PIONEER FOODS

Registration Number 1996-017676-06

2003 Interim Report

Six months ended 31 March

GROUP INCOME STATEMENT

	Unaudited six months ended 31 March 2003 R'm	Unaudited six months ended 31 March 2002 R'm	Audited year ended 30 September 2002 R'm
Revenue	**3 974,6**	2 894,0	6 512,3
Operating profit before depreciation	**241,6**	205,3	513,1
Depreciation	**(79,4)**	(81,8)	(162,8)
Operating profit before exceptional items	**162,2**	123,5	350,3
Exceptional items	**(13,7)**	6,2	(7,1)
Operating profit after exceptional items	**148,5**	129,7	343,2
Investment income	**25,9**	33,9	70,1
Finance charges	**(55,4)**	(39,4)	(92,9)
Profit from associated companies	**2,0**	–	0,3
Net profit before taxation	**121,0**	124,2	320,7
Taxation	**(37,4)**	(32,4)	(88,4)
Net profit after taxation	**83,6**	91,8	232,3
Attributable to minority shareholders	**(2,3)**	(1,7)	(4,4)
Net profit for the year	**81,3**	90,1	227,9
Adjusted for exceptional items	**13,7**	(6,2)	7,1
Profit on sale of fixed assets	**(3,4)**	(6,0)	(4,7)
Profit on disposal of investments	**(0,5)**	(0,2)	(0,1)
Permanent decline in value of fixed assets	**–**	–	7,9
Goodwill written off	**17,6**	–	4,0
Tax effect on exceptional items	**1,0**	0,8	(1,4)
Headline earnings	**96,0**	84,7	233,6
Number of issued ordinary shares (million)	**183,1**	183,0	183,0
Weighted average number of ordinary shares (million)	**170,3**	170,3	170,3
Headline earnings per ordinary share (cents)	**56,4**	49,7	137,2
Dividend per ordinary share (cents)	**9,8**	8,2	29,5

SEGMENTAL ANALYSIS

	Unaudited six months ended 31 March 2003 R'm	Unaudited six months ended 31 March 2002 R'm	Audited year ended 30 September 2002 R'm
Segment revenue *			
Staple foods	**3 298,1**	2 477,2	5 571,2
Branded products	**656,8**	408,9	878,9
Unallocated	**101,9**	67,5	190,2
	4 056,8	2 953,6	6 640,3
Less: Internal revenue	**(82,2)**	(59,6)	(128,0)
	3 974,6	2 894,0	6 512,3
Segment results *			
Staple foods	**104,8**	95,3	285,5
Branded products	**63,8**	35,1	84,4
Unallocated	**(6,4)**	(6,9)	(19,6)
	162,2	123,5	350,3

* Restated to correctly reflect the effect of inter segment revenue and related cost.

GROUP BALANCE SHEET

	Unaudited 31 March 2003 R'm	Unaudited 31 March 2002 R'm	Audited 30 September 2002 R'm
Assets			
Fixed and intangible assets	**949,7**	678,8	956,9
Investments and loans	**324,4**	429,7	318,8
Deferred tax	**14,3**	–	14,0
Non-current assets	**1 288,4**	1 108,5	1 289,7
Current assets	**2 091,0**	1 743,0	2 036,3
Stock	**1 193,6**	919,8	1 062,8
Debtors	**780,4**	624,8	791,9
Cash and short-term investments	**117,0**	198,4	181,6
Total assets	**3 379,4**	2 851,5	3 326,0
Equity and liabilities			
Capital and reserves	**1 605,9**	1 488,6	1 625,1
Minority interest	**14,8**	7,9	12,8
Non-current liabilities	**527,2**	349,9	368,2
Long-term liabilities	**472,2**	305,8	316,8
Deferred taxation	**55,0**	44,1	51,4
Current liabilities	**1 231,5**	1 005,1	1 319,9
Creditors, provisions and shareholders for dividend	**803,6**	782,8	847,2
Bank overdraft and short-term loans	**427,9**	222,3	472,7
Total equity and liabilities	**3 379,4**	2 851,5	3 326,0

GROUP CASH FLOW STATEMENT

	Unaudited six months ended 31 March 2003 R'm	Unaudited six months ended 31 March 2002 R'm	Audited year ended 30 September 2002 R'm
Cash profit from operating activities	**241,6**	205,3	513,1
Change in hedging reserve	**(80,4)**	–	17,8
Working capital changes	**(78,9)**	(240,1)	(233,8)
Cash generated from/(utilised in) operations	**82,3**	(34,8)	297,1
Interest received	**8,2**	18,4	37,9
Interest paid	**(55,4)**	(39,4)	(92,9)
Dividends received	**17,7**	15,5	32,2
Dividends paid	**(36,3)**	(19,0)	(32,8)
Tax paid	**(94,6)**	(29,0)	(42,4)
Net cash flow from operating activities	**(78,1)**	(88,3)	199,1
Net cash flow from investment activities	**(98,8)**	(94,8)	(366,3)
Net cash deficit	**(176,9)**	(183,1)	(167,2)
Net cash flow from financing activities	**157,1**	2,1	(281,0)
Net decrease in cash and cash equivalents	**(19,8)**	(181,0)	(448,2)

Group Statement of Changes in Equity

	Unaudited six months ended 31 March 2003 R'm	Unaudited six months ended 31 March 2002 R'm	Audited year ended 30 September 2002 R'm
Share capital and premium	**746,3**	746,9	747,0
Opening balance	**747,0**	780,6	780,6
Change in accounting policy	**–**	(33,7)	(33,7)
Shares issued	**0,5**	–	–
Treasury shares bought back	**(1,2)**	–	0,1
Non-distributable reserves	**(36,8)**	13,8	26,4
Opening balance	**26,4**	7,0	7,0
Transfers from distributable reserves	**0,3**	0,1	0,2
Conversion of foreign currency	**(7,2)**	6,7	6,7
Hedging reserve	**(56,3)**	–	12,5
Distributable reserves	**896,4**	727,9	851,7
Opening balance	**851,7**	653,4	653,4
Change in accounting policy	**–**	3,4	3,4
Net profit	**81,3**	90,1	227,9
Dividend	**(36,3)**	(18,9)	(32,8)
Transfers to non-distributable reserves	**(0,3)**	(0,1)	(0,2)
Total equity	**1 605,9**	1 488,6	1 625,1

Comments

The financial performance of the Group for the first six months of the financial year, was acceptable considering the tremendous fluctuations in currency and raw material markets. In particular, the significant strengthening of the rand by more than 30% against traditionally stronger currencies, is currently proving most market assumptions and strategies wrong. Revenue increased by 37% to R4 billion, mainly as a result of the upward trend in food prices during the second half of the 2002 calendar year. If the revenue generated by S.A.D, which was not yet part of the Group in the comparative period, is excluded, the Group's revenue still increased by 26%. Headline earnings increased by 13% to R96 million, while cash profit from operating activities increased by 18% to R242 million. These are the results after a provision of R33 million was made for the expected lower than cost price realisation of wheat and maize stocks. Hedge accounting is applied to unrealised future market transactions in terms of the accounting statement AC 133. As a result, R56 million was written off directly against reserves.

The milling and baking division performed weaker than in the comparative period. Purchasing strategies did not foresee the dramatic drop in the price of raw materials and the resultant downward pressure on sales prices of maize meal in particular. In addition to the pressure on profit margins, maize meal volumes also dropped by 10%. However, bakeries performed well, mainly because cost increases could be maintained below inflation levels, and because of an improved ratio of high value-added products in the product basket.

In the agri division the profitability of the broiler and egg businesses is under pressure. Initial pressure on margins was caused by increased raw material costs during the second part of the previous year, while the strengthening of the rand is currently supporting direct imports of broilers, leading to an imbalance in supply and demand.

Comments (continued)

Profitability of the Bokomo Foods division was satisfactory, mainly as a result of excellent growth in sales volumes. Cost increases were, however, absorbed to a large degree by the division and led to a decrease in margins. During the period the activities of Nature Source, acquired with the acquisition of S.A.D, were successfully incorporated into Bokomo Foods.

The packaging division, Craft Box, performed satisfactorily and recorded substantially improved results compared to the previous period.

The profitability of S.A.D's business operations in particular was adversely affected by the strengthening of the rand. More than 40% of S.A.D's revenue is earned in dollar currency. World shortages led to above average dollar price increases. These increases were, however, not sufficient to compensate for the negative effect of the substantial strengthening in the value of the rand. Despite the disappointing results, especially in recent months, the repositioning of S.A.D is in progress and will be largely completed by the end of the year. Should the rand continue to trade at current levels, fixed price contracts concluded with producers during October 2002, will place S.A.D's profitability under further pressure during the second half of the year.

The profitability of the business in Namibia improved, but the results in both Zambia and Uganda were disappointing. Corrective measures have, however, been implemented and an improvement in results is expected.

The Future

The growth trend of the first six months will probably not be maintained for the financial year as a whole, given the excellent results during the second half of the 2002 financial year. Fluctuations, in raw material prices and the exchange rate of the rand, together with the downward pressure on final products prices, will probably result in a decrease in earnings for the year. Cash flow is healthy, however, and it is expected that lower prices will result in the release of cash from working capital.

Change in Accounting Policy

The accounting policy to account for the share incentive trusts has been adjusted since 1 October 2002. Shares under option already allocated to staff and unallocated stock are henceforth considered as treasury shares and are consolidated as such as part of Group results. The comparative figures for 31 March 2002 and 30 September 2002 were adjusted for the effect of the change in policy. Headline earnings per share for the year to 30 September 2002 increased by 7,7 cents per share to 137,2 cents per share, while the weighted average number of shares was reduced by 10,1 million to 170,3 million.

Dividend

An increased interim dividend of R18 million (2002 : R15 million) will be distributed. This represents 9,8 cents per share (2002 : 8,2 cents per share) and an increase of 20%. The dividend is payable on 22 July 2003 to all shareholders registered on 20 June 2003.

By order of the board.

H E Blanckenberg
Chairman

W A Hanekom
Managing Director

Paarl, 22 May 2003
Internet: http://www.pnr.co.za

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