



**PIONEER
FOODS**

REALISING POTENTIAL



**UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 MARCH 2016**

PIONEER FOOD GROUP LIMITED Incorporated in the Republic of South Africa
REGISTRATION NUMBER: 1996/017676/06 TAX REGISTRATION NUMBER: 9834/695/71/1
SHARE CODE: PFG ISIN CODE: ZAE000118279 ("Pioneer Foods" or "the Group" or "the Company")



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FINANCIAL HIGHLIGHTS

Continuing operations



SALIENT FEATURES

Continuing operations:

Revenue*	R10 010 million	+9%
Adjusted operating profit (before items of a capital nature)**	R1 236 million	+6%
Adjusted headline earnings**	R887 million	+7%
Adjusted headline earnings per share**	479 cents	+6%

Group:

Earnings	R1 037 million	+90%
Earnings per share	560 cents	+89%
Diluted earnings per share	520 cents	+90%
Headline earnings	R1 030 million	+64%
Headline earnings per share	556 cents	+63%
Diluted headline earnings per share	517 cents	+63%
Net asset value per share	4 096 cents	+19%
Interim gross dividend per listed ordinary share (2015: 95 cents)	105 cents	+11%

Headline earnings ("HE") is calculated based on Circular 2/2015 issued by the South African Institute of Chartered Accountants.

* Excluding biscuits, Pepsi and Maitland Vinegar in the comparatives.

** HE and operating profit (before items of a capital nature) are adjusted for the impact of the share-based payment income/(charge) amounting to R142.7 million (2015: R203.1 million) on the B-BBEE Phase 1 transaction on profit or loss due to the volatility of this share-based payment income/(charge).

COMMENTARY

Group overview

Pioneer Foods delivered positive results for the six months ended 31 March 2016. An improved portfolio mix and margin expansion in Groceries, resilient Power Brands and well managed costs contributed to the overall financial outcome in a particularly challenging period.

The trading environment deteriorated given mounting concerns over the South African consumer amidst rising interest rates and significant inflation resulting from a weaker rand, exacerbated by the severe drought.

Notwithstanding the aforementioned, revenue increased by 9% (excluding biscuits, Pepsi and Maitland Vinegar from the comparative period) to R10.01 billion.

Cost of goods sold increased by 8% to R6.91 billion, given significant raw material price increases, partially offset by manufacturing efficiency improvements. As a result, gross profit increased by 2% to R3.10 billion, with a gross profit margin of 31.0% (2015: 32.3%).

The adjusted operating profit margin remained constant at the prior year high of 12.3%. Adjusted operating profit increased by 6% from R1 166 million to R1 236 million due to the healthier portfolio mix and stringent cost management.

Essential Foods delivered satisfactory results within bakeries and an excellent performance in rice. Overall profitability was negatively impacted by volume and adverse raw material dynamics in both maize and wheat. The honed Groceries portfolio performed exceptionally well generating significant operating leverage resulting in a 35% increase in operating profit from R253 million to R343 million. The International segment achieved operating profit growth of 16% notwithstanding volume and pricing pressure in certain African export destinations, augmented by a pleasing fruit result.

Profit from equity accounted joint venture interests, inclusive of Future Life and Food Concepts Pioneer (Nigeria) investments, increased by 25% to R42 million.

Adjusted headline earnings increased by 7% to R887 million. Adjusted headline earnings per share increased by 6% to 479.3 cents.

As at 31 March 2016, a gain of R143 million was recognised on the cash-settled Phase I (2006) B-BBEE transaction, accounted for in terms of IFRS 2. This resulted from the decrease in the Pioneer Foods share price from R195.76 at 30 September 2015 to R139.04 at 31 March 2016. Conversely, a charge of R203 million was recognised in the comparative six months results due to the increase in the Pioneer Foods share price from R118.00 at 30 September 2014 to R177.85 at 31 March 2015. Headline earnings as a consequence increased by 64% from R627 million to R1 030 million. Headline earnings per share increased by 63% from 340.8 cps to 556.4 cps with a 1% increase in the weighted average number of shares.

Cash generated from operations increased by 39% to R690 million amidst working capital pressure as a consequence of soft commodity inventories.

Capital expenditure of R349 million is R53 million higher than the comparative period. Major capital expansion projects include the Aeroton Bakery expansion, the installation of the additional Weet-Bix line, the Bokomo Foods UK plant relocation and the Duens Bakery upgrade. Total capital expenditure for the year, including replacement capital, is forecasted at R930 million.

On 1 October 2015, Pioneer disposed of its controlling share in Maitland Vinegar. The investment in Future Life became effective on the 1st of December 2015 and has been accounted for accordingly.

Segmental review

Six months ended 31 March 2016

	Segmental revenue*		Segmental operating profit	
	2016 R'm	% change	2016 R'm	% change
Essential Foods	6 054	8	645	(8)
Groceries	2 508	(5)	343	35
International	1 448	20	252	16
Corporate	—	—	(4)	—
Total	10 010	6	1 236	6

* Includes biscuits, Pepsi and Maitland Vinegar in the comparatives.

Essential Foods

Revenue increased by 8% to R6.054 billion while operating profit decreased by 8% to R645 million resulting in an operating profit margin of 10.6% (2015: 12.4%).

The performance of Essential Foods was overwhelmingly impacted by maize. Significant raw material price inflation, as a result of the drought and rand weakness, resulted in a decline in maize volumes. The White Star brand however maintained its category leadership position.

The bakery business continued to deliver volume growth and operating leverage in a very competitive environment. Planned manufacturing upgrades stifled volume growth in the Western Cape.

Pleasing volume and market share growth was achieved in the rice business with the resultant improvement in operating profit and margin.

The wheat performance was negatively affected by substantial raw material inflation as a result of the import duty which increased from R156 to R1 224 per tonne. The duty now constitutes c.25% of the cost of wheat milled. Marginally lower volumes were sold as a consequence.

Pasta and legumes performed satisfactorily.

Stringent cost management across all operations contributed to a better than initially anticipated financial performance.

Groceries

Revenue (excluding biscuits, Pepsi and Maitland Vinegar from the comparative period) increased by 7% to R2 508 million, whilst operating profit increased by 35% to R343 million.

The operating profit margin expanded by 410 basis points to 13.7% as a result of volume growth, the exit of underperforming categories and successful fixed cost reduction initiatives.

Core cereal brands were extremely resilient in a competitive environment. The revenue of the cereals portfolio increased by 9%. The Bokomo cereals portfolio further entrenched its market leadership position. The growth was stimulated by well positioned product offerings to value conscious consumers. Weet-Bix, Bokomo Corn Flakes and ProNutro delivered pleasing growth.

The Spreads category contributed positively by virtue of stringent cost controls throughout the value chain. Baking aids, desserts, meals and salads had mixed results, with baking aids and salads showing positive volume growth.

Beverages delivered strong results due to additional brand investment behind core brands. Beverage volumes, excluding Pepsi, increased by 6% whilst revenue on the same basis, increased by 9%.

The Snacks & Treats category delivered strong operating profit growth as a result of Safari activations, operational efficiencies and the divestment from biscuits.

International

Revenue increased by 20% to R1 448 million while operating profit increased by 16% to R252 million with an operating profit margin of 17.4% (2015: 18.0%).

Export volumes increased by 7%, with pleasing growth in fruit.

Beverage export volumes and pricing came under pressure on the African continent due to softening currencies. A creditable commercial outcome was realised notwithstanding the aforementioned.

Bokomo Foods UK delivered excellent growth in volume and revenue. The deliberate relocation of the muesli plant negatively impacted the first half operating profit. The plant improvements will enable further volume growth and the fulfilment of demand. The devaluation of the rand further benefited the consolidated results of Bokomo Foods UK.

Joint Ventures

The conservative investment in Food Concepts Pioneer (Nigeria) continued to show progress with its fix and optimise strategy, inclusive of systems integration, plant improvements and a new management team.

Bokomo Namibia, Bokomo Botswana and Bowmans Ingredients continued to deliver strong results.

The performance of Heinz was somewhat muted as a result of South African competitor dynamics, however the Africa exports continue to show significant growth, albeit off a low base.

Outlook

The external environment is likely to remain difficult for the near future. That said, Pioneer Foods has a high degree of strategic coherence and the ability to execute and compete effectively. There is sufficient scope to enhance efficiencies and curtail costs across the value chain. These will be deployed as a key enabler of revenue growth in a constrained market. Capital projects geared for growth and a strong balance sheet bode well for a sustainable performance.

Dividend

A gross interim dividend for the six months ended 31 March 2016 of 105 cents (2015: 95 cents) per share, an increase of 11%, has been approved and declared by the Board from income reserves. The applicable dates are as follows:

Last date of trading cum dividend	Friday, 24 June 2016
Trading ex dividend commences	Monday, 27 June 2016
Record date	Friday, 1 July 2016
Dividend payable	Monday, 4 July 2016

Share certificates may not be dematerialised or materialised between Monday, 27 June 2016 and Friday, 1 July 2016, both days inclusive.

A gross interim dividend of 31.5 cents (2015: 28.5 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 2016.

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

By order of the Board

ZL Combi
Chairman

Bellville
23 May 2016

PM Roux
Chief Executive Officer

PIONEER FOOD GROUP LIMITED

Condensed consolidated interim financial statements for the six months ended 31 March 2016

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 31 March 2016 R'm	Unaudited Six months ended 31 March 2015 R'm	Audited Year ended 30 September 2015 R'm
Continuing operations			
Revenue	10 009.7	9 449.7	18 748.2
Cost of goods sold	(6 905.3)	(6 400.9)	(12 773.7)
Gross profit	3 104.4	3 048.8	5 974.5
Other income and gains/(losses) – net	111.2	57.0	184.7
Other expenses	(1 837.3)	(2 143.4)	(4 313.3)
Excluding the following:			
Phase I B-BBEE transaction share-based payment income/(charge)	(1 980.0)	(1 940.3)	(4 006.5)
142.7	(203.1)	(306.8)	
Items of a capital nature	12.3	(45.5)	(48.5)
Operating profit	1 390.6	916.9	1 797.4
Investment income	27.3	16.1	39.3
Finance costs	(74.8)	(67.1)	(142.1)
Share of profit of investments accounted for using the equity method	41.6	33.3	71.4
Profit before income tax	1 384.7	899.2	1 766.0
Income tax expense	(347.9)	(318.4)	(588.7)
Profit for the period from continuing operations	1 036.8	580.8	1 177.3
Loss for the period from discontinued operations (attributable to owners of the parent)	–	(35.7)	(45.0)
Profit for the period	1 036.8	545.1	1 132.3
Other comprehensive income/(loss) for the period			
Items that will not subsequently be reclassified to profit or loss:			
Remeasurement of post-employment benefit obligations	–	–	(1.0)
Items that may subsequently be reclassified to profit or loss:			
Fair value adjustments to cash flow hedging reserve			
For the period			
Current income tax effect	–	–	(1.0)
Deferred income tax effect	55.0	(7.0)	70.3
Reclassified to profit or loss			
Current income tax effect	37.3	(11.2)	12.3
Deferred income tax effect	282.1	7.0	86.9
(78.1)	(4.3)	(31.0)	
Reclassified to profit or loss	(0.8)	2.3	6.6
(230.4)	(22.5)	(69.8)	
Fair value adjustments to available-for-sale financial assets	66.4	7.2	26.4
For the period	(1.9)	(0.9)	(6.8)
Fair value adjustments on available-for-sale financial assets	4.9	2.7	(4.6)
For the period	8.9	5.6	(0.6)
Deferred income tax effect	(0.3)	(0.5)	(0.2)
Reclassified to profit or loss	(3.7)	(2.4)	(3.8)
Share of other comprehensive income of investments accounted for using the equity method	6.7	2.6	22.7
Movement on foreign currency translation reserve	6.1	(1.1)	39.9
Total comprehensive income for the period	1 091.8	538.1	1 201.6
Profit/(loss) for the period attributable to:			
Owners of the parent			
For continuing operations	1 036.8	580.3	1 175.4
For discontinued operations	–	(35.7)	(45.0)
Non-controlling interest			
For continuing operations	–	0.5	1.9
Total comprehensive income/(loss) for the period attributable to:	1 036.8	545.1	1 132.3
Owners of the parent			
For continuing operations	1 091.8	573.3	1 244.7
For discontinued operations	–	(35.7)	(45.0)
Non-controlling interest			
For continuing operations	–	0.5	1.9
Total comprehensive income/(loss) for the period attributable to:	1 091.8	538.1	1 201.6

HEADLINE EARNINGS RECONCILIATION

	Unaudited Six months ended 31 March 2016 R'm	Unaudited Six months ended 31 March 2015 R'm	Audited Year ended 30 September 2015 R'm
Reconciliation between profit/(loss) attributable to owners of the parent and headline earnings			
<i>Profit/(loss) attributable to owners of the parent</i>	1 036.8	544.6	1 130.4
For continuing operations	1 036.8	580.3	1 175.4
For discontinued operations	–	(35.7)	(45.0)
<i>Remeasurement of items of a capital nature – continuing operations</i>	(6.7)	46.3	50.8
Net (profit)/loss on disposal of property, plant and equipment and intangible assets	(2.5)	(2.7)	1.7
Net profit on disposal of available-for-sale financial assets	(3.7)	(2.4)	(3.8)
Net profit on disposal of subsidiary	(24.2)	–	–
Impairment of available-for-sale financial assets	18.1	50.6	50.6
Before tax	(12.3)	45.5	48.5
Tax effect on remeasurement of items of a capital nature	5.6	0.8	2.3
<i>Remeasurement of items of a capital nature – discontinued operations</i>	–	35.7	45.0
Net loss on unbundling of Quantum Foods and disposal of Quantum Foods shares	–	17.9	27.4
Tax effect on remeasurement of items of a capital nature	–	17.8	17.6
<i>Remeasurement of items of a capital nature included in equity-accounted results</i>	(0.1)	0.6	1.1
Effect on remeasurement of items of a capital nature	(0.1)	0.8	1.5
Tax effect on remeasurement of items of a capital nature	–	(0.2)	(0.4)
Headline earnings	1 030.0	627.2	1 227.3
For continuing operations	1 030.0	627.2	1 227.3
For discontinued operations	–	–	–
Phase I B-BBEE transaction share-based payment (income)/charge	(142.7)	203.1	306.8
Adjusted headline earnings (Note 1)	887.3	830.3	1 534.1
For continuing operations	887.3	830.3	1 534.1
For discontinued operations	–	–	–
Number of issued ordinary shares (million)	232.3	232.4	232.7
Number of issued treasury shares:			
– held by subsidiary (million)	18.0	18.0	18.0
– held by share incentive trust (million)	0.1	0.8	0.7
– 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)	3.9	4.6	4.2
Weighted average number of ordinary shares (million)	185.1	184.0	184.5
Weighted average number of ordinary shares – diluted (million)	199.4	198.4	200.1
Earnings per ordinary share (cents):			
– basic	560.1	295.9	612.8
– diluted	520.1	274.4	564.9
– headline	556.4	340.8	665.3
– diluted headline	516.6	316.1	613.4
– adjusted headline (Note 1)	479.3	451.2	831.6
– diluted adjusted headline (Note 1)	445.1	418.5	766.7
Gross dividend per ordinary share (cents)	105.0	95.0	332.0
Gross dividend per class A ordinary share (cents)	31.5	28.5	99.6
Net asset value per ordinary share (cents)	4 096.1	3 450.0	3 757.6
Debt to equity ratio (%)	12.5	16.2	5.8

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 the share-based payment income/(charge) on the B-BBEE Phase I transaction on profit or loss due to the volatility of this share-based payment income/(charge).

GROUP STATEMENT OF FINANCIAL POSITION

	Unaudited 31 March 2016 R'm	Unaudited 31 March 2015 R'm	Audited 30 September 2015 R'm
Assets			
Property, plant and equipment	4 476.3	4 364.9	4 328.9
Goodwill	225.0	251.3	224.4
Other intangible assets	472.2	480.0	475.1
Biological assets	16.0	16.0	16.0
Investments in and loans to associates and joint ventures	799.1	417.7	574.0
Available-for-sale financial assets	133.2	147.0	141.8
Trade and other receivables	19.7	23.3	24.3
Deferred income tax	–	2.1	0.2
Non-current assets	6 141.5	5 702.3	5 784.7
Current assets	6 489.9	5 592.3	6 298.2
Inventories	3 249.9	2 630.7	2 678.9
Derivative financial instruments	13.9	14.1	20.6
Trade and other receivables	2 371.2	2 206.3	2 148.6
Current income tax	0.3	0.3	1.3
Cash and cash equivalents	854.6	740.9	1 448.8
Assets of disposal group classified as held for sale	–	52.8	88.1
Total assets	12 631.4	11 347.4	12 171.0
Equity and liabilities			
Capital and reserves attributable to owners of the parent	7 594.1	6 375.6	6 958.7
Share capital	23.2	23.2	23.3
Share premium	2 372.4	2 371.0	2 430.5
Treasury shares	(1 188.0)	(1 204.8)	(1 204.1)
Other reserves	473.6	347.7	460.5
Retained earnings	5 912.9	4 838.5	5 248.5
Non-controlling interest	–	60.8	12.3
Total equity	7 594.1	6 436.4	6 971.0
Non-current liabilities	2 234.2	2 652.1	2 273.4
Borrowings			
B-BBEE equity transaction third-party finance	449.7	449.7	449.7
Other	870.0	1 183.1	850.5
Provisions for other liabilities and charges	112.3	104.3	110.4
Share-based payment liability	239.5	363.1	395.8
Deferred income tax	562.7	551.9	467.0
Current liabilities	2 803.1	2 257.3	2 901.0
Trade and other payables	2 189.9	1 967.1	2 210.0
Current income tax	42.0	58.8	21.0
Derivative financial instruments	32.4	17.5	15.8
Borrowings	486.6	138.9	553.9
Loan from joint venture	2.0	5.5	20.5
Share-based payment liability	49.7	69.0	79.3
Dividends payable	0.5	0.5	0.5
Liabilities of disposal group classified as held for sale	–	1.6	25.6
Total equity and liabilities	12 631.4	11 347.4	12 171.0

GROUP STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 31 March 2016 R'm	Unaudited Six months ended 31 March 2015 R'm	Audited Year ended 30 September 2015 R'm
Share capital, share premium and treasury shares	1 207.6	1 189.4	1 249.7
Opening balance	1 249.7	1 091.9	1 091.9
Movement in treasury shares	16.1	(18.3)	5.3
Ordinary shares acquired by BEE trust	–	–	(22.9)
Ordinary shares issued – share appreciation rights	23.9	115.9	175.6
Ordinary shares bought back from management share incentive trust and cancelled	(82.1)	–	–
Employee share scheme – repurchase of shares	–	(0.1)	(0.2)
Other reserves	473.6	347.7	460.5
Opening balance	460.5	428.5	428.5
Equity compensation reserve transactions	22.1	17.2	38.9
Ordinary shares issued – share appreciation rights	(23.9)	(115.8)	(175.6)
Deferred income tax on share-based payments	(40.1)	32.3	105.9
Share of other comprehensive income of investments accounted for using the equity method	6.7	2.6	22.7
Unbundling of Quantum Foods	–	(7.5)	(7.5)
Other comprehensive income for the period	48.3	(9.6)	47.6
Retained earnings	5 912.9	4 838.5	5 248.5
Opening balance	5 248.5	4 582.0	4 582.0
Profit for the period	1 036.8	544.6	1 130.4
Other comprehensive loss for the period	–	–	(1.0)
Dividends paid	(439.3)	(287.6)	(463.3)
Management share incentive scheme – disposal of shares	67.3	0.1	1.4
Employee share scheme – transfer tax on share transactions	(0.4)	(0.6)	(1.0)
Non-controlling interest	–	60.8	12.3
Opening balance	12.3	10.4	10.4
Non-controlling interest acquired – business combination	–	49.9	–
Disposal of subsidiary	(12.3)	–	–
Profit for the period	–	0.5	1.9
Total equity	7 594.1	6 436.4	6 971.0

GROUP STATEMENT OF CASH FLOWS

	Unaudited Six months ended 31 March 2016 R'm	Unaudited Six months ended 31 March 2015 R'm	Audited Year ended 30 September 2015 R'm
Net cash profit from operating activities	1 427.8	1 345.1	2 512.2
Cash effect from hedging activities	42.0	(10.8)	16.2
Working capital changes	(779.6)	(838.0)	(546.4)
Net cash generated from operations	690.2	496.3	1 982.0
Income tax paid	(285.1)	(157.2)	(475.5)
Net cash flow from operating activities	405.1	339.1	1 506.5
Net cash flow from investment activities	(393.7)	(231.2)	(422.7)
Property, plant and equipment and intangible assets			
– additions	(217.3)	(63.9)	(186.3)
– replacements	(131.7)	(231.7)	(465.5)
– proceeds on disposal	45.1	30.9	176.3
Business combinations	–	(81.3)	–
Proceeds on disposal of and changes in available-for-sale financial assets and loans	(15.0)	76.5	117.6
Proceeds on disposal of subsidiary and proceeds from repayment of related loan	74.2	–	–
Investment in joint ventures	(200.5)	–	(126.3)
Interest received	24.8	15.1	37.2
Dividends received	2.5	1.0	2.1
Dividends received from joint ventures	24.2	22.2	22.2
Net cash flow from financing activities	(552.3)	(419.8)	(603.5)
Proceeds from borrowings	5.4	86.9	207.1
Treasury shares acquired by BEE trust	–	–	(22.9)
Repurchase of class A ordinary shares from leavers and other share scheme transactions	(42.3)	(151.0)	(187.1)
Interest paid	(76.1)	(68.3)	(137.4)
Dividends paid	(439.3)	(287.4)	(463.2)
Net cash, cash equivalents and bank overdrafts on unbundling of Quantum Foods	–	(105.6)	(105.6)
Net cash and cash equivalents on disposal of subsidiary	(11.9)	–	–
Net cash, cash equivalents and bank overdrafts from business combinations	–	79.8	–
Net (decrease)/increase in cash, cash equivalents and bank overdrafts	(552.8)	(337.7)	374.7
Net cash, cash equivalents and bank overdrafts at beginning of period	1 392.8	1 018.1	1 018.1
Net cash, cash equivalents and bank overdrafts at end of period	840.0	680.4	1 392.8
Disclosed as continuing operations	840.0	680.4	1 380.9
Disclosed as disposal group held for sale	–	–	11.9

GROUP SEGMENT REPORT

	Unaudited Six months ended 31 March 2016 R'm	Unaudited Six months ended 31 March 2015 R'm Restated	Audited Year ended 30 September 2015 R'm Restated
Segment revenue (Note 1)			
Essential Foods	6 053.7	5 610.2	11 334.5
Groceries	2 508.2	2 628.4	4 797.4
International	1 447.8	1 211.1	2 616.3
Total	10 009.7	9 449.7	18 748.2
Segment results (Note 1)			
Essential Foods	644.5	698.3	1 278.5
Groceries	342.7	253.3	434.5
International	251.8	218.0	444.5
Other	(3.4)	(4.1)	(4.8)
	1 235.6	1 165.5	2 152.7
Phase I B-BBEE transaction share-based payment income/(charge)	142.7	(203.1)	(306.8)
Operating profit before items of a capital nature	1 378.3	962.4	1 845.9
Reconciliation of operating profit (before items of a capital nature) to profit before income tax			
Operating profit before items of a capital nature	1 378.3	962.4	1 845.9
Adjusted for:			
Remeasurement of items of a capital nature	12.3	(63.4)	(75.9)
Interest income	24.8	15.1	37.2
Dividends received	2.5	1.0	2.1
Finance costs	(74.8)	(67.1)	(142.1)
Share of profit of investments accounted for using the equity method	41.6	33.3	71.4
Profit before income tax (including discontinued operations)	1 384.7	881.3	1 738.6

Note 1

Segment revenue and segment results were restated to consolidate the Groceries: Beverages and Groceries: Cereals and other segments into a single segment, Groceries. Refer to note 12 of the notes to the condensed consolidated interim financial statements for further detail regarding this restatement.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 MARCH 2016

1. Basis of preparation

The condensed consolidated interim financial statements of the Group for the six months ended 31 March 2016 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 2015 and with those of previous financial years.

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 2015.

Assessment of joint control over Food Concepts Pioneer Ltd

Pioneer Foods acquired an interest of 50.1% in Food Concepts Pioneer Ltd ("FCP"), a bakery business in Nigeria, for a purchase consideration of R81.3 million on 1 March 2015.

In the interim financial statements for the six months ended 31 March 2015, FCP was consolidated as the Group was of the opinion that it had power over the relevant activities of the company.

The assessment of whether the Group had power over the relevant activities of FCP involved the application of significant judgement and legal interpretation of the respective legal agreements. Since the publication of the interim financial statements for the six months ended 31 March 2015, the Group reassessed its interpretation and concluded that, given the requirement for unanimous consent of both parties to the agreement in respect of the most significant relevant activities, a more appropriate classification would be that of a joint venture. Consequently, FCP was accounted for as a joint venture and equity accounted in the financial statements of the Group for the year ended 30 September 2015 and the six months ended 31 March 2016.

As the transaction is considered immaterial in the context of the financial statements, the condensed consolidated interim financial statements for the six months ended 31 March 2015 were not restated.

	Unaudited Six months ended 31 March 2016	Unaudited Six months ended 31 March 2015	Audited Year ended 30 September 2015
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	232 739 331	231 691 881	231 691 881
Shares issued in terms of employee share appreciation rights scheme	146 075	741 469	1 047 450
Shares repurchased from management share incentive trust and cancelled	(612 000)	–	–
At end of period	232 273 406	232 433 350	232 739 331
146,075 (30 September 2015: 1,047 450 and 31 March 2015: 741,469) listed ordinary shares of 10 cents each were issued at an average of R163.54 (30 September 2015: R167.71 and 31 March 2015: R156.23) per share in terms of the share appreciation rights scheme.			
612,000 shares were repurchased at an average price of R134.11 per share and subsequently cancelled.			
Number of treasury shares held by the share incentive trust			
At beginning of period	729 612	1 110 213	1 110 213
Movement in shares	(61 790)	(299 701)	(380 601)
Repurchased by the Company and cancelled	(612 000)	–	–
At end of period	55 822	810 512	729 612
Proceeds on the sale of treasury shares by the share incentive trust (R'000)	1 373	4 675	6 660
Proceeds on the repurchase of treasury shares from the share incentive trust by the Company (R'000)	82 075	–	–
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 of period	10 745 350	10 599 988	10 599 988
Shares acquired	–	145 362	145 362
At end of period	10 745 350	10 745 350	10 745 350
Purchase consideration paid for shares acquired by BEE Trust (R'000)	–	22 940	22 940
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	4 234 300	6 043 940	6 043 940
Shares bought back and cancelled	(289 800)	(1 411 970)	(1 809 640)
At end of period	3 944 500	4 631 970	4 234 300
Purchase consideration paid for unlisted class A ordinary shares bought back (R'000)	40 414	129 910	189 405

4. Borrowings

Pioneer Foods obtained a R300 million vehicle and asset finance facility during the 2014 financial year. This facility is used to finance the replacement of the Group's bakery delivery vehicle fleet. The vehicles are acquired in terms of instalment sale agreements. These borrowings are secured by the vehicles acquired in terms of these agreements. At 31 March 2016, new borrowings obtained in terms of these facilities amounted to R28.8 million (31 March 2015: R110.2 million and 30 September 2015: R210.5 million).

No other 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 (2015: gross interim dividend of 95.0 cents and 2015: gross final dividend of 237.0 cents) per ordinary share. This will amount to approximately R232,604,459 (2015: interim of R210,743,649 and 2015: final of R526,332,444) depending on the exact number of ordinary shares issued 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 (2015: gross interim of 19.0 cents and 2015: gross final dividend of 47.4 cents) per share, amounting to R2,256,524 (2015: interim of R2,041,617 and 2015: final of R5,093,296).

The Board approved a gross interim dividend of 31.5 cents (2015: gross interim dividend of 28.5 cents and 2015: gross final dividend of 71.1 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 R1,242,518 (2015: interim of R1,226,047 and 2015: final of R2,862,920) depending on the exact number of class A ordinary shares issued 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 15%, to be withheld and paid to the South African Revenue Services 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 89.250 cents per ordinary share and 26.775 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 232,330,904 and 3,841,460 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

6.1 Guarantees

The Group had guarantees in issue of R35.5 million (30 September 2015: R36.5 million) as at 31 March 2016, primarily for loans by third parties to contracted suppliers.

As part of the financial assistance 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.

6.2 Dispute with egg contract producers – discontinued operations

Pioneer Foods is defending contractual claims from its former privatised egg contract producers. The matters were set down for arbitration during 2012. Since the hearings commenced in 2012, settlements were negotiated with all except one egg contract producer. These settlements had no adverse financial impact on Pioneer Foods.

During the 2015 financial year, settlement agreements were reached with KwaZulu Egg Producers (Pty) Ltd and Moerascrivier Boerdery (Pty) Ltd. The claim of the remaining contract egg producer, being Flinkwink Properties (Pty) Ltd is still unresolved.

Pioneer Foods filed pleas to this claim and, in respect of this claim, a counterclaim has been filed to recover damages suffered by Pioneer Foods as a result of breach of contract by the contract producer. No further legal action transpired during the period under review. Based on legal opinion obtained, management is satisfied that this unresolved matter is low risk and poses no material financial risk to the Group.

Pioneer Foods unbundled its interests in Quantum Foods to its shareholders and subsequently Quantum Foods was listed on the JSE on 6 October 2014. Quantum Foods indemnified Pioneer Foods from any potential financial exposure to the claims from the egg contract producers.

7. Future capital commitments

Capital expenditure approved by the Board and contracted for 2016 amount to R443.2 million (30 September 2015: R492.0 million). Capital expenditure approved by the Board and contracted for 2017 amount to R373.0 million (30 September 2015: Rnil).

Capital expenditure approved by the Board for 2016, but not contracted for yet, amount to R137.8 million (30 September 2015: R372.7 million). Capital expenditure approved by the Board for years thereafter, but not contracted for yet, amount to R71.1 million (30 September 2015: R494.6 million).

Capital commitments relating to joint ventures amount to R77.7 million (30 September 2015: R137.8 million).

8. Impairment of Quantum Foods shares

The 18,091,661 Quantum Foods Holdings Ltd shares held by the Phase II B-BBEE transaction participants are accounted for as available-for-sale financial assets. As at 31 March 2016, the market value of the Quantum Foods Holdings Ltd shares was significantly lower than the original cost price and market value at 30 September 2015. Consequently, an impairment loss of R18.1 million (30 September 2015: R50.6 million) has been recognised. The loss has been included in the line item "Items of a capital nature" in the statement of comprehensive income for the six months ended 31 March 2016.

This impairment charge attributable to available-for-sale financial assets is as follows:

Nature	Unaudited Six months ended 31 March 2016 R'm	Unaudited Six months ended 31 March 2015 R'm	Audited Year ended 30 September 2015 R'm
Available-for-sale financial assets	18.1	50.6	50.6
Income tax effect	–	–	–
After income tax effect	18.1	50.6	50.6

9. Acquisition of a 50% equity interest in Future Life Health Products (Pty) Ltd ("Future Life")

Pioneer Foods acquired a 50% shareholding in Future Life for an amount of R200 million. As announced on SENS on 9 November 2015, The Competition Tribunal of South Africa granted conditional approval of this transaction. These conditions will have no negative impact on the commercial prospects for this venture.

The effective date of this transaction was 1 December 2015.

10. Disposal of interest in Maitland Vinegar Works (Pty) Ltd

As at 1 October 2015, all conditions precedent for the disposal of the Group's interests in Maitland Vinegar Works (Pty) Ltd were met. Consequently, the assets and liabilities related to Maitland Vinegar were presented as a "disposal group held for sale" in terms of IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations for the year ended 30 September 2015.

A profit of R24.2 million was recognised on this sale and has been included in the line item "Items of a capital nature" in the statement of comprehensive income for the six months ended 31 March 2016.

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 2016 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	133.2	–	–
Derivative financial instruments			
– Foreign exchange contracts	–	13.9	–
Biological assets			
– Vineyards	–	–	16.0
Liabilities measured at fair value			
Derivative financial instruments			
– Foreign exchange contracts	–	32.4	–

11. Fair value measurement (continued)

	Unaudited fair value measurements at 31 March 2015 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	145.6	–	–
– Unlisted securities	–	1.4	–
Derivative financial instruments			
– Foreign exchange contracts	–	14.1	–
Biological assets			
– Vineyards	–	–	16.0
Liabilities measured at fair value			
Derivative financial instruments			
– Foreign exchange contracts	–	17.5	–
 Audited fair value measurements at 30 September 2015 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	141.6	–	–
– Unlisted securities	–	0.2	–
Derivative financial instruments			
– Foreign exchange contracts	–	20.4	–
– Futures – fair value hedges	–	0.2	–
Biological assets			
– Vineyards	–	–	16.0
Liabilities measured at fair value			
Derivative financial instruments			
– Foreign exchange contracts	–	15.1	–
– Embedded derivative	–	0.7	–

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.

11. Fair value measurement (continued)

Financial assets and liabilities (continued)

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 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.

Biological assets

The fair value of vineyards is calculated as the future expected net cash flows from the asset, discounted at a current market-determined rate, over the remaining useful lives of the vineyards.

12. Restatement of segment information for comparative periods

Segment revenue and segment results were restated to consolidate the Groceries: Cereals and other and Groceries: Beverages segments into a single Groceries segment.

	Unaudited Six months ended 31 March 2015 R'm	Audited Year ended 30 September 2015 R'm
Increase/(decrease) in revenue		
Groceries	2 628.4	4 797.4
Groceries: Cereals and other	(1 260.1)	(2 420.3)
Groceries: Beverages	(1 368.3)	(2 377.1)
Total	—	—
Increase/(decrease) in operating profit before items of a capital nature		
Groceries	253.3	434.5
Groceries: Cereals and other	(128.2)	(252.0)
Groceries: Beverages	(125.1)	(182.5)
Total	—	—

13. Preparation of financial statements

These unaudited condensed consolidated interim financial statements have been prepared under the supervision of CJ Hess, CA(SA), Group financial director.

14. Audit

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



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