PIONEERFOODS

SINCE 1920

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"

PIONEER FOODS SALIENT FEATURES

Revenue	R9 billion	11% ↑
Interim gross dividend per listed ordinary share (2011: 40 cents)		44 cents

After the figures for the reporting period were adjusted by R160.7 million for a once-off share-based payment charge on the B-BBEE equity transaction:

Adjusted operating profit (before items of a capital nature)	R628 million	5% ↓
Adjusted headline earnings	R397 million	6% ↓
Adjusted headline earnings per share	221 cents	7% ↓

Unaudited condensed consolidated interim financial statements for the six months ended 31 March 2012

Group statement of comprehensive income

	Unaudited Six months ended 31 March 2012 R'm	Unaudited Six months ended 31 March 2011 R'm	Audited Year ended 30 September 2011 R'm
Revenue	**9 193.2**	8 308.3	16 853.1
Cost of goods sold	**(6 538.1)**	(5 698.8)	(11 804.1)
Gross profit	**2 655.1**	2 609.5	5 049.0
Other income and gains/(losses) – net	**135.6**	144.7	291.7
Other expenses	**(2 323.5)**	(2 096.2)	(4 149.4)
Excluding once-off share-based payment charge on B-BBEE equity transaction	**(2 162.8)**	(2 096.2)	(4 149.4)
Once-off share-based payment charge on B-BBEE equity transaction	**(160.7)**	–	–
Items of a capital nature	**(2.1)**	8.5	(0.8)
Operating profit	**465.1**	666.5	1 190.5
Investment income	**9.0**	10.8	19.2
Finance costs	**(70.4)**	(59.0)	(160.0)
Share of profit of associated companies	**0.2**	0.8	0.3
Profit before income tax	**403.9**	619.1	1 050.0
Income tax expense	**(169.2)**	(188.2)	(319.9)
Profit for the period	**234.7**	430.9	730.1
Other comprehensive (loss)/income for the period	**(13.4)**	17.1	63.8
Net fair value adjustments to cash flow hedging reserve	**(9.6)**	12.3	36.7
For the period	**37.7**	72.6	118.6
Current income tax effect	**(10.5)**	(22.1)	(40.2)
Deferred income tax effect	**(0.1)**	1.8	7.0
Reclassified to profit or loss	**(51.0)**	(55.6)	(67.6)
Current income tax effect	**16.8**	22.1	36.2
Deferred income tax effect	**(2.5)**	(6.5)	(17.3)
Net fair value adjustments on available-for-sale financial assets	**5.8**	3.1	1.9
For the period	**6.3**	4.3	3.9
Deferred income tax effect	**(0.1)**	(0.5)	(0.3)
Reclassified to profit or loss	**(0.4)**	(0.7)	(1.7)
Movement on foreign currency translation reserve	**(9.6)**	1.7	25.2
Total comprehensive income for the period	**221.3**	448.0	793.9
Profit for the period attributable to:			
Owners of the parent	**233.7**	430.1	728.8
Non-controlling interest	**1.0**	0.8	1.3
	234.7	430.9	730.1
Total comprehensive income for the period attributable to:			
Owners of the parent	**220.3**	447.2	792.6
Non-controlling interest	**1.0**	0.8	1.3
	221.3	448.0	793.9

Headline earnings reconciliation

	Unaudited Six months ended 31 March 2012 R'm	Unaudited Six months ended 31 March 2011 R'm	Audited Year ended 30 September 2011 R'm
Reconciliation between profit attributable to owners of the parent and headline earnings			
Profit attributable to owners of the parent	**233.7**	430.1	728.8
Remeasurement of items of a capital nature	**2.1**	(8.5)	0.8
Net loss/(profit) on disposal of property, plant, equipment and intangible assets	**2.6**	(7.8)	(5.4)
Net profit on disposal of available-for-sale financial assets	**(0.5)**	(0.7)	(1.7)
Impairment of property, plant, equipment and intangible assets	**–**	–	7.9
Tax effect on remeasurement of items of a capital nature	**–**	0.1	(3.4)
Headline earnings	**235.8**	421.7	726.2
Once-off share-based payment charge on B-BBEE equity transaction	**160.7**	–	–
Adjusted headline earnings	**396.5**	421.7	726.2
Number of issued ordinary shares (million)	**219.5**	201.2	201.2
Number of issued treasury shares:			
– held by subsidiary (million)	**18.0**	18.0	18.0
– held by share incentive trust (million)	**3.2**	4.5	3.9
– held by B-BBEE equity transaction participants (million)	**18.1**	–	–
Number of issued class A ordinary shares (million)	**8.7**	10.0	9.3
Weighted average number of ordinary shares (million)	**179.4**	178.1	178.4
Earnings per ordinary share (cents):			
– basic	**130.2**	241.5	408.4
– diluted	**127.9**	235.9	399.7
– headline	**131.4**	236.8	407.0
– adjusted headline	**221.0**	236.8	407.0
– diluted headline	**129.0**	231.4	398.3
Gross dividend per ordinary share (cents)	**44.0**	40.0	80.0
Gross dividend per class A ordinary share (cents)	**13.2**	12.0	24.0
Net asset value per ordinary share (cents)	**3 265.5**	2 916.2	3 059.7
Debt to equity ratio (%)	**21.5**	22.5	13.8

Group statement of cash flows

	Unaudited Six months ended 31 March 2012 R'm	Unaudited Six months ended 31 March 2011 R'm	Audited Year ended 30 September 2011 R'm
Net cash profit from operating activities	**786.6**	875.2	1 563.3
Cash effect from hedging activities	**(22.6)**	–	14.2
Working capital changes	**(510.6)**	(877.6)	(446.8)
Accrual for Competition Commission penalties paid	**(216.7)**	(66.7)	(66.7)
Net cash generated/(utilised) from operations	**36.7**	(69.1)	1 064.0
Income tax paid	**(135.7)**	(144.7)	(261.5)
Net cash flow from operating activities	**(99.0)**	(213.8)	802.5
Net cash flow from investment activities	**(324.4)**	(491.6)	(933.4)
Property, plant, equipment and intangible assets			
– additions	**(233.4)**	(288.5)	(613.0)
– replacements	**(95.1)**	(76.0)	(201.6)
– proceeds on disposal	**7.0**	31.9	33.7
Business combinations	**(10.0)**	(167.2)	(171.2)
Proceeds on disposal of and changes in available-for-sale financial assets and loans	**(1.9)**	(2.6)	(3.6)
Interest received	**8.4**	10.4	18.1
Dividends received	**0.6**	0.4	1.1
Dividends received from associates	**–**	–	3.1
Net cash flow from financing activities	**286.8**	(140.3)	(232.3)
Proceeds from borrowings – third-party finance of B-BBEE equity transaction	**449.7**	–	–
Repayments of other borrowings	**(109.7)**	(77.1)	(11.9)
Net contribution by participants to B-BBEE equity transaction	**93.2**	–	–
Treasury shares – share incentive trust	**6.7**	5.4	11.8
Share schemes transactions	**(17.2)**	(1.3)	(20.9)
Interest paid	**(64.0)**	(67.3)	(139.6)
Dividends paid	**(71.9)**	–	(71.7)
Net cash, cash equivalents and bank overdrafts from business combinations	**(11.3)**	–	–
Net decrease in cash, cash equivalents and bank overdrafts	**(147.9)**	(845.7)	(363.2)
Net cash, cash equivalents and bank overdrafts at beginning of the period	**345.7**	708.9	708.9
Net cash, cash equivalents and bank overdrafts at end of the period	**197.8**	(136.8)	345.7

Group statement of financial position

	Unaudited 31 March 2012 R'm	Unaudited 31 March 2011 R'm	Audited 30 September 2011 R'm
Assets			
Property, plant and equipment	**4 372.0**	3 892.3	4 192.3
Goodwill	**264.5**	262.4	265.1
Other intangible assets	**464.7**	466.9	467.4
Biological assets	**16.8**	16.8	16.8
Investments in associates and loans to joint ventures	**27.8**	29.8	29.9
Available-for-sale financial assets	**50.4**	43.5	43.6
Trade and other receivables	**19.8**	21.8	20.0
Deferred income tax	**2.6**	4.4	2.6
Non-current assets	**5 218.6**	4 737.9	5 037.7
Current assets	**5 156.5**	4 721.8	4 825.3
Inventories	**2 430.7**	2 315.6	2 313.4
Biological assets	**223.5**	202.6	210.1
Derivative financial instruments	**9.8**	1.6	14.1
Trade and other receivables	**1 951.5**	1 965.2	1 836.1
Current income tax	**8.9**	7.8	11.2
Cash and cash equivalents	**532.1**	229.0	440.4
Total assets	**10 375.1**	9 459.7	9 863.0
Equity and liabilities			
Capital and reserves attributable to owners of the parent	**5 884.5**	5 211.0	5 488.3
Share capital	**21.9**	20.1	20.1
Share premium	**2 170.3**	1 205.4	1 186.7
Treasury shares	**(1 212.9)**	(226.7)	(220.3)
Other reserves	**356.3**	54.4	115.2
Retained earnings	**4 548.9**	4 157.8	4 386.6
Non-controlling interest	**8.5**	7.3	7.5
Total equity	**5 893.0**	5 218.3	5 495.8
Non-current liabilities	**2 080.5**	1 897.4	1 891.0
Borrowings			
B-BBEE equity transaction third-party finance	**449.7**	–	–
Other	**745.3**	888.2	849.0
Provisions for other liabilities and charges	**117.2**	112.7	113.3
Accrual for Competition Commission penalties	**–**	196.9	202.1
Share-based payment liability	**141.4**	134.8	146.0
Deferred income tax	**626.9**	564.8	580.6
Current liabilities	**2 401.6**	2 344.0	2 476.2
Trade and other payables	**1 581.8**	1 557.2	1 871.5
Current income tax	**5.9**	19.0	22.1
Derivative financial instruments	**0.2**	36.0	10.4
Borrowings	**599.8**	515.0	348.4
Loan from joint venture	**3.5**	6.4	7.9
Accrual for Competition Commission penalties	**209.9**	209.9	215.5
Dividends payable	**0.5**	0.5	0.4
Total equity and liabilities	**10 375.1**	9 459.7	9 863.0

Group statement of changes in equity

	Unaudited Six months ended 31 March 2012 R'm	Unaudited Six months ended 31 March 2011 R'm	Audited Year ended 30 September 2011 R'm
Share capital, share premium and treasury shares	**979.3**	998.8	986.5
Opening balance	**986.5**	998.6	998.6
Cost to issue ordinary shares to participants in B-BBEE equity transaction	**(3.2)**	–	–
Movement in treasury shares	**6.7**	5.4	11.8
Ordinary shares issued – share appreciation rights	**7.9**	0.4	2.6
Employee share scheme – repurchase of shares	**(18.6)**	(5.6)	(26.5)
Other reserves	**356.3**	54.4	115.2
Opening balance	**115.2**	28.3	28.3
Contribution by participants to B-BBEE equity transaction	**96.4**	–	–
Once-off share-based payment charge on B-BBEE equity transaction	**160.7**	–	–
Transfers from retained earnings	**1.3**	0.2	0.4
Equity compensation reserve transactions	**5.5**	6.6	15.0
Ordinary shares issued – share appreciation rights	**(7.9)**	(0.4)	(2.6)
Deferred income tax on share-based payments	**(1.5)**	2.6	10.3
Other comprehensive (loss)/income for the period	**(13.4)**	17.1	63.8
Retained earnings	**4 548.9**	4 157.8	4 386.6
Opening balance	**4 386.6**	3 724.5	3 724.5
Profit for the period	**233.7**	430.1	728.8
Dividends paid	**(72.0)**	–	(71.6)
Transfers to other reserves	**(1.3)**	(0.2)	(0.4)
Management share incentive scheme – disposal of shares	**2.0**	3.4	5.4
Employee share scheme – transfer tax on share transactions	**(0.1)**	–	(0.1)
Non-controlling interest	**8.5**	7.3	7.5
Opening balance	**7.5**	6.5	6.5
Dividend paid	**–**	–	(0.3)
Profit for the period	**1.0**	0.8	1.3
Total equity	**5 893.0**	5 218.3	5 495.8

Group segment report

	Unaudited Six months ended 31 March 2012 R'm	Unaudited Six months ended 31 March 2011 R'm	Audited Year ended 30 September 2011 R'm
Segment revenue			
Sasko	**4 824.1**	4 341.5	9 054.6
Agri Business	**1 498.7**	1 272.8	2 714.6
Bokomo Foods	**1 468.3**	1 396.2	2 760.3
Ceres Beverages	**1 549.0**	1 420.4	2 577.4
	9 340.1	8 430.9	17 106.9
Less: Internal revenue	**(146.9)**	(122.6)	(253.8)
Total	**9 193.2**	8 308.3	16 853.1
Segment results (operating profit before items of a capital nature)			
Sasko	**456.6**	394.7	857.5
Agri Business	**14.3**	82.3	109.2
Bokomo Foods	**119.5**	119.0	216.4
Ceres Beverages	**85.7**	121.7	132.0
Unallocated	**(208.9)**	(59.7)	(123.8)
Excluding once-off share-based payment charge on B-BBEE equity transaction	**(48.2)**	(59.7)	(123.8)
Once-off share-based payment charge on B-BBEE equity transaction	**(160.7)**	–	–
Total	**467.2**	658.0	1 191.3
Excluding once-off share-based payment charge on B-BBEE equity transaction	**627.9**	658.0	1 191.3
Once-off share-based payment charge on B-BBEE equity transaction	**(160.7)**	–	–
Reconciliation of operating profit (before items of a capital nature) to profit before income tax			
Operating profit before items of a capital nature	**467.2**	658.0	1 191.3
Adjusted for:			
Remeasurement of items of a capital nature	**(2.1)**	8.5	(0.8)
Interest income	**8.4**	10.4	18.1
Dividends received	**0.6**	0.4	1.1
Finance costs	**(70.4)**	(59.0)	(160.0)
Share of profit of associated companies	**0.2**	0.8	0.3
Profit before income tax	**403.9**	619.1	1 050.0

Notes to the condensed consolidated interim financial statements

1. Basis of preparation

These unaudited interim results of the Group for the six months ended 31 March 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the Listings Requirements of the JSE Limited and the Companies Act of South Africa, Act 71 of 2008. These condensed consolidated interim financial statements comply with the requirements of *IAS 34 – Interim Financial Reporting*.

2. Accounting policies

These condensed consolidated interim financial statements incorporate accounting policies that are consistent with those applied in the Group's annual financial statements for the year ended 30 September 2011 and with those of previous financial years, except for the adoption of the following amendments to published standards and interpretations that became effective for the current reporting period beginning on 1 October 2011:

Amendments to IFRS 1 – First time adoption on hyperinflation and fixed dates
Amendment to IFRS 7 – Financial Instruments: Disclosures – Transfer of financial assets
Amendment to IAS 24 – Related party disclosures
Improvements to IFRSs (Issued May 2010)
Amendments to IFRIC 14 – Pre-payments of a Minimum Funding Requirement

The adoption of these amendments to standards and interpretations did not have any material impact on the Group's results and cash flows for the six months ended 31 March 2012 and the financial position at 31 March 2012.

3. Share capital

During the six months under review the following share transactions occurred:

	Unaudited Six months ended 31 March 2012	Unaudited Six months ended 31 March 2011	Audited Year ended 30 September 2011
Number of listed issued and fully paid ordinary shares			
At beginning of period	**201 236 929**	201 191 970	201 191 970
Shares issued in terms of employee share appreciation rights scheme	**129 480**	6 783	44 959
Shares issued to participants of the BEE equity transaction	**18 091 661**	–	–
At end of period	**219 458 070**	201 198 753	201 236 929
129,480 (30 September 2011: 44,959 and 31 March 2011: 6,783) listed ordinary shares of 10 cents each were issued at an average of R61.11 (30 September 2011: R58.06 and 31 March 2011: R53.39) per share in terms of the employee share appreciation rights scheme. 18,091,661 listed ordinary shares of 10 cents each were issued at R55.14 and R58.04 respectively to the BEE strategic partners and BEE directors in terms of the BEE equity transaction.			
Number of treasury shares held by the share incentive trust			
At beginning of period	**3 881 401**	5 111 905	5 111 905
Movement in shares	**(688 189)**	(588 275)	(1 230 504)
At end of period	**3 193 212**	4 523 630	3 881 401
Proceeds on the sale of treasury shares by the share incentive trust (R'000)	**9 222**	9 865	18 661
Number of treasury shares held by broad-based BEE transaction participants			
Shares issued to participants of the BEE equity transaction	**18 091 661**	–	–
At end of period	**18 091 661**	–	–
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	**9 294 530**	10 408 650	10 408 650
Shares bought back and cancelled	**(631 120)**	(386 400)	(1 114 120)
At end of period	**8 663 410**	10 022 250	9 294 530
Purchase consideration paid for unlisted class A ordinary shares bought back (R'000)	**18 649**	5 603	26 526

4. Broad-based black economic empowerment ("B-BBEE") equity transaction

The Company concluded a B-BBEE transaction with its employees in 2006 which effectively equated to 10% black ownership of the Group at the time. During December 2011 Pioneer Foods announced the second phase of its B-BBEE strategy and proposed to broaden black ownership in the Group by means of a specific issue of ordinary shares to strategic BEE partners, current and former black directors (collectively, "BEE Investors") and a perpetual BEE Trust ("BEE Trust") founded by the Company.

The transaction, insofar as it related to the specific issue of ordinary shares to BEE Investors, has been effectively implemented. In this regard 18,091,661 Pioneer Foods ordinary shares have been issued to the BEE Investors and were listed on 19 March 2012 on the JSE. Implementation of the remainder of the transaction relating to the issuing of 10,599,988 Pioneer Foods ordinary shares to the BEE Trust only became effective after the reporting date. These shares were issued and listed on the JSE on 26 April 2012. Following the implementation of the transaction the BEE Investors and the BEE Trust acquired direct equity interests in the Group of approximately 8.5% and 5.0% respectively, after adjusting for the treasury shares (17,982,056) held by a Group subsidiary.

In terms of the transaction, 17,488,631 ordinary shares were issued to strategic BEE partners at a subscription price of R55.14 per share and 603,030 ordinary shares to current and former black directors of the Company at a subscription price of R58.04 per share. The subscription price for these share issues was mainly financed by Pioneer Foods' wholly owned subsidiary, Pioneer Foods (Pty) Limited, and by third-party funding from FirstRand Bank Limited ("RMB"). The strategic BEE partners contributed 10% of the subscription price. The current and former black directors of the Company did not contribute to the subscription price.

As a result, Pioneer Foods received net cash of R546 million after the initial contribution for the subscription price from the strategic BEE partners and the financiers of the transaction. For the first seven years these newly listed shares will be treated as treasury shares in terms of IFRS accounting principles, with a minimal impact on earnings or earnings per share. The exception is the recognition of the once-off non-cash flow share-based payment charge in terms of IFRS that amounted to R161 million.

For further detail relating to the transaction, stakeholders are referred to the Company's circular to shareholders dated 19 January 2012 and to the Company's subsequent SENS announcements regarding the transaction.

5. Borrowings

RMB provided the third-party funding amounting to R449,679,606 for the specific issue of ordinary shares to BEE Investors as part of the B-BBEE equity transaction. This financial assistance occurred via separate BEE special purpose vehicles ("SPVs") for each BEE investor. The results and financial positions of these SPVs are consolidated with those of the Group in terms of IFRS. The Group's non-current borrowings therefore increased with the amount of the third-party funding.

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

6. Events after the reporting date

6.1 Dividend

The Board approved a gross interim dividend of 44.0 cents (2011: gross interim dividend of 40.0 cents and a gross final dividend of 40.0 cents) per ordinary share. This will approximately amount to R96,561,551 (2011: final of R80,517,477 and interim of R80,487,571) depending on the exact number of ordinary shares issued at the record date. In addition, the 10,599,988 Pioneer Foods shares issued to the BEE Trust during April 2012, will receive 20% of the dividend payable, i.e. 8.8 cents per share, amounting to R932,799.

The Board approved a gross interim dividend of 13.2 cents per class A ordinary share (2011: gross interim dividend of 12.0 cents and a gross final dividend of 12.0 cents), being 30% of the dividend payable to ordinary shareholders in terms of the rules of the relevant employee scheme. This will approximately amount to R1,143,570 (2011: final of R1,063,566 and interim of R1,148,381) depending on the exact number of ordinary shares issued at the record date.

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Unaudited condensed consolidated interim financial statements for the six months ended 31 March 2012 *continued*

Notes to the condensed consolidated interim financial statements *(continued)*

6 Events after the reporting date *(continued)*

6.1 Dividend (continued)

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 dividend tax of 15%, 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 a result of the double taxation agreement between South Africa and the country of domicile of such owner.

The total credits for secondary tax on companies ("STC") utilised as part of this declaration amount to R277,160 and represent 0.11614 cents per share based on the total number of ordinary and class A ordinary shares in issue at the date of this declaration. The net dividend amounts to 37.41742 cents per ordinary share and 11.23742 cents per class A ordinary share for shareholders liable to pay the new dividend tax. The net dividend amounts to 44.0 cents per ordinary share and 13.2 cents per class A ordinary share for shareholders exempt from paying the new dividend tax.

The number of issued ordinary shares and issued class A shares is 230,059,695 and 8,584,520 respectively as at the date of this declaration.

6.2 Other material events

The remainder of the B-BBEE equity transaction relating to the issue of 10,599,988 Pioneer Foods shares to the BEE Trust only became effective after the reporting date. These shares were issued and listed on the JSE on 26 April 2012.

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

7. Business combinations

During the period under review the following business was acquired and all assets and liabilities relating to this acquisition have been accounted for on an acquisition basis:

	Unaudited Six months ended 31 March 2012
Purchase consideration – settled in cash (R'm)	
Philadelphia Chick Breeders (Pty) Limited (on 29 February 2012)	**10.0**

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

Fair value (R'm)	
Property, plant and equipment	**28.4**
Inventories	**0.6**
Current biological assets	**7.7**
Trade and other receivables	**5.3**
Non-current borrowings	**(17.8)**
Bank overdrafts	**(11.3)**
Trade and other payables	**(2.2)**
Deferred income tax	**(0.7)**
Purchase consideration – settled in cash	**10.0**

Carrying value

The carrying amounts of the assets and liabilities in the accounting records of the legal entity acquired are equal to the fair values except for property, plant and equipment. The fair value exceeds the carrying value by R11.8 million and as a result a deferred income tax credit of R3.3 million has been provided for on this excess.

The contribution of this business since acquisition (R'm):

Revenue	**4.3**
Operating loss before finance cost and income tax	**0.1**

The *pro forma* contribution of this business for the full reporting period of six months assuming the acquisition was at the beginning of the reporting period (R'm):

Revenue	**25.8**
Operating loss before finance cost and income tax	**0.6**

8. Contingent liabilities

8.1 Land claims

Regional Land Claims Commissioners acknowledged claims against the land of a Group company in terms of the provisions of sections 2 and 11 of the Restitution of Land Rights Act of 1994 (as amended), during 2007.

The valuations of the Commissioners were accepted for the two farms involved and negotiations with the Commissioners regarding the proposed sale for R10.5 million are ongoing. The impact of discontinuing production at these two units is immaterial.

It is not anticipated that any material transactions will arise from these land claims.

8.2 Dispute with egg contract producers

As previously reported, six contract egg producers are proceeding with their claims in the Western Cape High Court: Cape Town.

Pioneer Foods filed pleas to all these claims and in four of these claims counterclaims have been filed to recover damages suffered by Pioneer Foods as a result of breach of contract by the contract producers.

One of these matters has been set down for trial in the Cape High Court from Monday, 30 July 2012.

Management remains convinced, based on legal advice regarding the merits of the claims against the Group, that the Group will not incur any material liability in respect of this matter.

8.3 Dispute with broiler farms and breeder farms

Several breeder farms and broiler farms (five in total) have previously filed claims against Pioneer Foods for the alleged breach of the terms of their supply agreements with Pioneer Foods. One of these entities, Philadelphia Chick Breeders (Pty) Limited, has been acquired during the reporting period.

Only letters of demand have been received thus far and these claims should eventually be finalised by means of arbitration. Although a date for the arbitration has not yet been finalised the arbitration will in all likelihood take place in the latter part of 2012.

Based on legal advice regarding the merits of this claim and at this early stage of the proceedings, management is convinced that the Group will not incur any material liability in respect of these matters.

8.4 Guarantees

The Group had guarantees in issue of R55.7 million (30 September 2011: R75.9 million) as at 31 March 2012, primarily for loans by third parties to contracted suppliers.

As part of the financial assistance provided by RMB to BEE Investors in terms of the B-BBEE equity transaction, Pioneer Foods (Pty) Limited provided RMB with a guarantee amounting to R100 million.

9. Future capital commitments

Capital expenditure approved by the Board and contracted for amounts to R522.9 million (30 September 2011: R608.0 million). Capital expenditure approved by the Board, but not contracted for yet, amount to R206.5 million (30 September 2011: R163.9 million). Capital commitments of joint ventures amount to R9.1 million (30 September 2011: R29.2 million).

10. Preparation of financial statements

These condensed consolidated interim financial statements have been prepared under the supervision of LR Cronjé, CA(SA), group financial director.

11. Audit

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

COMMENTARY

Group revenue increased by 11% to R9.2 billion, with volumes declining by some 6% and selling prices increasing by some 17% on average over the comparative period.

Results for the reporting period have been substantially impacted by the R161 million once-off non-cash flow cost of the second-phase BEE transaction concluded in the reporting period. As a result, headline earnings declined by 44% to R236 million.

Adjusted headline earnings, excluding the impact of the R161 million, declined by 6% to R397 million or 221 cents per share. Adjusted operating profit, before items of a capital nature, declined by 5% to R628 million, with the Group operating profit margin contracting from 7.9% to 6.8%.

The investment in working capital increased by R511 million since the previous year-end. The impact of the substantially higher raw material prices on inventory at the reporting date was R117 million, buffered to an extent by lower stock volumes. Price inflation primarily caused debtors to increase by R104 million, whereas timing differences in settlements resulted in a decrease of R290 million in creditors.

In addition to the increased working capital investment, the second payment of R217 million in terms of the Competition Commission settlement was made. This limited the net cash generated from operations to R37 million for the reporting period.

Net cash applied in investment activities, largely relating to fixed assets, amounted to R324 million. The Group debt benefited from the R546 million cash received from the third-party financier and participants of the BEE transaction. Effective net interest-bearing debt was R813 million at reporting date or 14% of equity. However, in terms of IFRS, the cumulative debt of the BEE parties of R450 million due to the third-party financier is consolidated into the Group's accounts and results in reported net interest-bearing debt being R1 263 million or 21% of equity.

Sasko

The Sasko segment delivered a financial performance marginally ahead of the corresponding period. Volumes sold were in general weaker compared to the previous period due to unsustainable volume growth in the wheaten and bread product categories during the gross profit sacrifice period of the previous year.

In addition, the significant price inflation within the maize meal product category contributed to weaker demand. It should, however, be noted that national maize meal consumption remains at a relatively high level when compared to a few years ago.

Pasta volumes improved off a low base, but performance remained constrained given the continued exposure to increased imports of lower-cost products. Rice consumption in general benefited from the availability of competitively priced raw material from India, but with a negative impact on category profitability.

Operating cost pressure from increased electricity and distribution costs remained a concern during the reporting period. Rigorous cost management, effective selling price strategies and focused service delivery remain core to all management activities.

During the reporting period the Board approved the project for a new bakery in KwaZulu-Natal. This bakery will replace the existing 40 year old bakery in Stanger, currently operating at capacity. This project will create additional capacity and improved efficiencies to enable increased market participation in the growing KwaZulu-Natal urban and semi-urban markets. The bakery is being built at Shakaskraal, north of Durban, and the total project cost will amount to R500 million. The bakery is expected to be fully operational at the end of 2013.

The Group's milling, poultry and distribution businesses in neighbouring African countries experienced macro trading dynamics similar to those in South Africa, resulting in a very competitive market environment and constrained performance. Sales and distribution of the Group's product basket in Namibia and Botswana continued to grow. Additional wheat milling capacity was commissioned in Namibia and improved and expanded distribution warehousing capability became operational in Botswana. Approval by the Botswana Competition Authority was granted for the integration and expansion into broiler chicken rearing and production through the establishment of a joint venture with an existing operator in Botswana.

Agri Business

The financial performance of this segment was severely impacted by unprecedented high maize prices, increasing by more than 60%, which could only be partially recovered in final product pricing.

The feeds business managed to maintain current margins in spite of the higher raw material prices. Increased distribution costs are, however, a concern.

From an operational point of view, Nulaid continued to perform well with satisfactory on-farm performance and improving feed conversion ratios. Although selling prices increased significantly, it was not sufficient to recover the substantial increase in the cost of feed, energy and distribution.

Tydstroom was severely impacted by the record high maize prices. Sales volumes increased by 12% mainly in Gauteng. Selling prices increased by 8% in a competitive price environment, but were not sufficient to recover the higher input costs already mentioned.

Efforts to improve operational efficiencies throughout the value chain continue.

Bokomo Foods

The breakfast cereals business posted a sustained profit contribution, excluding intentionally higher marketing spend for the launch of *Weet-Bix Bites*, *Nature's Source Bites* and *Smurf Otees*, delivering market share gains in the respective sub-categories.

The sales of dried fruit products are materially down in line with last year's small vine fruit crop, but stronger international sales prices contributed to improved operating profit, despite the lower volumes. This year's vine fruit crop is of a very good quality, but still smaller than an average crop.

The baking ingredients, desserts, flavours and vinegar businesses all improved sales volumes and operational performance year on year.

The launch of *Moir's* biscuits was successful and the extension of the product offering in the sweet and savoury biscuit category is proceeding to expectation. Financial performance is, however, constrained by start-up costs and increased marketing spend in excess of R20 million.

The UK cereal business showed good revenue growth, but operating profit was impacted by substantial raw material price increases which could not be fully recovered from the market.

The business of Heinz Foods SA continued its positive overall contribution to the Group results and achieved good volume growth. During the reporting period it exited the chilled foods category to allow for the full utilisation of this inland facility for the production of its frozen food product offering. New innovative microwavable product offerings were launched in the frozen product category. The *Wellington's* product range continued to deliver positive sales growth.

Ceres Beverages

The good volume growth and satisfactory financial results achieved in all product categories in the first quarter of the reporting period was almost reversed during the second quarter as volumes declined in the ready-to-drink categories due to consumers migrating to cheaper products, particularly to the concentrate mixture category.

This decline in volumes as well as the significant increases in the cost of fruit concentrates, fuel and energy had a negative impact on the overall profitability of Ceres Beverages during the reporting period.

The commissioning of the new Wadeville plant is progressing well and the plant will be fully operational by the end of the financial year. Benefits from improved service levels and distribution savings by producing closer to the inland market are expected to outweigh the start-up costs of the plant and is expected to be realised as from the 2013 financial year.

Volumes in the fruit concentrate mixture category showed good growth as consumers supported these products as more affordable alternatives to the ready-to-drink products. Although the turnaround strategy implemented in this category was successful, it remains a fiercely competitive category.

Volumes in the *Pepsi* range of products continued to grow in a very competitive pricing environment.

The beverages category worldwide is under pressure due to the constrained spending power of the consumer. The profitability of Ceres Beverages will be influenced by the ability to recover the high input costs from the consumer, not only per specific product category, but also against other beverages. Double digit price increases have, subsequent to the reporting period, been implemented in certain categories in the marketplace to recover the increased input costs.

The key focus areas remain operational efficiencies and margin management.

Prospects

We continue to negotiate shifting consumption patterns, volatile commodity prices and inflationary cost pressures with diligent price and volume management to protect margins without sacrificing quality for the benefit of the consumer.

Our judicious and disciplined investment for future growth in our core operations is testimony to our belief that disposable income will increase and consumer spend will normalise over the medium term as the economic environment improves.

Interim dividend

A gross interim dividend of 44 cents (2011: 40 cents) per share has been approved by the Board. The applicable dates are as follows:

Last date of trading cum dividend:	Friday, 29 June 2012
Trading ex dividend commences:	Monday, 2 July 2012
Record date:	Friday, 6 July 2012
Dividend payable:	Monday, 9 July 2012

A gross interim dividend of 13.2 cents (2011: 12.0 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 2012.

Share certificates may not be dematerialised or materialised between Monday, 2 July 2012, and Friday, 6 July 2012, both days inclusive.

By order of the Board

ZL Combi — *Chairman*

WA Hanekom — *Managing Director*

Paarl, 17 May 2012

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