



PIONEER FOODS

**UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 MARCH 2018**





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PIONEER FOOD GROUP LTD Incorporated in the Republic of South Africa

Registration number: 1996/0176/76/06 **Tax registration number:** 9834/695/71/1

Share code: PFG **ISIN code:** ZAE000118279 ("Pioneer Foods" or "the Group" or "the Company")

| FINANCIAL HIGHLIGHTS | | | | |
|----------------------|----------------------------|---|---------------------------------------|----------------------------|
| REVENUE | ADJUSTED OPERATING PROFIT* | NET CASH PROFIT FROM OPERATING ACTIVITIES | ADJUSTED HEADLINE EARNINGS PER SHARE* | INTERIM DIVIDEND PER SHARE |
| -3% | +36% | +34% | +26% | MAINTAINED |

SALIENT FEATURES

| | | |
|--|----------------|------|
| Revenue | R9 899 million | -3% |
| Adjusted operating profit (before items of a capital nature)* | R949 million | +36% |
| Earnings | R620 million | +35% |
| Earnings per share | 332 cents | +34% |
| Diluted earnings per share | 315 cents | +37% |
| Headline earnings ("HE") | R592 million | +30% |
| Headline earnings per share | 317 cents | +30% |
| Diluted headline earnings per share | 301 cents | +32% |
| Adjusted headline earnings* | R597 million | +27% |
| Adjusted headline earnings per share* | 320 cents | +26% |
| Net cash profit from operating activities | R1 195 million | +34% |
| Net asset value per share | 4 340 cents | +2% |
| Interim gross dividend per listed ordinary share (2017: 105 cents) | 105 cents | - |

* HE and operating profit (before items of a capital nature) are adjusted for the impact of the share-based payment charge of the B-BBEE Phase I equity transaction and related hedge and (in 2017 only) for once-off merger and acquisition costs.

COMMENTARY

INTRODUCTION

Pioneer Foods delivered a credible performance for the six months ended 31 March 2018, with both volume and margin growth over the comparative period.

Total sales volumes are 4% higher following the judicious management of relative price points that also supported market share growth. Group turnover, however, marginally decreased by 3% from R10.2 billion in the comparative period to R9.9 billion, largely due to price deflation in soft commodities that weakened price realisations, principally in maize and to a lesser extent, wheat and rice.

FINANCIAL PERFORMANCE

Gross profit increased by 12% to R2.9 billion, mainly as a result of volume growth and the normalisation of the maize procurement position. The gross profit margin increased from 25.7% to 29.6%.

Operating profit, before items of a capital nature, adjusted for the Phase I B-BBEE ("BEE") transaction share-based payment income/charge and related hedge ("SBP") and for once-off merger and acquisition ("M&A") costs in 2017, increased by 36% to R949 million. In turn, the adjusted operating profit margin increased from 6.9% to 9.6%.

Profit before income tax, after finance costs of R88.9 million (2017: R88.0 million), increased by 38% to R896.5 million. The share of profit of joint ventures and associates amounted to a loss of R21.6 million (2017: R30.0 million profit) as explained below.

Earnings per share ("EPS") increased by 34% to 332.5 cents and headline earnings per share ("HEPS") increased by 30% to 317.1 cents per share. HEPS, adjusted for the BEE SBP net charge/gain and for once-off M&A costs in 2017, increased by 26% to 319.9 cents per share.

DIVISIONAL PERFORMANCE

Segmental review

Six months ended 31 March 2018

| | Segmental revenue | | Segmental operating profit* | |
|------------------------|-------------------|-------------|-----------------------------|------------|
| | 2018 R'm | % change | 2018 R'm | % change |
| Essential Foods | 5 826 | (10%) | 561 | 70% |
| Groceries | 2 647 | 9% | 292 | (3%) |
| International | 1 426 | 10% | 121 | 75% |
| Corporate [^] | – | | (25) | |
| Total | 9 899 | (3%) | 949 | 36% |

* Before items of a capital nature, the BEE SBP and, in 2017, M&A costs.

[^] The increased unallocated corporate costs relates mainly to insurance excess payments for KwaZulu-Natal ("KZN") storm damage and inventory-related claims, as well as an increase in costs associated with mergers and acquisitions (The Good Carb Food Company ("Lizi's") and Heinz Foods SA). Merger and acquisition costs were not added back for this reporting period to determine adjusted headline earnings.

Essential Foods

The business achieved 70% operating profit growth through a strong maize performance as well as pasta and rice profit expansion. Improved sales volumes and the normalisation of the raw material procurement position supported the sound recovery in maize profitability. White Star benefited from general category growth and has retained its market leading position.

The improvement in maize was, however, partially offset by a regression in the wheaten value chain performance. Flour and bread experienced margin compression in the face of weaker demand and a more competitive environment. Additional KZN baking capacity was successfully commissioned in December 2017 and fully available from April 2018, following the refurbishment of existing installations at Shakaskraal bakery.

The Durban wheat mill upgrade is also progressing to plan and will enhance value chain competitiveness from 2019. The baking capacity-renewal investment in Gauteng, that came online in 2017, is making a positive contribution.

Groceries

Good top-line growth during the period, driven by volume growth, restored market share in key categories, in some instances at lower price points to maintain competitiveness that compressed profit and margins for the period.

Cereals, long-life fruit juice, baking aids and desserts performed well from a volume and operating profit point of view. The snacking category recorded negative volume growth and consequently a decline in profitability. Both the dilutables and ice tea categories continued to shrink in value while Wild Island delivered pleasing volume growth.

Operating costs overall were tightly managed. Liqui-Fruit recovered volume and gained market share, while Weet-Bix maintained share in an expanding category. Safari also maintained market share.

International

Long-life fruit juice and dried fruit export volumes and margins recovered in line with expectations and posted a significant improvement on 2017 profitability. Margin recovery is, however, as previously indicated, not comparable to that achieved during 2016. The lower margin relative to 2016 is mainly due to the stronger rand and the continuous constrained trading environment in southern African markets, in particular Zimbabwe, as well as the strengthening of the exchange rate from fruit procurement to time of export.

The Lizi's acquisition has been successfully integrated into Pioneer Foods UK and is already making a positive profit contribution. The UK's Peterborough business has delivered solid volume growth and consequent margin improvement. The Nigerian business performed to expectation, delivering strong profit and volume growth. A solid operating platform has been established and the business is now ready for capacity investment.

Joint ventures

The financial performance of joint ventures as a whole was materially impacted by once-off adjustments of certain items on the Heinz Foods SA balance sheet. Regulatory approval of the Heinz Foods SA acquisition was granted on 9 May 2018 with certain contractual conditions still outstanding. It is anticipated that this will be finalised before the end of May with an effective date of 1 June 2018. Management is confident that this business's performance should improve materially when integrated into Pioneer Foods.

The contribution from joint ventures, excluding Heinz Foods SA, showed good earnings growth mainly because of good performances from Weetabix East Africa and Bowman Ingredients SA.

FINANCIAL POSITION

Net cash profit from operating activities increased by 34% to R1 195.0 million (2017: R891.8 million). Investment in working capital increased by R1 151.6 million. The Group normally invests more in working capital for the interim period ending March. The increased investment in working capital is largely due to local procurement in respect of wheat and maize compared to a larger import component in the prior year, resulting in a material decrease in trade payables.

Capital expenditure amounted to R222.3 million (2017: R369.1 million).

The Group acquired Lizi's in the UK, effective 11 December 2017, for a total consideration of R283.3 million.

The Group's net interest-bearing debt, excluding the R449.2 million third-party debt relating to the Phase II B-BBEE transaction partners, amounted to R1 788.1 million at 31 March 2018, with a debt to equity ratio of 22% (31 March 2017: 18%), compared to net debt of R612.3 million at 30 September 2017.

OUTLOOK

The Group is well positioned to deliver sustained volume and improved value growth while maintaining a firm handle on costs and efficiencies. The Group anticipates further improvement in performance in the second half of the financial year.

DIVIDEND

A gross interim dividend for the six months ended 31 March 2018 of 105 cents (2017: 105 cents) per share has been approved and declared by the Board from income reserves. The applicable dates are as follows:

| | |
|-----------------------------------|-------------------------|
| Last date of trading cum dividend | Tuesday, 26 June 2018 |
| Trading ex-dividend commences | Wednesday, 27 June 2018 |
| Record date | Friday, 29 June 2018 |
| Dividend payable | Monday, 2 July 2018 |

Share certificates may not be dematerialised or materialised between Wednesday, 27 June 2018 and Friday, 29 June 2018, both days inclusive.

A gross interim dividend of 31.5 cents (2017: 31.5 cents) per class A ordinary share, being 30% of the gross interim dividend payable to ordinary shareholders in terms of the rules of the relevant employee scheme, will be paid during July 2018.

The above statements have not been reviewed or reported on by the auditors of Pioneer Foods.

By order of the Board



ZL Combi
Chairman

Tyger Valley
17 May 2018



TA Carstens
Chief Executive Officer

PIONEER FOOD GROUP LTD
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
for the six months ended 31 March 2018
Group statement of comprehensive income

| | Unaudited Six months ended 31 March 2018 R'm | Unaudited Six months ended 31 March 2017 R'm | Audited Year ended 30 September 2017 R'm |
|--|---|---|--|
| Revenue | 9 898.9 | 10 183.0 | 19 575.0 |
| Cost of goods sold | (6 970.4) | (7 561.7) | (14 419.0) |
| Gross profit | 2 928.5 | 2 621.3 | 5 156.0 |
| Other income and gains/(losses) – net | 80.7 | 48.8 | 142.3 |
| Other expenses | (2 054.4) | (1 982.3) | (4 142.1) |
| Excluding the following: | (2 060.2) | (1 969.9) | (4 021.6) |
| Once-off merger and acquisition costs | – | (9.3) | (17.6) |
| Phase I B-BBEE transaction share-based payment and related hedge income/(charge) | 5.8 | (3.1) | (102.9) |
| Items of a capital nature | 36.9 | 5.6 | (57.0) |
| Operating profit | 991.7 | 693.4 | 1 099.2 |
| Investment income | 15.3 | 12.7 | 22.3 |
| Finance costs | (88.9) | (88.0) | (196.8) |
| Share of (loss)/profit of investments accounted for applying the equity method | (21.6) | 30.0 | 60.3 |
| Profit before income tax | 896.5 | 648.1 | 985.0 |
| Income tax expense | (274.3) | (188.5) | (258.8) |
| Profit for the period | 622.2 | 459.6 | 726.2 |
| Other comprehensive income/(loss) for the period | | | |
| Items that will not subsequently be reclassified to profit or loss: | | | |
| Remeasurement of post-employment benefit obligations | – | – | 1.6 |
| Items that may subsequently be reclassified to profit or loss: | (77.9) | 83.4 | 143.3 |
| Fair value adjustments to cash flow hedging reserve | (10.9) | 105.7 | 115.7 |
| For the period | 3.5 | (69.7) | (60.2) |
| Current income tax effect | (1.2) | 18.8 | 17.5 |
| Deferred income tax effect | 0.2 | 0.7 | (0.7) |
| Reclassified to profit or loss | (18.7) | 216.5 | 220.9 |
| Current income tax effect | 4.6 | (60.6) | (63.9) |
| Deferred income tax effect | 0.7 | – | 2.1 |
| Fair value adjustments on available-for-sale financial assets | 15.7 | 3.5 | 4.0 |
| For the period | 16.7 | 5.2 | 8.2 |
| Deferred income tax effect | 0.3 | 0.9 | 0.6 |
| Reclassified to profit or loss | (1.3) | (2.6) | (4.8) |
| Share of other comprehensive (loss)/income of investments accounted for applying the equity method | (15.5) | (2.1) | 15.9 |
| Movement on foreign currency translation reserve | (67.2) | (23.7) | 7.7 |
| Total comprehensive income for the period | 544.3 | 543.0 | 871.1 |
| Profit for the period attributable to: | | | |
| Owners of the parent | 620.3 | 459.6 | 726.1 |
| Non-controlling interest | 1.9 | – | 0.1 |
| Total comprehensive income/(loss) for the period attributable to: | 622.2 | 459.6 | 726.2 |
| attributable to: | | | |
| Owners of the parent | 544.9 | 543.0 | 869.7 |
| Non-controlling interest | (0.6) | – | 1.4 |
| | 544.3 | 543.0 | 871.1 |

Headline earnings reconciliation

| | Unaudited Six months ended 31 March 2018 R'm | Unaudited Six months ended 31 March 2017 R'm | Audited Year ended 30 September 2017 R'm |
|---|---|---|--|
| Reconciliation between profit attributable to owners of the parent and headline earnings | | | |
| <i>Profit attributable to owners of the parent</i> | 620.3 | 459.6 | 726.1 |
| <i>Remeasurements</i> | (28.6) | (5.8) | 52.7 |
| Net profit on disposal of property, plant and equipment and intangible assets | (35.6) | (3.0) | (5.8) |
| Net profit on disposal of available-for-sale financial assets | (1.3) | (2.6) | (4.8) |
| Fair value adjustment of step-up from joint venture to subsidiary | – | – | 18.7 |
| Net loss on disposal of equity-accounted investments | – | – | 17.7 |
| Impairment of intangible assets | – | – | 21.0 |
| Impairment of goodwill | – | – | 10.2 |
| Before tax | (36.9) | (5.6) | 57.0 |
| Tax effect on remeasurements | 8.3 | (0.2) | (4.3) |
| <i>Remeasurements included in equity-accounted results</i> | (0.1) | – | (16.0) |
| Remeasurements | (0.1) | – | (15.8) |
| Tax effect on remeasurements | – | – | (0.2) |
| Headline earnings | 591.6 | 453.8 | 762.8 |
| Phase I B-BBEE transaction share-based payment and related hedge charge | 5.2 | 7.4 | 42.2 |
| Once-off merger and acquisition costs | – | 9.3 | 17.6 |
| Adjusted headline earnings (Note 1) | 596.8 | 470.5 | 822.6 |
| Number of issued ordinary shares (million) | 233.6 | 233.0 | 233.4 |
| Number of issued treasury shares: | | | |
| – held by subsidiary (million) | 18.0 | 18.0 | 18.0 |
| – held by B-BBEE equity transaction participants (million) | 18.1 | 18.1 | 18.1 |
| – held by BEE trust (million) | 10.7 | 10.7 | 10.7 |
| Number of issued class A ordinary shares (million) | 3.0 | 3.4 | 3.2 |
| Weighted average number of ordinary shares (million) | 186.6 | 185.6 | 186.0 |
| Weighted average number of ordinary shares – diluted (million) | 196.8 | 199.7 | 198.4 |
| Earnings per ordinary share (cents): | | | |
| – basic | 332.5 | 247.6 | 390.3 |
| – diluted | 315.2 | 230.2 | 366.0 |
| – headline | 317.1 | 244.4 | 410.1 |
| – diluted headline | 300.6 | 227.2 | 384.5 |
| – adjusted headline (Note 1) | 319.9 | 253.4 | 442.2 |
| – diluted adjusted headline (Note 1) | 303.3 | 235.6 | 414.6 |
| Gross dividend per ordinary share (cents) | 105.0 | 105.0 | 365.0 |
| Gross dividend per class A ordinary share (cents) | 31.5 | 31.5 | 109.5 |
| Net asset value per ordinary share (cents) | 4 339.6 | 4 275.2 | 4 302.8 |
| Debt to equity ratio (%) | 27.6 | 23.7 | 13.4 |

Note 1:

Headline earnings (“HE”) is calculated based on Circular 2/2015 issued by the South African Institute of Chartered Accountants. Adjusted HE is defined as HE adjusted for the impact of:

- share-based payment charge on the Phase I B-BBEE transaction on profit or loss (and the impact of the related hedge); and
- for 2017 only, once-off merger and acquisition costs.

Group statement of financial position

| | Unaudited 31 March 2018 R'm | Unaudited 31 March 2017 R'm | Audited 30 September 2017 R'm |
|---|--------------------------------------|--------------------------------------|--|
| Assets | | | |
| Property, plant and equipment | 5 312.3 | 4 940.8 | 5 357.0 |
| Goodwill | 411.7 | 295.1 | 331.3 |
| Other intangible assets | 667.0 | 479.3 | 483.6 |
| Investments in and loans to associates and joint ventures | 855.7 | 1 016.1 | 906.7 |
| Derivative financial instruments | 223.2 | 426.2 | 203.1 |
| Available-for-sale financial assets | 155.4 | 134.3 | 138.1 |
| Trade and other receivables | 36.6 | 14.8 | 15.4 |
| Deferred income tax | 7.1 | 3.2 | 12.5 |
| Non-current assets | 7 669.0 | 7 309.8 | 7 447.7 |
| Current assets | 6 262.6 | 6 064.0 | 5 504.6 |
| Inventories | 3 396.4 | 3 245.7 | 3 033.1 |
| Derivative financial instruments | 35.9 | 61.1 | 51.0 |
| Trade and other receivables | 2 245.7 | 2 290.9 | 1 981.8 |
| Current income tax | 17.2 | 43.8 | 7.9 |
| Cash and cash equivalents | 567.4 | 422.5 | 430.8 |
| Assets of disposal group classified as held for sale | 22.9 | – | 20.0 |
| Total assets | 13 954.5 | 13 373.8 | 12 972.3 |
| Equity and liabilities | | | |
| Capital and reserves attributable to owners of the parent | 8 104.9 | 7 957.1 | 8 027.2 |
| Share capital | 23.4 | 23.3 | 23.3 |
| Share premium | 2 581.3 | 2 495.3 | 2 554.3 |
| Treasury shares | (1 186.4) | (1 186.4) | (1 186.4) |
| Other reserves | 128.6 | 274.0 | 213.1 |
| Retained earnings | 6 558.0 | 6 350.9 | 6 422.9 |
| Non-controlling interest | 24.4 | – | 25.0 |
| Total equity | 8 129.3 | 7 957.1 | 8 052.2 |
| Non-current liabilities | 1 297.1 | 2 336.0 | 1 645.3 |
| Borrowings | | | |
| B-BBEE equity transaction third-party finance | – | 418.9 | 433.1 |
| Other | 246.9 | 869.5 | 265.6 |
| Provisions for other liabilities and charges | 113.7 | 112.5 | 112.4 |
| Share-based payment liability | 171.3 | 295.9 | 159.8 |
| Deferred income tax | 765.2 | 639.2 | 674.4 |
| Current liabilities | 4 528.1 | 3 080.7 | 3 274.8 |
| Trade and other payables | 1 870.3 | 1 973.4 | 2 388.9 |
| Current income tax | 35.6 | 9.6 | 24.7 |
| Derivative financial instruments | 18.4 | 5.7 | 2.6 |
| Borrowings | | | |
| B-BBEE equity transaction third-party finance | 449.2 | 44.1 | 33.7 |
| Other | 2 108.6 | 977.7 | 777.5 |
| Loan from joint venture | 8.5 | 10.0 | 14.5 |
| Dividends payable | 0.6 | 0.6 | 0.6 |
| Share-based payment liability | 36.9 | 59.6 | 32.3 |
| Total equity and liabilities | 13 954.5 | 13 373.8 | 12 972.3 |

Group statement of changes in equity

| | Unaudited Six months ended 31 March 2018 R'm | Unaudited Six months ended 31 March 2017 R'm | Audited Year ended 30 September 2017 R'm |
|---|---|---|--|
| Share capital, share premium and treasury shares | 1 418.3 | 1 332.2 | 1 391.2 |
| Opening balance | 1 391.2 | 1 241.7 | 1 241.7 |
| Movement in treasury shares | – | 1.4 | 1.4 |
| Ordinary shares issued – share appreciation rights | 27.1 | 89.1 | 148.2 |
| Employee share scheme – repurchase of shares | – | – | (0.1) |
| Other reserves | 128.6 | 274.0 | 213.1 |
| Opening balance | 213.1 | 253.3 | 253.3 |
| Equity compensation reserve transactions | 18.5 | 22.5 | 23.4 |
| Ordinary shares issued – share appreciation rights | (27.1) | (89.1) | (148.1) |
| Deferred income tax on share-based payments | 2.0 | 3.9 | (57.6) |
| Share of other comprehensive income of investments accounted for applying the equity method | (15.5) | (2.1) | 16.0 |
| Other comprehensive (loss)/income for the period | (62.4) | 85.5 | 126.1 |
| Retained earnings | 6 558.0 | 6 350.9 | 6 422.9 |
| Opening balance | 6 422.9 | 6 372.3 | 6 372.3 |
| Profit for the period | 620.3 | 459.6 | 726.1 |
| Other comprehensive income for the period | – | – | 1.6 |
| Dividends paid | (485.1) | (482.7) | (678.5) |
| Management share incentive scheme – disposal of shares | – | 1.9 | 1.7 |
| Employee share scheme – transfer tax on share transactions | (0.1) | (0.2) | (0.3) |
| Non-controlling interest | 24.4 | – | 25.0 |
| Opening balance | 25.0 | – | – |
| Profit for the period | 1.9 | – | 0.1 |
| Share of other comprehensive (loss)/income | (2.5) | – | 1.2 |
| Non-controlling interest acquired – business combination | – | – | 23.7 |
| Total equity | 8 129.3 | 7 957.1 | 8 052.2 |

Group statement of cash flows

| | Unaudited Six months ended 31 March 2018 R'm | Unaudited Six months ended 31 March 2017 R'm | Audited Year ended 30 September 2017 R'm |
|--|---|---|--|
| Net cash profit from operating activities | 1 195.0 | 891.8 | 1 661.4 |
| Cash effect from hedging activities | (12.2) | 149.4 | 165.8 |
| Working capital changes | (1 151.6) | (166.6) | 751.7 |
| Net cash generated from operations | 31.2 | 874.6 | 2 578.9 |
| Settlement of share-based payment liability | (15.1) | (39.0) | (69.2) |
| Cash effect of forward purchase contracts related to share-based payments | 14.8 | 27.4 | 41.8 |
| Settlement of accrual for forward purchase contracts on own equity | – | (493.3) | (493.3) |
| Income tax paid | (206.2) | (229.5) | (288.1) |
| Net cash flow from operating activities | (175.3) | 140.2 | 1 770.1 |
| Net cash flow from investment activities | (410.6) | (464.0) | (957.5) |
| Property, plant and equipment and intangible assets | | | |
| – additions | (127.2) | (272.0) | (612.4) |
| – replacements | (95.1) | (97.1) | (347.5) |
| – proceeds on disposal | 74.5 | 34.5 | 71.4 |
| Business combinations | (263.7) | – | (8.7) |
| Proceeds on disposal of and changes in available-for-sale financial assets and loans | (21.4) | 14.8 | 18.8 |
| Proceeds on disposal of joint venture | – | – | 5.8 |
| Investment in joint venture | (15.0) | – | – |
| Investment in associate | – | (189.9) | (191.5) |
| Interest received | 8.1 | 10.5 | 18.7 |
| Dividends received | 7.1 | 2.2 | 3.2 |
| Dividends received from joint ventures | 22.1 | 33.0 | 84.7 |
| Net cash flow from financing activities | (617.5) | (617.7) | (932.7) |
| Repayments of borrowings | (41.8) | (38.5) | (52.7) |
| Other share scheme transactions | (2.4) | 0.3 | (0.9) |
| Interest paid | (88.2) | (96.8) | (200.6) |
| Dividends paid | (485.1) | (482.7) | (678.5) |
| Effect of exchange rate changes on cash and cash equivalents | 3.4 | 8.3 | 0.9 |
| Net decrease in cash, cash equivalents and bank overdrafts | (1 200.0) | (933.2) | (119.2) |
| Net cash, cash equivalents and bank overdrafts at beginning of period | 302.4 | 421.6 | 421.6 |
| Net cash, cash equivalents and bank overdrafts at end of period | (897.6) | (511.6) | 302.4 |
| Disclosed as: | | | |
| Cash and cash equivalents | 567.4 | 422.5 | 430.8 |
| Bank overdrafts and call loans (included in current borrowings) | (1 465.0) | (934.1) | (128.4) |
| | (897.6) | (511.6) | 302.4 |

Group segment report

| | Unaudited Six months ended 31 March 2018 R'm | Unaudited Six months ended 31 March 2017 R'm | Audited Year ended 30 September 2017 R'm |
|--|---|---|--|
| Segment revenue | | | |
| Essential Foods | 5 826.1 | 6 456.7 | 12 469.8 |
| Groceries | 2 647.4 | 2 431.9 | 4 402.7 |
| International | 1 425.4 | 1 294.4 | 2 702.5 |
| Total | 9 898.9 | 10 183.0 | 19 575.0 |
| Segment results | | | |
| Essential Foods | 561.0 | 330.9 | 800.2 |
| Groceries | 292.5 | 301.2 | 357.0 |
| International | 120.5 | 68.8 | 121.5 |
| Other | (25.0) | (0.7) | (2.0) |
| | 949.0 | 700.2 | 1 276.7 |
| Once-off merger and acquisition costs | – | (9.3) | (17.6) |
| Phase I B-BBEE transaction share-based payment and related hedge income/(charge) | 5.8 | (3.1) | (102.9) |
| Operating profit before items of a capital nature | 954.8 | 687.8 | 1 156.2 |
| Reconciliation of operating profit (before items of a capital nature) to profit before income tax | | | |
| Operating profit before items of a capital nature | 954.8 | 687.8 | 1 156.2 |
| Adjusted for: | | | |
| Remeasurement of items of a capital nature | 36.9 | 5.6 | (57.0) |
| Interest income | 8.2 | 10.5 | 19.1 |
| Dividends received | 7.1 | 2.2 | 3.2 |
| Finance costs | (88.9) | (88.0) | (196.8) |
| Share of (loss)/profit of investments accounted for applying the equity method | (21.6) | 30.0 | 60.3 |
| Profit before income tax | 896.5 | 648.1 | 985.0 |

Notes to the unaudited condensed consolidated interim financial statements for the six months ended 31 March 2018

1. Basis of preparation

The condensed consolidated interim financial statements of the Group for the six months ended 31 March 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the Listings Requirements of the JSE Ltd and the Companies Act of South Africa, Act 71 of 2008, as amended. The condensed consolidated interim financial statements comply with the requirements of *IAS 34 – Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council. These condensed consolidated interim financial statements have not been audited.

The directors take full responsibility for the preparation of the condensed consolidated interim financial statements and that the financial information has been correctly extracted from the underlying financial records.

2. Accounting policies

These condensed consolidated interim financial statements incorporate accounting policies that are in terms of IFRS and are consistent with those applied in the Group's annual financial statements for the year ended 30 September 2017.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 September 2017.

| | Unaudited Six months ended 31 March 2018 R'm | Unaudited Six months ended 31 March 2017 R'm | Audited Year ended 30 September 2017 R'm |
|--|---|---|--|
| 3. Share capital | | | |
| During the period under review the following share transactions occurred: | | | |
| Number of listed issued and fully paid ordinary shares | | | |
| At beginning of period | 233 379 445 | 232 472 909 | 232 472 909 |
| Shares issued in terms of employee share appreciation rights scheme | 204 173 | 518 110 | 906 536 |
| At end of period | 233 583 618 | 232 991 019 | 233 379 445 |
| 204,173 (30 September 2017: 906,536 and 31 March 2017: 518,110) listed ordinary shares of 10 cents each were issued at an average of R132.71 (30 September 2017: R163.49 and 31 March 2017: R172.11) per share in terms of the share appreciation rights scheme. | | | |
| Number of treasury shares held by the share incentive trust | | | |
| At beginning of period | – | 47 620 | 47 620 |
| Movement in shares | – | (47 620) | (47 620) |
| At end of period | – | – | – |
| Proceeds on the sale of treasury shares by the share incentive trust (R'000) | – | 3 193 | 3 193 |
| Number of treasury shares held by B-BBEE transaction participants | | | |
| At beginning and end of period | 18 091 661 | 18 091 661 | 18 091 661 |
| Number of treasury shares held by Pioneer Foods Broad-Based BEE Trust | | | |
| At beginning and end of period | 10 745 350 | 10 745 350 | 10 745 350 |
| Number of treasury shares held by a subsidiary | | | |
| At beginning and end of period | 17 982 056 | 17 982 056 | 17 982 056 |
| Number of unlisted class A ordinary shares | | | |
| At beginning of period | 3 174 920 | 3 707 830 | 3 707 830 |
| Shares bought back and cancelled | (162 610) | (293 020) | (532 910) |
| At end of period | 3 012 310 | 3 414 810 | 3 174 920 |
| Purchase consideration paid for unlisted class A ordinary shares bought back (R'000) | 15 126 | 38 983 | 69 235 |

4. Borrowings

No material new borrowings were concluded during the period under review. Changes in borrowings mainly reflect repayments made in terms of agreements. Short-term borrowings fluctuate in accordance with changing working capital needs.

5. Events after the reporting date

5.1 Dividend

The Board approved and declared a gross interim dividend of 105.0 cents (2017: gross interim dividend of 105.0 cents and 2017: gross final dividend of 260.0 cents) per ordinary share. This will amount to approximately R233,980,181 (2017: interim of R233,641,008 and 2017: final of R578,915,990) depending on the exact number of ordinary shares in issue at the record date. In addition, the 10,745,350 Pioneer Foods shares issued to the Pioneer Foods Broad-Based BEE Trust, will receive 20% of the dividend payable, i.e. 21.0 cents (2017: gross interim of 21.0 cents and 2017: gross final dividend of 52.0 cents) per share, amounting to R2,256,524 (2017: interim of R2,256,524 and 2017: final of R5,587,582).

The Board approved a gross interim dividend of 31.5 cents (2017: gross interim dividend of 31.5 cents and 2017: gross final dividend of 78.0 cents) per class A ordinary share, being 30% of the dividend payable to the other class ordinary shareholders in terms of the rules of the relevant employee scheme. This will amount to approximately R948,878 (2017: interim of R1,020,893 and 2017: final of R2,373,462) depending on the exact number of class A ordinary shares in issue at the record date.

Additional information disclosed:

These dividends are declared from income reserves and qualify as a dividend as defined in the Income Tax Act, Act 58 of 1962.

Dividends will be paid net of dividends tax of 20%, to be withheld and paid to the South African Revenue Service by the Company. Such tax must be withheld unless beneficial owners of the dividend have provided the necessary documentary proof to the relevant regulated intermediary that they are exempt therefrom, or entitled to a reduced rate as result of the double taxation agreement between South Africa and the country of domicile of such owner.

The net dividend amounts to 84.0 cents per ordinary share and 25.2 cents per class A ordinary share for shareholders liable to pay dividends tax. The dividend amounts to 105.0 cents per ordinary share and 31.5 cents per class A ordinary share for shareholders exempt from paying dividends tax.

The number of issued ordinary shares and issued class A ordinary shares is 233,623,113 and 2,965,620 respectively as at the date of this declaration.

5.2 Other material events

There have been no other material events requiring disclosure after the reporting date and up to the date of approval of the unaudited condensed consolidated interim financial statements by the Board.

6. Contingent liabilities – Guarantees

The Group had guarantees in issue of R30.4 million as at 31 March 2018 (30 September 2017: R28.8 million and 31 March 2017: R23.0 million), primarily for loans by third parties to contracted suppliers.

As part of the funding provided by Rand Merchant Bank, a division of FirstRand Bank Ltd ("RMB"), to BEE investors in terms of the B-BBEE equity transaction concluded during 2012, Pioneer Foods (Pty) Ltd provided RMB with a guarantee amounting to R100 million.

| | Unaudited 31 March 2018 R'm | Unaudited 31 March 2017 R'm | Audited 30 September 2017 R'm |
|--|--------------------------------------|--------------------------------------|--|
| 7. Future capital commitments | | | |
| Contractually committed | 226.7 | 370.3 | 218.9 |
| Approved by the Board, but not yet contractually committed | 778.8 | 1 127.7 | 943.7 |
| Share of items of joint ventures and associate | 42.8 | 52.7 | 43.4 |
| | 1 048.3 | 1 550.7 | 1 206.0 |

8. Business combination

During the period under review the Group acquired a 100% interest in The Good Carb Food Company Ltd (UK).

| | Unaudited Six months ended 31 March 2018 R'm |
|--|---|
| The Good Carb Food Company Ltd (UK) – 100% (effective 11 December 2017) | |
| Purchase consideration – settled in cash | 283.3 |

Reason for acquisition of interest

The Group acquired 100% of the equity interest of this fast-growing breakfast cereal entity in the UK which is in line with its international expansion strategy. This is a complementary bolt-on acquisition enlarging the Group's footprint in the UK's breakfast cereal market, and provides access to a strong branded proposition in this space.

Reason for goodwill recognised on acquisition

The premium paid to acquire control resulted in goodwill. This reflects the Group's belief in the future growth prospects of this business, as well as those of the health and wellness category in the UK.

The assets and liabilities acquired of this business can be summarised as follows:

| | Unaudited Acquisition date Fair value R'm |
|--|---|
| Property, plant and equipment | 0.1 |
| Intangible assets – trademarks | 189.4 |
| Intangible assets – customer lists | 17.5 |
| Goodwill | 99.5 |
| Inventories | 8.5 |
| Trade and other receivables | 11.9 |
| Cash and cash equivalents | 19.6 |
| Trade and other payables | (23.9) |
| Deferred income tax | (39.3) |
| Total identifiable net assets | 283.3 |
| Purchase consideration – settled in cash | 283.3 |
| The contribution of this business since acquisition | |
| Revenue | 39.4 |
| Operating profit before finance cost and income tax | 7.3 |
| The pro forma contribution of this business assuming the acquisition was at the beginning of the period | |
| Revenue | 67.5 |
| Operating profit before finance cost and income tax | 12.6 |

9. Acquisition of the remaining 50.1% equity interest in Heinz Foods SA (Pty) Ltd

As announced on SENS on 6 November 2017, Pioneer Foods entered into an agreement to acquire the remaining 50.1% equity shareholding in Heinz Foods SA (Pty) Ltd. Regulatory approval for this transaction has been obtained. The agreements are in the process of being finalised and the transaction is therefore not yet unconditional.

10. Non-current assets held for sale

The assets related to the fish paste spreads business have been presented as “assets of a disposal group classified as held for sale” in terms of *IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations* at 31 March 2018 and 30 September 2017 following the Board’s decision to dispose of this business.

The carrying values of the assets of this business were remeasured at fair value less costs to sell at 30 September 2017 and the following impairment losses were consequently recognised in the line item “Items of a capital nature” in the statement of comprehensive income for the year ended 30 September 2017. No further impairment losses were recognised for the six months ended 31 March 2018.

| Nature | Unaudited Six months ended 31 March 2018 R'm | Audited Year ended 30 September 2017 R'm |
|--------------------------------|---|---|
| Intangible assets – trademarks | – | 21.0 |
| Goodwill | – | 10.1 |
| Subtotal | – | 31.1 |
| Income tax effect | – | (5.9) |
| After income tax effect | – | 25.2 |

The assets of the fish paste spreads business are presented within the Groceries segment and are as follows:

| | Unaudited 31 March 2018 R'm | Audited 30 September 2017 R'm |
|--|--|--|
| Assets of the disposal group classified as held for sale: | | |
| Property, plant and equipment | 2.3 | 2.3 |
| Intangible assets | 12.5 | 12.5 |
| Inventories | 8.1 | 5.2 |
| | 22.9 | 20.0 |

11. Fair value measurement

The information below analyses assets and liabilities that are carried at fair value at each reporting period, by level of hierarchy as required by IFRS 7 and IFRS 13.

| Unaudited fair value measurements at 31 March 2018 using: | | | |
|--|--|---|--|
| | Quoted prices in active markets for identical assets and liabilities (Level 1) R'm | Significant other observable input (Level 2) R'm | Significant unobservable input (Level 3) R'm |
| Assets measured at fair value | | | |
| Available-for-sale financial assets | | | |
| – Listed securities | 154.0 | – | – |
| – Unlisted securities | – | 1.4 | – |
| Derivative financial instruments | | | |
| – Foreign exchange contracts | – | 3.1 | – |
| – Forward purchase contracts on own equity | – | 256.0 | – |
| Assets of disposal group classified as held for sale | – | – | 12.5 |
| Liabilities measured at fair value | | | |
| Derivative financial instruments | | | |
| – Foreign exchange contracts | – | 18.4 | – |

| Unaudited fair value measurements at 31 March 2017 using: | | | |
|--|--|---|--|
| | Quoted prices in active markets for identical assets and liabilities (Level 1) R'm | Significant other observable input (Level 2) R'm | Significant unobservable input (Level 3) R'm |
| Assets measured at fair value | | | |
| Available-for-sale financial assets | | | |
| – Listed securities | 133.3 | – | – |
| – Unlisted securities | – | 1.0 | – |
| Derivative financial instruments | | | |
| – Foreign exchange contracts | – | 9.6 | – |
| – Forward purchase contracts on own equity | – | 477.7 | – |
| Liabilities measured at fair value | | | |
| Derivative financial instruments | | | |
| – Foreign exchange contracts | – | 5.7 | – |

**Audited fair value measurements at
30 September 2017 using:**

| | Quoted prices in active markets for identical assets and liabilities (Level 1) R'm | Significant other observable input (Level 2) R'm | Significant unobservable input (Level 3) R'm |
|--|--|---|--|
| 11. Fair value measurement (continued) | | | |
| Assets measured at fair value | | | |
| Available-for-sale financial assets | | | |
| – Listed securities | 136.7 | – | – |
| – Unlisted securities | – | 1.4 | – |
| Derivative financial instruments | | | |
| – Foreign exchange contracts | – | 22.1 | – |
| – Forward purchase contracts on own equity | – | 231.3 | – |
| – Embedded derivatives | – | 0.6 | – |
| Assets of disposal group classified as held for sale | – | – | 12.5 |
| Liabilities measured at fair value | | | |
| Derivative financial instruments | | | |
| – Foreign exchange contracts | – | 2.6 | – |

There have been no transfers between level one, two or three during the period, nor were there any significant changes to the valuation techniques and input used to determine fair values.

Financial assets and liabilities

The fair values of financial instruments traded in active markets (such as publicly traded derivatives and available-for-sale securities) are based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. The appropriate quoted market price for financial liabilities is the current ask price. These instruments are included in level 1. Instruments included in level 1 comprise primarily JSE-listed equity investments classified as available-for-sale.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument were observable, the instrument is included in level 2.

The fair values of the forward purchase contracts on own equity are determined at each reporting date and any changes in the values are recognised in profit or loss. The fair values of the forward purchase contracts have been determined by an independent external professional financial instruments specialist by using a discounted cash flow model. The inputs to this valuation method include the risk free rate, dividend yield, contractual forward price and the spot price at the reporting date.

The Group uses a variety of methods that makes assumptions that are based on market conditions existing at the reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments. Other techniques, such as estimated discounted cash flows, are used to determine the fair value for the remaining financial instruments. The fair value of foreign exchange contracts is determined using quoted forward exchange rates at the reporting date.

The carrying amounts of cash, trade and other receivables less provision for impairment, trade and other payables and short-term borrowings are assumed to approximate their fair values due to the short term until maturity of these assets and liabilities.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair values of long-term investments and long-term borrowings are not materially different from the carrying amounts.

11. Fair value measurement (continued)

Assets of a disposal group classified as held for sale

The assets related to the fish paste spreads business have been presented as “assets of a disposal group classified as held for sale” in terms of *IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations* for the six months ended 31 March 2018 and the year ended 30 September 2017. Refer to note 10 for further detail.

In terms of IFRS 5, an entity shall measure a non-current disposal group classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The fair value less costs to sell was determined based on an income valuation approach. In terms of the income valuation approach, the discounted cash flow method is used to determine the present value of projected future cash flows for a cash-generating unit (“CGU”) using a rate of return that is commensurate with the risk associated with the business and the time value of money. This approach requires assumptions about revenue growth rates, operating margins, tax rates and discount rates. The assumptions regarding growth are based on the CGU’s internal forecasts for revenue, operating margins and cash flows for a period of five years and by application of a perpetual long-term growth rate thereafter. Past experience, economic trends as well as market and industry trends were taken into consideration.

The key assumptions used in performing the impairment tests were as follows:

| | |
|-------------------------|-------|
| Discount rate (pre tax) | 18.0% |
| Perpetual growth rate | 5.0% |
| Income tax rate | 28.0% |

12. Preparation of financial statements

These unaudited condensed consolidated interim financial statements have been prepared under the supervision of F Lombard, CA(SA), CFO.

13. Audit

These results have not been audited or reviewed by the external auditors, PricewaterhouseCoopers Inc.

Directors

ZL Combi (Chairman), TA Carstens (CEO)*, N Celliers, Prof ASM Karaan, F Lombard*, NS Mjoli-Mncube, PJ Mouton, LE Mthimunye-Bakoro, SS Ntsaluba, G Pretorius, AH Sangqu, NWThomson (* Executive)

There were no changes to the Pioneer Foods Board during the period under review.

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J Jacobs

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