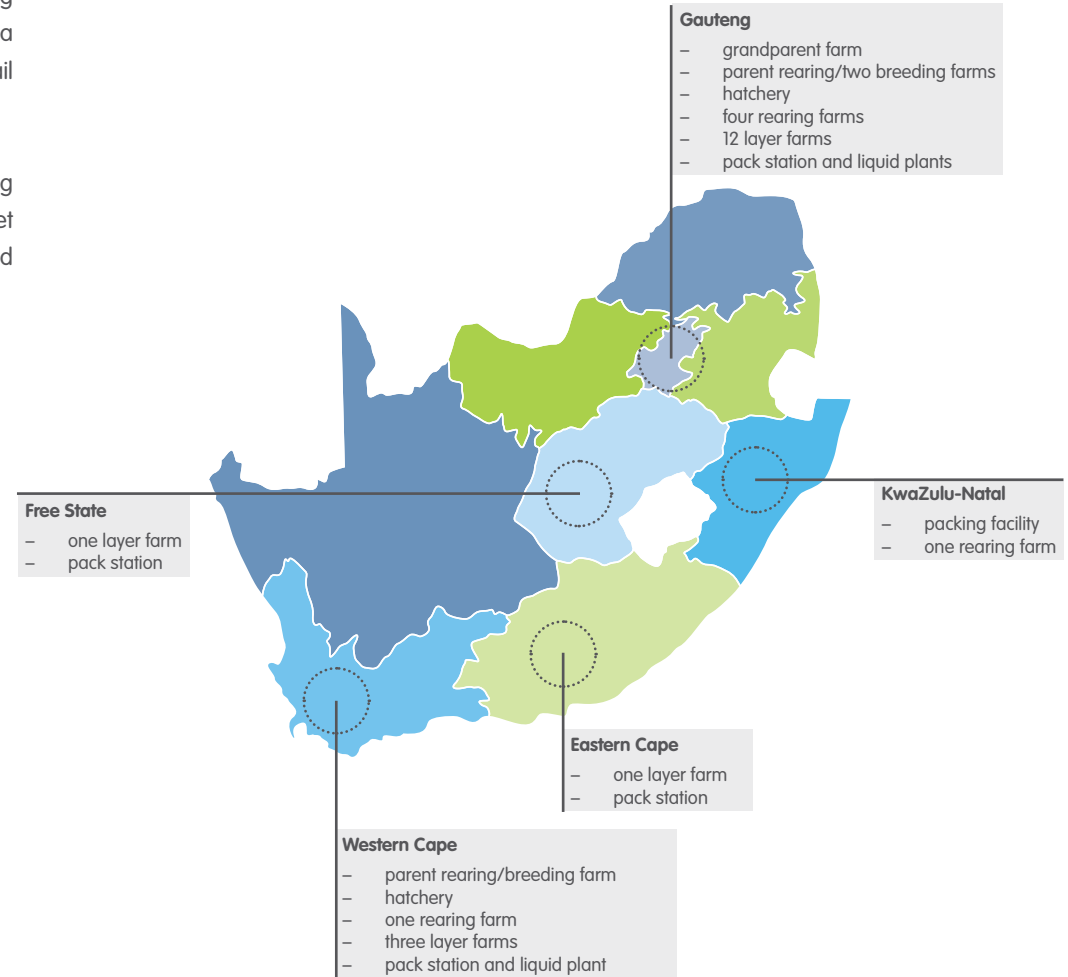
DIVISIONAL REVIEW: SOUTH AFRICA – EGGS

Eggs value chain

Quantum Foods' egg-layer value chain operates under the **Nulaid** brand. It is the largest egg producer in South Africa, with a share of approximately 17% of the table egg market in South Africa and commands a premium of up to R0.30 per dozen against competitive brands on the retail shelf. **Nulaid** also produces about 500 tons of liquid egg per month.

Nulaid's own production is approximately 6.2 million dozen, with contract producers supplying approximately 0.6 million dozen per month. It has a 33% market share of the day-old pullet market and a 22% share of the point-of-lay market. The layer livestock business is less exposed to cyclical variations than the egg business.

The business is operationally well represented across South Africa.



Nulaid is the number one egg brand in South Africa and the only national egg producer that also does its own distribution in South Africa. Approximately 48% of all **Nulaid's** table egg sales is to the three leading retailers in South Africa, namely Shoprite/Checkers, Pick n Pay and Spar. Of this, 82% is sold under the **Nulaid** brand, with the balance as house brands and unbranded bakery sales. Eggs are also sold as ungraded under the Quantum brand. Liquid egg is supplied mostly to industrial and bakery customers for use in baking and the manufacture of mayonnaise. Sales in the layer value chain comprise 80% for table eggs, 12% for breeder livestock sales and 8% for liquid eggs.

Nulaid holds the distribution licence for Lohmann genetics in most African countries south of the Sahara.⁸ The Lohmann licence gives Quantum Foods access to imports of world-class pedigree grandparent stock from Germany. This stock is used for the reproduction of parent stock that, in turn, produces commercial layer hens reared for the production of table eggs. Under this operation, **Nulaid** sells layer parent stock, day-old pullets and point-of-lay hens when they are 18 weeks old. Sales outside South Africa are to the Ugandan and Zambian operations as well as exports to Namibia, Botswana and Malawi.⁹

Nulaid's marketing is driven by a campaign of 'the fresher the better' developed in conjunction with Saatchi & Saatchi. Packaging and delivery trucks are branded accordingly.

As a fully integrated egg business, **Nulaid** has the ability to maximise value in the supply chain as the cost of production is lower due to access to its own feed, pullets and point-of-lay hens at cost.

Eggs strategy

OBJECTIVE 1: Remain the leading fully integrated national egg business

The business will maintain its position as the only fully integrated competitor in the egg value chain. By doing this, the business is able to ensure that profit is captured in the supply of day-old pullets and point-of-lay hens within the organisation. **Nulaid** plans to maintain its market share of between 15% and 20% of South African production. Growth opportunities will be pursued at the correct time during the egg cycle by renting farms or renewing current older facilities (with higher capacity).

OBJECTIVE 2: Ensure lowest possible cost of production

With a price-driven commodity such as eggs it is of paramount importance to ensure lowest possible cost of production. Quantum Foods will do this by ensuring optimal flock health through specific vaccination programmes, biosecurity measures and farm practices. Capital expenditure in the business will also be geared towards ensuring optimal facilities in the pack stations and on farms. The broad geographical footprint of the egg layer farms also enables Quantum Foods to move eggs from low-cost production areas to higher-cost production areas at a cost advantage.

OBJECTIVE 3: Grow sales of layer livestock

Quantum Foods has the production capacity and the rights to sell Lohmann parent stock in many countries in sub-Saharan Africa. The expansion of this part of the business on the African continent is a high priority.

The Company has a significant market share in the sale of pullets and point-of-lay hens. This revenue stream is more stable than the table egg revenue stream. Capital has been invested to improve efficiencies in the rearing of birds. Quantum Foods will continue to utilise rearing and breeding facilities optimally.

⁸ Lohmann Breeders SA (Pty) Ltd is 100% held by Quantum Foods.

⁹ Net revenue from external live bird sales approximates R120 million per annum.

Broiler value chain

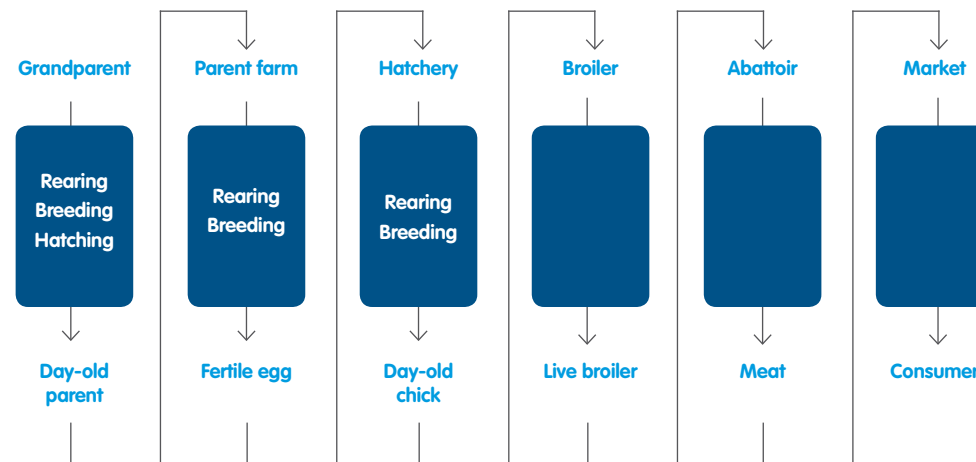
Quantum Foods’ broiler value chain operates under the **Tydstroom** brand. It has a market share of approximately 4% in the production of poultry meat and 3% of the overall retail market for poultry meat. The difference between these percentages is due to poultry meat imports. The operation uses birds of the Cobb-Vantress genetics. These breeds are known for very good feed conversion rates as well as an excellent growth rate per day.

The strategy for the business is focused per geographic area of operation. In the Western Cape, the broiler business is seen as an extension of the feed business. The strategy is to focus on supplying the market with live birds, thereby locking in feed business and the sale of day-old chicks. Production will therefore cease at the live-broiler stage in the value chain depicted below:

It has been decided that the company’s abattoir in the Western Cape will close.

In Gauteng, the Company has the asset and skill base to exploit its proximity to markets and the market forces that prevail in the region to drive business through the entire value chain. The slaughter numbers are much lower than in the current Western Cape operation, allowing the business the flexibility to supply selected markets.

Quantum Foods owns the Kekkel & Kraai brand which is franchised as independently owned retail stores. The stores are similar to small butcheries that sell broiler meat and account for about one-third of **Tydstroom** sales.



Broiler strategy

The strategy in the broiler business differs by region.

OBJECTIVE 1: Extract value from the Gauteng business

The strategy in Gauteng is to improve margins by focusing more on fresh products and products prepared according to specific recipes and to limit the production of frozen chicken which is subject to import competition. Sales to food services customers will be increased. Products supplied to this market are produced according to customer specifications and subject to specific quality audits. These products are therefore also not as easy to import. **Tydstream** currently supplies Nando's, Barcelos and Galitos.

The decision to grow the Gauteng business is underpinned by the following factors:

- Maize costs are lower than in the Western Cape.
- The retail market is undersupplied with fresh product.
- A large food service market exists that traditionally has more stable margins.
- A large retail market exists with more selling opportunities.

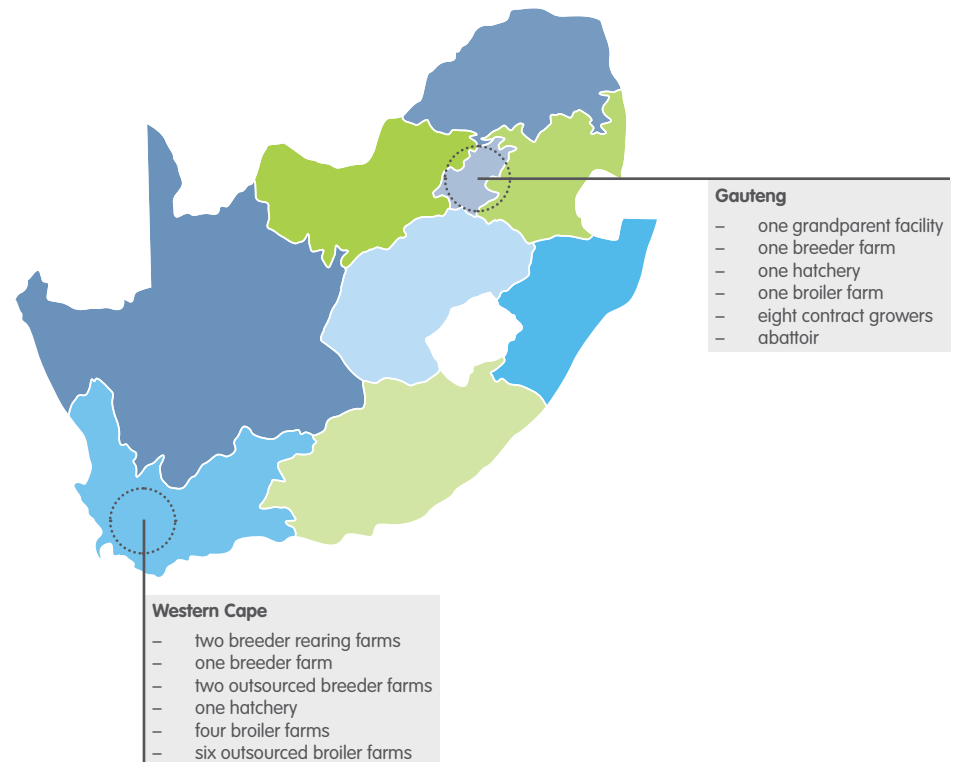
The business has the capacity to grow by approximately 20% without major capital expenditure.

Due to the performance of this operation it remains under strategic review, which will be finalised in the 2015 financial year.

OBJECTIVE 2: Exit the broiler meat market in the Western Cape

Quantum Foods has decided to exit the broiler meat market in the Western Cape, but will remain in the business of selling live broilers to other abattoirs. To effect this, Quantum Foods has concluded a long-term agreement with Astral to supply the County Fair abattoir with 550 000 broilers per week. Quantum Foods has the asset base to increase the number of live broilers produced by 20%.

This strategy will enable Quantum Foods to maintain the stable margins that are generated by the internal transfer of animal feeds and day-old chicks at market-related prices to the broiler farms. Quantum Foods will have no market risk for broiler meat in the Western Cape.



DIVISIONAL REVIEW: REST OF AFRICA

Zambia

Quantum Foods has recently acquired one of the two biggest egg producers in Zambia and now has the full layer value chain in Zambia, from feeds to eggs. Its operations comprise parent rearing, parent laying, hatchery, feed mixing and commercial layer facilities. Quantum Foods operates a distribution depot in Lusaka from which fast-moving consumer goods are distributed to the wholesale and retail trade. The revenue growth from the distribution centre has been exceptional since its inception three years ago and is contributing positively to the Quantum Foods bottom line.

The approximate size of the Zambian poultry market per month is 3 400 000 for day-old broilers and 180 000 for day-old layers. Management estimates the market share for Bokomo Zambia at approximately 7% for broilers and 50% for layers. The broiler market has been growing by about 18% and the layer market by about 20% per annum in recent years.

Quantum Foods acquired the business of Mega Eggs (table egg producer) in the Copperbelt in March 2013 for a purchase price of US\$15 million. Operating profit is expected to be R22 million in the financial year ending 30 September 2014. This business has performed in line with expectations since the date of acquisition. The business is located close to the market and has 220 000 layer hens in production. Other reasons for this investment include:

- Increased integration in the layer value chain for Bokomo Zambia, with the opportunity to supply day-old chicks from the current operation in Lusaka
- The Zambian business having considerable scope for growth
- Diversification of the Quantum Foods' revenue base

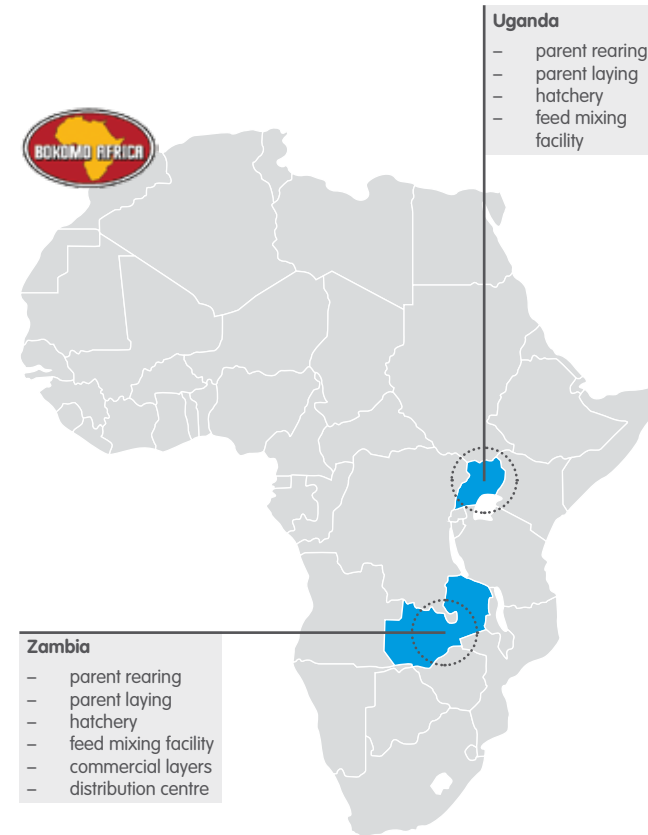
Because Zambia is landlocked, the country presents a measure of protection from poultry imports due to higher cost of transportation. Quantum Foods is currently the second biggest supplier of table eggs in Zambia. Furthermore, there is sufficient demand for day-old pullets and broilers to expand its production.

The egg business, in particular, is achieving high returns, hence the strategy to extract the full value from this business. The immediate approach is to maximise the production facilities using the existing infrastructure by converting the existing rearing facilities to laying facilities. This will increase production and profitability significantly.

It is management's intention to expand the **Nulaid** brand into Africa.

Uganda

Operations in Uganda comprise a parent rearing, parent laying, hatchery and a feed-mixing facility. The exact size of the market in Uganda is difficult to estimate due to a lack of industry information. The Company's estimate of the market size is 1 400 000 per month for day-old broilers and 250 000 for day-old layers. Management estimates that its share of the broiler market is approximately 11% and approximately 25% of the layer market.



Uganda has been politically and economically stable during the past 20 years. It has a population of 36 million and a GDP growth rate of 3.4% according to the World Bank. The attractiveness of Uganda is in the opportunity to farm on a large scale with commercial layers.

Africa strategy

Both acquisitions and greenfield approaches are followed in terms of investments in Africa. Acquisitions will be made selectively at acceptable prices and must be immediately earnings enhancing and the price of the asset must be palatable. Where assets are not available at an acceptable price, Quantum Foods is prepared to build facilities.

Some of the general factors that are considered when investing in Africa have been listed on pages 13 to 15, but the following specific factors will be considered by Quantum Foods when investigating possible investments outside South Africa:

- Political stability and protection of legal rights
- Language barriers
- Economic factors, such as growth rates, banking systems, ability to repatriate profits and population growth rates
- Industry-specific factors, such as the availability of raw materials, the competitive landscape and the skill pool available

When approaching investment in a new country, the intention is eventually to 'own the value chain'. To effect this, the sequence of investment follows the pattern below:

- Appoint an in-country manager with technical support from South Africa.
- Set up a breeder business to sell both day-old broilers and day-old layers.
- Supply own animal feed.
- Invest downstream in the value chain.

OBJECTIVE 1: Further expansion in Uganda and Zambia

Quantum Foods achieves attractive margins in Uganda – a market that can accommodate an expansion of the business. The intention is to enter the downstream commercial egg market by a combination of optimal use of current facilities and building new facilities. The current breeding facilities will be used as commercial laying facilities and new breeding facilities will be erected in a biosecure area. Day-old pullets from own supply will be used to stock these farms. The intention is to commence with a 100 000-layer facility and increase capacity as the opportunities arise. This expansion will result in Quantum Foods becoming the largest egg producer in Uganda. The estimated cost of this project is currently R45 million, with completion about 18 months after commencement.

Quantum Foods currently achieves an attractive operating margin in Zambia. The country has sufficient demand for day-old pullets and broilers to expand its production. New parent rearing and breeding facilities are being erected at the Lusaka farm to ensure that this business is in a position to supply day-old pullets to the Mega Eggs farm in Chingola.

The next phase of expansion is to use the current commercial rearing facilities at the Chingola farm for commercial egg production and erect new commercial rearing facilities on vacant land. This will increase the flock size in Chingola in the Copperbelt by 80 000 birds to 300 000. The estimated cost of this approved expansion is currently R35 million and projects will be completed by September 2015.

OBJECTIVE 2: Explore other opportunities on the African continent

Specific countries have been investigated. During the next 12 months, a decision will be taken on whether or not to continue with an investment in one of these countries. The strategy will be to enter into a breeder business with a hatchery to sell day-old broiler and layer chickens with a view to expanding later into the value chain.

The Company also plans to investigate expansion into other African countries.

History

Quantum Foods has its roots in the Pioneer Foods group before the merger of the businesses of the Sasko and Bokomo farming co-operatives. During 1963, Bokomo constructed an animal feed mill next to its Malmesbury wheat mill to ensure offtake for the bran by-product of the wheat-milling process. In 1982, Bokomo became involved in the egg and broiler businesses.

The first steps to expansion on the African continent were taken in 1997 with the acquisition of a breeder farm in Zambia. In 1997, Bokomo and Sasko merged to form the Pioneer Foods group, focused on wheat and maize milling, the production of bread, confectionary, breakfast cereals, pasta, eggs, broilers, frozen foods, animal feeds and packaging material.

In 1999, **Nulaid** and Golden Lay entered into a joint venture agreement in respect of the Lohmann grandparent programme, which was known as Lohmann South Africa. A few years later, Pioneer Foods acquired Golden Lay.

In 2000, Pioneer Foods extended its African presence and acquired a chicken breeding unit in Uganda.

On 22 April 2008, the Pioneer Foods group listed on the JSE Securities Exchange.

Quantum Foods was known as the Agri business division within the Pioneer Foods group until 2012, when it became known as Quantum Foods.

Today Quantum Foods trades in four broad categories, which are the egg-layer business, the sales of broilers, animal feeds and the African business.

Governance approach

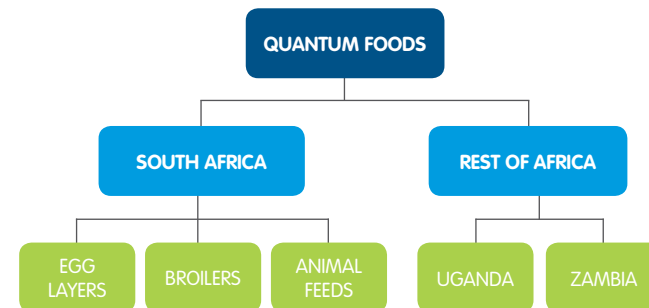
Quantum Foods believes being a responsible corporate citizen is part of doing good business. It has a well-established governance structure and a range of initiatives to engage with stakeholders and ensure long-term sustainability. Examples of environmental and social initiatives include the proactive management of water and electricity consumption, and a partnership with Cape Nature to conserve unique fynbos on a broiler farm.

The Company has about 2 000 employees who receive continuous, targeted training, including an internship programme for future farm managers.

Quantum Foods also supports a number of charities by providing them with poultry and egg products.

Quantum Foods is in the process of independent B-BBEE verification.

Group structure



Research and development

Quantum Foods has a dedicated focus on research throughout the poultry and dairy value chains. In addition, **Nova Feeds** has its own in-house research and development team that has formed local and international alliances in order to ensure that it stays up to date with innovation and best practice. Staying ahead of these developments is essential for **Nova Feeds** to ensure that its feeds produce the optimal production results.

The Company has alliances or relationships with the following companies:

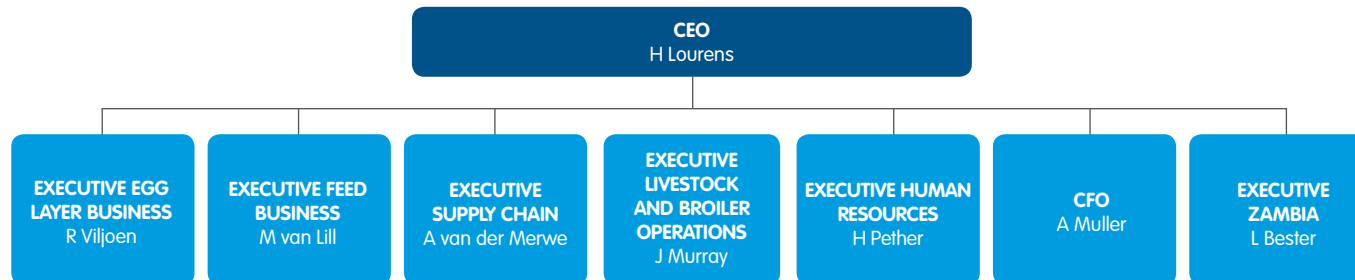
- Cargill¹⁰ aims at ensuring adherence to international best practice.
- Cumberland Valley Analytical Services (CVAS) supplies and develops calibrations specifically for ensuring accurate feed formulation for ruminants.
- Avimune, regarded as the one of the top veterinary groups in South Africa, provides regular technical updates in the fields of flock health, biosecurity and vaccination developments.

- Lohmann and Cobb, the suppliers of poultry genetics, ensure that the genetic potential of the Company’s birds is achieved from a feed formulation and poultry husbandry point of view.
- Suppliers of raw material components, such as Seaboard (soybean meal) and BTG Pactual (maize), ensure that international best practice is maintained and we keep abreast of market trends and new developments.

Human resources

The seven top executives collectively have 113 years’ experience in food or feeds industries. Among the senior management there are leading experts in the various related industries.

The management team structure below sets out the various functions reporting into the executive:



¹⁰ Cargill provides services in respect of animal nutrition, cotton, financial services and risk management, grains and oilseeds and sugar to clients the world over.

CEO – H Lourens (50)

Hennie holds MCom and BProc degrees. He has been with Pioneer Foods for 17 years. He joined Pioneer Foods from Transnet during 1996 as a human resources manager. During 2000 Hennie was appointed the general manager for the Sasko grain business of Pioneer Foods. He was appointed as Executive: Agri in 2007.

Executive: Egg Layer Business – R Viljoen (47)

Roelof is a chartered accountant and has 13 years' service with Pioneer Foods. Roelof served as a financial manager and as sales manager of Sasko. He is responsible for the layer egg value chain. Roelof has 14 years' experience in the food industry, of which six years were spent in the poultry industry.

Executive: Feed Business – M van Lill (43)

Thinus is a professional accountant (SAIPA (PA)). He has been employed in the Nova Foods business since 1997. Thinus has progressed from being a financial manager to becoming the executive responsible for the manufacturing and sales of the feeds value chain.

Executive: Supply Chain – A van der Merwe (42)

Adel has a BCom (Management Accounting) and then joined Pioneer Foods in 1995. She commenced in corporate finance and then moved to central procurement, having gained 15 years' experience.

Executive: Livestock and Broiler Operations – J Murray (56)

Jimmy has 33 years' poultry industry experience. Most of his early experience was gained at Rainbow Chickens in various senior farming production roles. Following Rainbow, he spent five years as MD of Hy-Line SA (importer of Hyline grandparent layers), followed by five years as CEO of Grendon (integrated poultry operation in KwaZulu-Natal). Jimmy has a national diploma in Agricultural Extension and Soil Conservation and has been with Pioneer Foods for two years.

Executive: Human Resources – H Pether (45)

Heather has a national diploma in human resources management and has 19 years' experience in the human resources field. She gained seven years' service at Pioneer Foods as human resource manager of **Tydstroom** before being appointed as Executive HR for Quantum Foods.

CFO – A Muller (43)

André is a chartered accountant and has 11 years' service with Pioneer Foods. He started at **Nulaid** as financial manager, followed by his appointment as the farming operations manager for **Nulaid**, a position he held for four years. André spent a year as national sales and marketing manager for **Tydstroom** before being appointed as head of finance for Quantum Foods.

Executive: Zambia – L Bester (54)

Louis completed his accounting articles with Theron du Toit (now part of PwC), whereafter he joined Pioneer Foods. He started as an internal auditor before becoming financial manager, regional financial manager and moving to general management. Louis has been with the Group for 32 years, of which the last five were in the poultry industry in Zambia.

INVESTMENT CASE

Quantum Foods is an investment for long-term investors seeking an exposure to food production on the African continent. Quantum Foods is an established company and will be at the time of the listing the only one listed on the JSE Securities Exchange with a significant exposure to the production of one of the world's most economical protein sources: eggs. Quantum Foods has the unique ability to expand its egg business on the African continent on a large scale. This represents an attractive opportunity. The company stands to benefit from the projected rise of the African middle class, which will drive demand for its products.

Quantum Foods also has limited its exposure to the volatile broiler meat market in South Africa, which has been negatively impacted by imports and other imbalances inherent in the industry.

Quantum Foods is adequately capitalised, has largely completed its domestic capital expenditure programme and is in a position to grow its feed, layer livestock and Gauteng broiler business with limited capital expenditure.

Although the Quantum Foods business has struggled during the past two years, significant changes to the business have been implemented, including:

- The market risk in the broiler meat market in the Western Cape has been addressed while maintaining the profit streams for animal feed and day-old chicks in this value chain.
- With the Mega Eggs expansion, the revenue and profit base has been diversified and management has proved that a major African acquisition can be made successfully.
- The feeds business increased its external volumes by 9.6% during 2012 and 9% during 2013. There are further growth opportunities without major capital expansion.
- The Gauteng broiler business is still loss-making, but these losses will be turned around or stopped in the next 18 months.
- Further African expansion opportunities have been identified.

The strategic position of Quantum Foods can be summarised as follows:

- A solid and sustainable animal feeds business with guaranteed internal customers
- The leading egg business in South Africa
- Current exposure with growth opportunities in Africa outside South Africa
- An ability to supply breeding stock to the layer industry and day-old chicks to the broiler industry

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Birds	All varieties of live chicken, i.e. meat-type chicken, egg-type chicken, day-old chicken, broiler chicken, layer chicken, etc.
Brine-based injection	Also 'brining': the practice of injecting broilers with brine in order to tenderise and moisten tissue muscle and increase weight.
Broad-based food proteins	A general range of foodstuffs with high protein content.
Broilers	Also "broiler chickens": a young, tender chicken of a meat-type strain suitable for roasting or grilling.
Day-old chicks	Literally chicks that are a day old, usually of the same stock as broilers.
Free-range eggs	Eggs produced from poultry kept in natural conditions, including freedom of movement.
Layers	Mature female chicken (at least 20 weeks of age) used to produce marketable egg products.
Liquid eggs	A popular product especially in the catering industry where eggs are sold in liquid form in a variety of quantities and packaging types.
Livestock	Farmed animals kept for domestic use and regarded as assets.
Parent stock	Chicken types bred specifically for further reproduction. There are different parent stocks for broilers and egg-type chickens.
Point of lay	The age at which a pullet lays its first eggs.
Poultry	All forms of domestic fowl, e.g. chickens, turkeys, ducks, geese, etc.
Pullet	A young hen, before it has laid a marketable egg.
Table eggs	Eggs intended for consumption. Table eggs are graded according to a number of criteria, mainly weight and size.

