# Unaudited condensed consolidated interim financial statements for the six months ended 31 March 2013


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 | **R10 billion** | **11%** | ↑ |
| Interim gross dividend per listed ordinary share (2012: 44 cents) | **46 cents** | **5%** | ↑ |
| Operating profit (before items of a capital nature) | **R517 million** | **11%** | ↑ |
| Adjusted operating profit (before items of a capital nature)* | **R582 million** | **7%** | ↓ |
| Earnings per share | **181 cents** | **39%** | ↑ |
| Headline earnings per share | **182 cents** | **38%** | ↑ |
| Adjusted headline earnings* | **R393 million** | **0.1%** | ↓ |
| Adjusted headline earnings per share* | **218 cents** | **0.6%** | ↓ |
| Net asset value per share | **3 538 cents** | **8%** | ↑ |

** Headline earnings and operating profit (before items of a capital nature) adjusted for the once-off IFRS 2 share-based payment charge of R161 million on the Phase II B-BBEE equity transaction (corresponding period only) and the IFRS 2 share-based payment charge of the Phase I B-BBEE transaction*

**Phil Roux, CEO of Pioneer Foods, commented:** "Today we report on the results for the half year to March, which precedes my appointment as chief executive officer from April.

Top line growth has been fair in most categories. Margins compressed as pricing under-recovered input cost pressure; particularly in grains, broilers and eggs, given that volume preservation was a key consideration amidst constrained consumer spending.

Cost management and efficiency improvements from value chain re-engineering initiatives contained cost-per-unit increases below inflation. Ceres Beverages and Bokomo Foods achieved pleasing results and improved profitability.

A heightened focus on revenue growth management supported by brand revitalisation and innovation, together with resetting the cost base and the repositioning of the operating model in the short to medium term, will be key to enhancing the Group's profitability and overall competitiveness."

## COMMENTARY

### Group overview

Group revenue increased by 11% to R10.2 billion for the six months under review with growth in volumes contributing some 6% and the average price inflation in the group's product basket the balance of 5%.

Cost of goods sold increased by 13% largely as a consequence of rising raw material prices. Gross margins declined by 1.6% to 27.3%.

Other direct and indirect costs increased by 6% over the comparative period due to effective cost management and improved production efficiencies, notwithstanding sustained increases in transport, energy and labour.

The financial results have been impacted by the *IFRS 2* share-based payment ("IFRS 2") charges relating to the Phase I (2006) and Phase II (2012) broad-based black economic empowerment ("B-BBEE") transactions. The IFRS 2 charge for the cash-settled Phase I B-BBEE transaction impacts the results due to the movement in the Group's share price in the respective reporting periods, resulting in an increased provision of R65 million in the statement of comprehensive income for the current reporting period.

The IFRS 2 charge related to the implementation of the Phase II B-BBEE transaction amounted to a once-off, non-cash flow charge of R161 million in the statement of comprehensive income for the comparative period to 31 March 2012.

Results have been adjusted to reflect the performance of the Group, excluding the impact of the IFRS 2 charges in the respective reporting periods.

Operating profit, before items of a capital nature, and adjusted by R65 million for the IFRS 2 charge, declined by 7% to R582 million due to the under-recovery of rising input costs in the grains, broiler and egg businesses. The operating profit margin contracted from 6.8% to 5.7% as a result.

Adjusted headline earnings was unchanged at R393 million which results in a decrease of 0.6% to 218 cents per share.

The investment in working capital increased by R608 million during the six months to 31 March 2013, largely as a result of inventory increasing by R147 million from seasonal procurement spend and debtors increasing by R366 million from increased selling prices and the later recognition of certain trade payments.

Capital spend during the period under review amounted to R805 million with R102 million directed at maintenance capital. Expansionary capital of R703 million was spent of which R231 million accrued to the building of the Shakaskraal bakery in Stanger and the upgrade of the Malmesbury mill. A sum of R171 million was spent to expand facilities in broilers and eggs to optimise scale and efficiency. Furthermore, an investment in Africa, through the acquisition of the business of Mega Eggs in Zambia, amounted to R144 million.

Capital spend for the remainder of the financial year will be limited to maintenance capital and progress payments on the expansionary projects. Total projected capital spend for the 2013 financial year is around R1 100 million and should mark the completion of the current capital expansion programme.

The net debt (excluding third-party funding related to the Phase II B-BBEE transaction) on the reporting date amounted to R1 648 million (2012: R813 million) or 26% debt to equity. The syndicated loan facility of the past five years terminates in September 2013 and all outstanding syndicated term debt, inclusive of a bullet loan repayment of R600 million, is therefore included in borrowings of R1 849 million included in current liabilities. The debt package is in process of being refinanced and all existing syndication members have indicated their interest in participating in the refinancing structure.

### Sasko

Sasko delivered a financial performance below that of the previous year. Revenue grew by 10% to R5 283 million, with volumes increasing by 4% across the product basket. However, operating profit declined by 19% to R364 million despite the improved volume base as price realisations fell short in recovering rising input costs. The increase in total operating cost was contained below inflation.

Weak consumer demand and consequent competitor pressure contributed to a challenging price/volume/margin management environment with resultant weaker profitability in the bread, maize and rice product categories. Performance in the wheat flour and pasta product categories improved year-on-year.

Profitability contracted in a declining maize category, notwithstanding increased volumes. Marginally lower bread volumes mainly contributed to the weaker performance in the bread category. Performance in the rice category continues to be negatively impacted by the significant price spread between rice from Thai and Indian origin.

### Bokomo Foods

Bokomo Foods performed well during the first six months, increasing revenue by 14% to R1 673 million and operating profit by 19% to R142 million. This good performance was driven by volume growth in most categories with some margin sacrifice, given price restraint amid raw material increases. Costs increases on a per unit basis were negligible given rigorous cost management and improved efficiency.

Cereal volumes increased by 4% which is ahead of the market growth. Corn flakes performed better than expected, with encouraging export volumes. Biscuits achieved pleasing volume growth of 59% off a low base ahead of category growth. Biscuit profitability remains challenged.

The UK cereals business achieved relatively strong volume growth of 21% in a depressed market with price deflation of some 1%.

Bokomo Foods expects continued volume growth and profit improvement in the second half of the year.

### Quantum Foods (formerly Agri Business)

Quantum Foods experienced a very challenging operating environment for the period under review. Although revenue increased by 16% to R1 770 million, an operating loss of R33 million was recorded. Raw material prices remained high and could not be fully recovered in sales prices.

Broiler prices remained suppressed by the significant volume of imported chicken, while egg prices were subdued by high layer numbers. Broiler production is being scaled back in the Western Cape to provide optimal efficiency. The egg market is expected to revert to improved longer-term profitability over the next six to twelve months as supply volumes contract.

The feeds business performed well. External sales volumes increased by 8% and operating margins were maintained.

The acquisition of Mega Eggs, a leading egg producer in Zambia, in March 2013 will provide a foothold in the lucrative Zambian market.

It is important to note that should the loss-making status of the broiler business remain unchanged in the absence of tariff protection on the import of chicken by the financial year-end, an impairment of the asset base of the broiler business is likely.

### Ceres Beverages

A substantial improvement in profitability was achieved in the reporting period. Revenue increased by 4% to R1 610 million and operating profit increased by 97% to R169 million. The key contributing factors were price and cost management as well as the benefits of efficiency gains consequent to the distribution network optimisation and new manufacturing architecture.

Fruit juice volumes in the local market declined in double digits due to cost recovery in price taking precedence. International volumes were particularly pleasing, growing in double digits.

The carbonated soft drinks category remained under pressure given aggressive competitor activity and pricing. Volumes in total remained unchanged while *Pepsi* volumes declined slightly. The ice tea category continues to perform well although competitor activity has increased with the emergence of new entrants. Fruit concentrate volumes were under pressure in a very competitive environment.

The business will continue to focus on enhancing efficiencies, while recovering lost volume.

### Outlook

Trading across the Group's product categories is expected to be challenging for the rest of the year as consumer spend remains constrained.

The judicious management of price points and margins amid volatile input costs will be key. Resetting the cost base, an optimal operating model and efficiency focus are central to enhancing profitability and competitiveness.

### Interim dividend

A gross interim dividend of 46 cents (2012: 44 cents) per share has been approved and declared by the Board. The applicable dates are as follows:

| | |
|---|---|
| Last date of trading cum dividend | Friday, 28 June 2013 |
| Trading ex dividend commences | Monday, 1 July 2013 |
| Record date | Friday, 5 July 2013 |
| Dividend payable | Monday, 8 July 2013 |

A gross interim dividend of 13.8 cents (2012: 13.2 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 2013.

Share certificates may not be dematerialised or rematerialised between Monday, 1 July 2013 and Friday, 5 July 2013, both days inclusive.

By order of the Board

**ZL Combi**
*Chairman*

**PM Roux**
*CEO*

Paarl, 16 May 2013

# PIONEER FOOD GROUP LIMITED
# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
# FOR THE SIX MONTHS ENDED 31 MARCH 2013

## GROUP STATEMENT OF COMPREHENSIVE INCOME

| | **Unaudited Six months ended 31 March** | | Audited Year ended 30 September |
|---|---|---|---|
| | **2013 R'm** | 2012 R'm | 2012 R'm |
| Revenue | **10 163.4** | 9 193.2 | 18 609.8 |
| Cost of goods sold | **(7 389.7)** | (6 538.1) | (13 390.5) |
| Gross profit | **2 773.7** | 2 655.1 | 5 219.3 |
| Other income and gains/(losses) – net | **95.1** | 135.6 | 220.2 |
| Other expenses | **(2 351.6)** | (2 323.5) | (4 402.7) |
| Excluding the following share-based payment charges: | **(2 286.8)** | (2 166.3) | (4 277.6) |
| Phase I B-BBEE transaction | **(64.8)** | 3.5 | 35.6 |
| Once-off on Phase II B-BBEE equity transaction | **–** | (160.7) | (160.7) |
| Items of a capital nature | **(4.4)** | (2.1) | (5.4) |
| Operating profit | **512.8** | 465.1 | 1 031.4 |
| Investment income | **11.5** | 9.0 | 20.5 |
| Finance costs | **(52.3)** | (70.4) | (136.6) |
| Share of profit of associated companies | **0.8** | 0.2 | 1.3 |
| Profit before income tax | **472.8** | 403.9 | 916.6 |
| Income tax expense | **(146.2)** | (169.2) | (311.9) |
| **Profit for the period** | **326.6** | 234.7 | 604.7 |
| **Other comprehensive income/(loss) for the period** | | | |
| Items that may subsequently be reclassified to profit or loss: | **47.9** | (13.4) | (5.5) |
| Fair value adjustments to cash flow hedging reserve | **16.3** | (9.6) | (16.4) |
| For the period | **(29.9)** | 37.7 | 43.8 |
| Current income tax effect | **8.5** | (10.5) | (12.1) |
| Deferred income tax effect | **(0.2)** | (0.1) | (0.2) |
| Reclassified to profit or loss | **52.7** | (51.0) | (66.5) |
| Current income tax effect | **(14.9)** | 16.8 | 21.1 |
| Deferred income tax effect | **0.1** | (2.5) | (2.5) |
| Fair value adjustments on available-for-sale financial assets | **5.4** | 5.8 | 5.8 |
| For the period | **10.3** | 6.3 | 8.1 |
| Deferred income tax effect | **(1.5)** | (0.1) | (1.2) |
| Reclassified to profit or loss | **(3.4)** | (0.4) | (1.1) |
| Movement on foreign currency translation reserve | **26.2** | (9.6) | 5.1 |
| **Total comprehensive income for the period** | **374.5** | 221.3 | 599.2 |
| **Profit for the period attributable to:** | | | |
| Owners of the parent | **325.7** | 233.7 | 603.6 |
| Non-controlling interest | **0.9** | 1.0 | 1.1 |
| | **326.6** | 234.7 | 604.7 |
| **Total comprehensive income for the period attributable to:** | | | |
| Owners of the parent | **373.6** | 220.3 | 598.1 |
| Non-controlling interest | **0.9** | 1.0 | 1.1 |
| | **374.5** | 221.3 | 599.2 |

## HEADLINE EARNINGS RECONCILIATION

| | Unaudited Six months ended 31 March 2013 R'm | Unaudited Six months ended 31 March 2012 R'm | Audited Year ended 30 September 2012 R'm |
|---|---|---|---|
| **Reconciliation between profit attributable to owners of the parent and headline earnings** | | | |
| Profit attributable to owners of the parent | **325.7** | 233.7 | 603.6 |
| Remeasurement of items of a capital nature | **4.4** | 2.1 | 5.4 |
| Net (profit)/loss on disposal of property, plant, equipment and intangible assets | **(6.6)** | 2.6 | 10.4 |
| Net profit on disposal of available-for-sale financial assets | **(3.4)** | (0.5) | (1.1) |
| Remeasurement profit on previously held interest in joint venture | **–** | – | (3.9) |
| Impairment of property, plant, equipment and intangible assets | **14.4** | – | – |
| Tax effect on remeasurement of items of a capital nature | **(2.4)** | – | (2.8) |
| **Headline earnings** | **327.7** | 235.8 | 606.2 |
| Phase I B-BBEE transaction share-based payment charge | **64.8** | (3.5) | (35.6) |
| Phase II B-BBEE equity transaction once-off share-based payment charge | **–** | 160.7 | 160.7 |
| **Adjusted headline earnings (note 1)** | **392.5** | 393.0 | 731.3 |
| Number of issued ordinary shares (million) | **230.8** | 219.5 | 230.3 |
| Number of issued treasury shares: | | | |
| – held by subsidiary (million) | **18.0** | 18.0 | 18.0 |
| – held by share incentive trust (million) | **1.9** | 3.2 | 2.5 |
| – held by B-BBEE equity transaction participants (million) | **18.1** | 18.1 | 18.1 |
| – held by BEE trust (million) | **10.6** | – | 10.6 |
| Number of issued class A ordinary shares (million) | **7.8** | 8.7 | 8.2 |
| Weighted average number of ordinary shares (million) | **180.2** | 179.4 | 179.9 |
| Earnings per ordinary share (cents): | | | |
| – basic | **180.7** | 130.2 | 335.6 |
| – diluted | **177.9** | 127.9 | 331.0 |
| – headline | **181.8** | 131.4 | 337.0 |
| – diluted headline | **179.1** | 129.0 | 332.5 |
| – adjusted headline (note 1) | **217.8** | 219.1 | 406.6 |
| – diluted adjusted headline (note 1) | **214.5** | 215.1 | 401.1 |
| Gross dividend per ordinary share (cents) | **46.0** | 44.0 | 114.0 |
| Gross dividend per class A ordinary share (cents) | **13.8** | 13.2 | 34.2 |
| Net asset value per ordinary share (cents) | **3 537.5** | 3 265.5 | 3 415.3 |
| Debt to equity ratio (%) | **32.5** | 21.5 | 16.1 |

**Note 1**

Headline earnings ("HE") is calculated based on Circular 3/2012 issued by the South African Institute of Chartered Accountants. Adjusted HE is defined as HE adjusted for material once-off occurrences. During the 2012 reporting period HE was adjusted for the effect of the once-off share-based payment charge recognised in terms of the Phase II B-BBEE equity transaction. During the current reporting period management has revised the definition of adjusted HE to also exclude the impact of the share-based payment B-BBEE Phase I transaction on profit or loss due to the volatility of this share-based payment charge. As a result the previously reported adjusted HE and diluted adjusted HE have been restated. The adjusted HE and diluted adjusted HE (cents per ordinary share) were previously reported as:

| | 2013 | 2012 | 2012 |
|---|---|---|---|
| – adjusted headline earnings | **–** | 221.0 | 426.4 |
| – diluted adjusted headline earnings | **–** | 217.0 | 420.6 |

# GROUP STATEMENT OF FINANCIAL POSITION

| | Unaudited 31 March 2013 R'm | Unaudited 31 March 2012 R'm | Audited 30 September 2012 R'm |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | **5 234.6** | 4 372.0 | 4 641.5 |
| Goodwill | **301.0** | 264.5 | 271.9 |
| Other intangible assets | **474.1** | 464.7 | 464.3 |
| Biological assets | **16.0** | 16.8 | 16.0 |
| Investments in associates and loans to joint ventures | **52.9** | 27.8 | 56.9 |
| Available-for-sale financial assets | **61.2** | 50.4 | 52.8 |
| Trade and other receivables | **21.0** | 19.8 | 20.4 |
| Deferred income tax | **4.7** | 2.6 | 2.7 |
| **Non-current assets** | **6 165.5** | 5 218.6 | 5 526.5 |
| **Current assets** | **5 527.7** | 5 156.5 | 5 079.6 |
| Inventories | **2 597.5** | 2 430.7 | 2 450.0 |
| Biological assets | **295.8** | 223.5 | 228.7 |
| Derivative financial instruments | **8.3** | 9.8 | 6.8 |
| Trade and other receivables | **2 386.5** | 1 951.5 | 2 014.3 |
| Current income tax | **1.0** | 8.9 | 4.2 |
| Cash and cash equivalents | **238.6** | 532.1 | 375.6 |
| **Total assets** | **11 693.2** | 10 375.1 | 10 606.1 |
| **Equity and liabilities** | | | |
| Capital and reserves attributable to owners of the parent | **6 447.5** | 5 884.5 | 6 184.9 |
| Share capital | **23.1** | 21.9 | 23.0 |
| Share premium | **2 195.2** | 2 170.3 | 2 171.8 |
| Treasury shares | **(1 199.3)** | (1 212.9) | (1 207.5) |
| Other reserves | **382.0** | 356.3 | 350.3 |
| Retained earnings | **5 046.5** | 4 548.9 | 4 847.3 |
| Non-controlling interest | **9.1** | 8.5 | 8.2 |
| **Total equity** | **6 456.6** | 5 893.0 | 6 193.1 |
| **Non-current liabilities** | **1 486.4** | 2 080.5 | 1 377.5 |
| Borrowings | | | |
| B-BBEE equity transaction third-party finance | **449.7** | 449.7 | 449.7 |
| Other | **37.0** | 745.3 | 48.0 |
| Provisions for other liabilities and charges | **123.3** | 117.2 | 119.2 |
| Share-based payment liability | **171.4** | 141.4 | 108.2 |
| Deferred income tax | **705.0** | 626.9 | 652.4 |
| **Current liabilities** | **3 750.2** | 2 401.6 | 3 035.5 |
| Trade and other payables | **1 870.2** | 1 581.8 | 1 933.0 |
| Current income tax | **15.6** | 5.9 | 4.7 |
| Derivative financial instruments | **9.1** | 0.2 | 3.1 |
| Borrowings | **1 849.3** | 599.8 | 871.7 |
| Loan from joint venture | **5.6** | 3.5 | 7.0 |
| Accrual for Competition Commission penalties | **–** | 209.9 | 215.5 |
| Dividends payable | **0.4** | 0.5 | 0.5 |
| **Total equity and liabilities** | **11 693.2** | 10 375.1 | 10 606.1 |

# GROUP STATEMENT OF CASH FLOWS

| | Unaudited Six months ended 31 March | | Audited Year ended 30 September |
|---|---|---|---|
| | **2013 R'm** | 2012 R'm | 2012 R'm |
| Net cash profit from operating activities | **770.1** | 786.6 | 1 514.9 |
| Cash effect from hedging activities | **22.8** | (22.6) | (32.2) |
| Working capital changes | **(607.5)** | (510.6) | (266.2) |
| Accrual for Competition Commission penalties paid | **(216.7)** | (216.7) | (216.7) |
| Net cash generated from operations | **(31.3)** | 36.7 | 999.8 |
| Income tax paid | **(106.9)** | (135.7) | (257.7) |
| **Net cash flow from operating activities** | **(138.2)** | (99.0) | 742.1 |
| **Net cash flow from investment activities** | **(770.7)** | (324.4) | (753.0) |
| Property, plant, equipment and intangible assets | | | |
| – additions | **(387.4)** | (233.4) | (559.9) |
| – replacements | **(102.2)** | (95.1) | (174.1) |
| – proceeds on disposal | **17.6** | 7.0 | 14.0 |
| Business combinations | **(315.0)** | (10.0) | (25.5) |
| Proceeds on disposal of and changes in available-for-sale financial assets and loans | **4.4** | (1.9) | (28.0) |
| Interest received | **10.7** | 8.4 | 19.1 |
| Dividends received | **0.8** | 0.6 | 1.4 |
| Dividends received from associates | **0.4** | – | – |
| **Net cash flow from financing activities** | **(318.8)** | 286.8 | 44.6 |
| Proceeds from borrowings – third-party finance of B-BBEE equity transaction | **–** | 449.7 | 449.7 |
| Repayments of other borrowings | **(124.1)** | (109.7) | (211.4) |
| Net contribution by participants to B-BBEE equity transaction | **–** | 93.2 | 92.3 |
| Share schemes transactions | **(4.7)** | (10.5) | (14.9) |
| Interest paid | **(62.3)** | (64.0) | (119.7) |
| Dividends paid | **(127.7)** | (71.9) | (151.4) |
| Net cash, cash equivalents and bank overdrafts from business combinations | **–** | (11.3) | (11.3) |
| Net (decrease)/increase in cash, cash equivalents and bank overdrafts | **(1 227.7)** | (147.9) | 22.4 |
| Net cash, cash equivalents and bank overdrafts at beginning of period | **368.1** | 345.7 | 345.7 |
| Net cash, cash equivalents and bank overdrafts at end of period | **(859.6)** | 197.8 | 368.1 |

## GROUP STATEMENT OF CHANGES IN EQUITY

| | Unaudited Six months ended 31 March 2013 R'm | Unaudited Six months ended 31 March 2012 R'm | Audited Year ended 30 September 2012 R'm |
|---|---|---|---|
| **Share capital, share premium and treasury shares** | **1 019.0** | 979.3 | 987.3 |
| Opening balance | **987.3** | 986.5 | 986.5 |
| Cost to issue ordinary shares to participants in B-BBEE equity transaction | **–** | (3.2) | (4.1) |
| Movement in treasury shares | **8.3** | 6.7 | 13.1 |
| Ordinary shares issued – share appreciation rights | **36.6** | 7.9 | 22.8 |
| Employee share scheme – repurchase of shares | **(13.2)** | (18.6) | (31.0) |
| **Other reserves** | **382.0** | 356.3 | 350.3 |
| Opening balance | **350.3** | 115.2 | 115.2 |
| Contribution by participants to B-BBEE equity transaction | **–** | 96.4 | 96.4 |
| Once-off share-based payment charge on B-BBEE equity transaction | **–** | 160.7 | 160.7 |
| Transfers from/(to) retained earnings | **–** | 1.3 | (4.5) |
| Equity compensation reserve transactions | **6.7** | 5.5 | 13.8 |
| Ordinary shares issued – share appreciation rights | **(36.6)** | (7.9) | (22.8) |
| Deferred income tax on share-based payments | **13.7** | (1.5) | (3.0) |
| Other comprehensive income/(loss) for the period | **47.9** | (13.4) | (5.5) |
| **Retained earnings** | **5 046.5** | 4 548.9 | 4 847.3 |
| Opening balance | **4 847.3** | 4 386.6 | 4 386.6 |
| Profit for the period | **325.7** | 233.7 | 603.6 |
| Dividends paid | **(127.5)** | (72.0) | (151.5) |
| Transfers (to)/from other reserves | **–** | (1.3) | 4.5 |
| Management share incentive scheme – disposal of shares | **1.1** | 2.0 | 4.3 |
| Employee share scheme – transfer tax on share transactions | **(0.1)** | (0.1) | (0.2) |
| **Non-controlling interest** | **9.1** | 8.5 | 8.2 |
| Opening balance | **8.2** | 7.5 | 7.5 |
| Dividend paid | **–** | – | (0.4) |
| Profit for the period | **0.9** | 1.0 | 1.1 |
| **Total equity** | **6 456.6** | 5 893.0 | 6 193.1 |

# GROUP SEGMENT REPORT

| | Unaudited Six months ended 31 March 2013 R'm | Unaudited Six months ended 31 March 2012 R'm Restated | Audited Year ended 30 September 2012 R'm Restated |
|---|---|---|---|
| **Segment revenue** | | | |
| Sasko | **5 283.4** | 4 796.3 | 9 940.4 |
| Quantum Foods | **1 769.5** | 1 526.5 | 3 097.6 |
| Bokomo Foods | **1 672.9** | 1 468.3 | 3 071.6 |
| Ceres Beverages | **1 610.2** | 1 549.0 | 2 798.2 |
| | **10 336.0** | 9 340.1 | 18 907.8 |
| Less: Internal revenue | **(172.6)** | (146.9) | (298.0) |
| Total | **10 163.4** | 9 193.2 | 18 609.8 |
| **Segment results** | | | |
| Sasko | **363.8** | 451.5 | 941.6 |
| Quantum Foods | **(32.6)** | 16.8 | (42.3) |
| Bokomo Foods | **141.5** | 118.9 | 263.8 |
| Ceres Beverages | **169.0** | 85.7 | 88.3 |
| Other | **(59.7)** | (48.5) | (89.5) |
| | **582.0** | 624.4 | 1 161.9 |
| Phase I B-BBEE transaction share-based payment charge | **(64.8)** | 3.5 | 35.6 |
| Phase II B-BBEE equity transaction once-off share-based payment charge | **–** | (160.7) | (160.7) |
| Operating profit before items of a capital nature | **517.2** | 467.2 | 1 036.8 |
| **Reconciliation of operating profit (before items of a capital nature) to profit before income tax** | | | |
| Operating profit before items of a capital nature | **517.2** | 467.2 | 1 036.8 |
| Adjusted for: | | | |
| Remeasurement of items of a capital nature | **(4.4)** | (2.1) | (5.4) |
| Interest income | **10.7** | 8.4 | 19.1 |
| Dividends received | **0.8** | 0.6 | 1.4 |
| Finance costs | **(52.3)** | (70.4) | (136.6) |
| Share of profit of associated companies | **0.8** | 0.2 | 1.3 |
| Profit before income tax | **472.8** | 403.9 | 916.6 |

The chief operating decision-maker has excluded the share-based payment charge in respect of the Phase I broad-based employee share incentive scheme from segment results since the first half of the previous financial year. This adjustment was made due to the volatile nature of this cash-settled share-based payment. As a result the previously reported segment results have been restated. Refer below for the effect of this restatement:

| | 2013 | 2012 | 2012 |
|---|---|---|---|
| Decrease in operating profit before items of a capital nature | | | |
| Sasko | **–** | (2.0) | – |
| Quantum Foods | **–** | (0.6) | – |
| Bokomo Foods | **–** | (0.6) | – |
| Other | **–** | (0.3) | – |
| Total | **–** | (3.5) | – |

From the beginning of the current reporting period the chief operating decision-maker reviewed the operating results of the Bokomo Zambia and Bokomo Uganda businesses as part of the Quantum Foods segment. The nature of these businesses are more aligned with the Quantum Foods segment as their operations predominantly include the production of animal feeds and the production and sale of commercial eggs and day-old chicks. As a result the previously reported segment revenue and results have been restated. Refer below for the effect of this restatement:

| | 2013 | 2012 | 2012 |
|---|---|---|---|
| (Decrease)/increase in segment revenue | | | |
| Sasko | **–** | (27.8) | (61.2) |
| Quantum Foods | **–** | 27.8 | 61.2 |
| Total | **–** | – | – |

| | 2013 | 2012 | 2012 |
|---|---|---|---|
| (Decrease)/increase in operating profit before items of a capital nature | | | |
| Sasko | **–** | (3.1) | (6.4) |
| Quantum Foods | **–** | 3.1 | 6.4 |
| Total | **–** | – | – |

The Agri Business segment has been renamed as Quantum Foods since the previous reporting period.

# 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 2013 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. 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 2012 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 2012:

*Amendment to IAS 1 – Presentation of Financial Statements*
*Amendment to IAS 12 – Amendment to IAS 12: Deferred tax: Recovery of Underlying Assets*

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 2013 and the financial position at 31 March 2013.

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 2012, with the exception of those relating to the possible impairment of the Quantum Foods segment:

The results of the broiler business as reported in the Quantum Foods segment have for a sustained period been negatively impacted by high levels of cheap imports, impacting on local sales prices of chickens to the extent that this business was loss making in the reporting period. In terms of IFRS this is a trigger event to assess the possibility of an impairment of this cash-generating unit. The recoverable amount of a cash-generating unit is the higher of its fair value less costs to sell and its value-in-use. Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value of future cash flows. The South African Poultry Association (SAPA) continues with efforts in tackling unfair trade practices surrounding the high levels of poultry imports by applying for import tariff protection at the regulatory authorities. It is expected that clarity regarding potential import tariffs will be obtained later this year. Management is of the opinion that if these import tariffs are imposed it will result in a positive impact on the operating results for Quantum Foods, supporting a positive net present value.

To the contrary, should import tariffs not be approved in the near future, an impairment of this business is likely in the remainder of the current reporting period ending 30 September 2013.

| | **Unaudited Six months ended 31 March 2013** | Unaudited Six months ended 31 March 2012 | Audited Year ended 30 September 2012 |
|---|---|---|---|
| **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 | **230 314 486** | 201 236 929 | 201 236 929 |
| Shares issued in terms of employee share appreciation rights scheme | **526 261** | 129 480 | 385 908 |
| Shares issued to participants of the B-BBEE equity transaction | **–** | 18 091 661 | 18 091 661 |
| Shares issued to the BEE Trust | **–** | – | 10 599 988 |
| At end of period | **230 840 747** | 219 458 070 | 230 314 486 |
| 526,261 (30 September 2012: 385,908 and 31 March 2012: 129,480) listed ordinary shares of 10 cents each were issued at an average of R69.46 (30 September 2012: R59.20 and 31 March 2012: R61.11) per share in terms of the share appreciation rights scheme. | | | |
| Number of treasury shares held by the share incentive trust | | | |
| At beginning of period | **2 545 933** | 3 881 401 | 3 881 401 |
| Movement in shares | **(640 916)** | (688 189) | (1 335 468) |
| At end of period | **1 905 017** | 3 193 212 | 2 545 933 |
| Proceeds on the sale of treasury shares by the share incentive trust (R'000) | **10 267** | 9 222 | 18 536 |
| Number of treasury shares held by B-BBEE transaction participants | | | |
| At beginning of period | **18 091 661** | – | – |
| Shares issued to participants of the B-BBEE equity transaction | **–** | 18 091 661 | 18 091 661 |
| At end of period | **18 091 661** | 18 091 661 | 18 091 661 |
| Number of treasury shares held by BEE Trust | | | |
| At beginning of period | **10 599 988** | – | – |
| Shares issued to BEE Trust in terms of the B-BBEE equity transaction | **–** | – | 10 599 988 |
| At end of period | **10 599 988** | – | 10 599 988 |
| 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 | **8 198 120** | 9 294 530 | 9 294 530 |
| Shares bought back and cancelled | **(400 890)** | (631 120) | (1 096 410) |
| At end of period | **7 797 230** | 8 663 410 | 8 198 120 |
| Purchase consideration paid for unlisted class A ordinary shares bought back (R'000) | **13 199** | 18 649 | 30 967 |

## 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 46.0 cents (2012: gross interim dividend of 44.0 cents and 2012: gross final dividend of 70.0 cents) per ordinary share. This will approximately amount to R101,320,804 (2012: interim of R96,632,257 and 2012: final of R153,941,885) depending on the exact number of ordinary shares in issue at the record date. In addition, the 10,599,988 Pioneer Foods shares issued to the Pioneer Foods Broad-Based BEE Trust, will receive 20% of the dividend payable, i.e. 9.2 cents (2012: gross interim of 8.8 cents and 2012: gross final dividend of 14.0 cents) per share, amounting to R975,199 (2012: interim of R932,799 and 2012: final of R1,483,998).

The Board approved a gross final dividend of 13.8 cents (2012: gross interim dividend of 13.2 cents and 2012: gross final dividend of 21.0 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 approximately amount to R1,066,464 (2012: interim of R1,113,817 and 2012: final of R1,665,819) 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 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 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 utilised as part of this declaration amount to Rnil. The net dividend amounts to 39.10 cents per ordinary share and 11.73 cents per class A ordinary share for shareholders liable to pay dividends tax. The net dividend amounts to 46.0 cents per ordinary share and 13.8 cents per class A ordinary share for shareholders exempt from paying dividends tax.

The number of issued ordinary shares and issued class A shares is 230,862,605 and 7,728,000 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 condensed consolidated interim financial statements by the Board.

## 6. Business combinations

During the period under review the following businesses were acquired and all assets and liabilities relating to these acquisitions have been accounted for on an acquisition basis:

| | Unaudited Six months ended 31 March 2013 |
|---|---|
| **Darling Fresh Chickens – Kikoesvlei Broiler Farm (on 8 January 2013)** | |
| Purchase consideration – settled in cash (R'm) | **75.8** |
| **Reason for acquisition**<br>To increase own production capacity and to increase abattoir throughput. | |
| **Darling Fresh Chickens – Langspruit Breeder Farm (on 23 October 2012)** | |
| Purchase consideration – settled in cash (R'm) | **44.3** |
| **Reason for acquisition**<br>To increase own production capacity and to increase abattoir throughput. | |
| **Lemoenkloof Layer Farm (on 1 February 2013)** | |
| Purchase consideration – settled in cash (R'm) | **51.1** |
| **Reason for acquisition**<br>Additional laying capacity in the Western Cape region. | |
| **Mega Eggs (on 20 March 2013)** | |
| Purchase consideration – settled in cash (R'm) | **143.8** |
| **Reason for acquisition**<br>Expansion of Zambian business to extend the value chain from day-old-chicks to rearing of commercial layers to produce commercial eggs for sale. | |

**Reason for goodwill recognised on acquisitions**
The purchase price paid for the businesses corresponded to the fair value of the tangible and intangible assets acquired. However, in terms of the requirements of *IAS 12 – Income Taxes*, deferred income tax was raised on the difference between the fair values of individual assets and liabilities and the tax bases of those assets and liabilities recognised on acquisition date of the business combinations. Consequently, the recognition of deferred income tax liabilities resulted in a corresponding amount of R30.0 million accounted for as goodwill.

| 6. **Business combinations *(continued)*** | **Unaudited Six months ended 31 March 2013** |
|---|---|
| The assets and liabilities acquired of these businesses can be summarised as follows: | |
| **Fair value (R'm)** | |
| Property, plant and equipment | **293.4** |
| Goodwill | **30.0** |
| Inventories | **1.1** |
| Current biological assets | **22.5** |
| Trade and other payables | **(2.0)** |
| Deferred income tax | **(30.0)** |
| Purchase consideration – settled in cash (R'm) | **315.0** |

**Carrying value**
As the Group acquired the assets and liabilities of the businesses rather than the shares of the legal entities that previously owned such assets and liabilities, it is impracticable to disclose the carrying amounts in the accounting records of the previous owners prior to the acquisition. In these circumstances the Group does not have access to such carrying values.

| **The contributions of these businesses since acquisition (R'm):** | |
|---|---|
| Revenue | **53.8** |
| Operating loss before finance cost and income tax | **(0.2)** |
| **The *pro forma* contributions of these businesses assuming the acquisitions were at the beginning of the period (R'm):** | |
| Revenue | **151.6** |
| Operating profit before finance cost and income tax | **10.3** |

## 7. Contingent liabilities

### *7.1 Land claims*

Regional Land Claim Commissioners acknowledged claims against two farms 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.

During the current reporting period one of the farms was sold for R3.4 million. As required by the Restitution of Land Rights Act, 30 days' notice of the proposed sale was given to the Minister. The notice period expired early in May 2013 and the normal transfer process has commenced.

For the remaining farm the valuation of the Commissioner was accepted and negotiations with the Commissioner are ongoing. The impact of discontinuing production at this farm is immaterial.

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

### *7.2 Dispute with egg contract producers*

As previously reported, the claims from four contract egg producers are still unresolved.

Pioneer Foods filed pleas to all these claims and in two of these claims counter claims have been filed to recover damages suffered by Pioneer Foods as a result of breach of contract by the contract producers. These matters are now proceeding to court for adjudication.

Management is of the view, 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.

### *7.3 Dispute with broiler farms and breeder farms*

Several breeder farms and broiler farms (four in total) also filed claims against Pioneer Foods for the alleged breach of the terms of their supply agreements with Pioneer Foods.

Only letters of demand have been received thus far and these claims should eventually be finalised by means of arbitration. No date has been set for the arbitration proceedings.

A further breeder farm has filed a claim against Pioneer Foods for the alleged breach of the terms of a shareholder agreement. A preliminary hearing on the matter was held in March 2013 and the court case has been postponed until August 2013.

Based on legal advice regarding the merits of these claims management is of the view that the Group will not incur any material liability in respect of these matters.

### *7.4 Class action*

The Supreme Court of Appeal ("SCA") held hearings on 6 November 2012 on the distributors matter and on 7 November 2012 on the consumer matter, where a full bench had initially dismissed the appeal of the distributors and considerably narrowed the consumers' basis for a class action.

Consumer matter:
The SCA held that certification is a prerequisite for the commencement of any class action and as a result, dismissed the appeal by the consumers for a "national class" and the only remaining issue that was remitted back to the Western Cape High Court was whether the consumers would be able to argue for a "Western Cape Class". As a result, the SCA instructed the consumers to substantially amend their papers in an attempt to seek certification anew before the Western Cape High Court and supplement their original High Court papers, based on the guidelines set by the SCA.

The consumers have subsequently amended their papers and filed same in accordance with the judgement passed down by the SCA. Pioneer Foods has elected not to oppose the supplemented application brought by the consumers and subsequently filed a notice indicating that while the Group has made no admission of any facts or legal propositions in the amended certification application, Pioneer Foods would not oppose the certification proceedings, but reserved its rights to defend the matter at trial. The other respondents (being Premier Foods (Pty) Ltd and Tiger Brands Ltd) have filed their opposing papers on or about 30 April 2013 and consumers had to file any reply to the opposition of the respondents by 14 May 2013. At the reporting date they have not filed same.

At the reporting date, the pleadings had as yet not closed and the matter is currently pending before the Western Cape High Court. A date for hearing will only be confirmed once pleadings have closed.

Distributors matter:
As specified above, a full bench of the SCA dismissed the case of the distributors in November 2012. However, despite the unanimous ruling of the SCA, the distributors had lodged an appeal with the Constitutional Court which was argued on 7 May 2013.

Seven pertinent points were argued by counsel for the applicants and respondents before the Justices presiding on the day. One of the averments made by council was that the application for leave to appeal was irregular, and the distributors have subsequently submitted their amended papers in an attempt to rectify the application for leave to appeal which the court advised was irregular.

At the time of reporting, the respondents in this matter have not responded to the amended papers which have been submitted by the applicants. The Constitutional Court has reserved judgement in this matter.

Based on legal advice, no provision has been raised for potential damages in these matters as management is of the view that no material liability will arise from these claims.

### *7.5 Guarantees*

The Group had guarantees in issue of R41.3 million (30 September 2012: R50.0 million) as at 31 March 2013, 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.

## 8. Impairment

During the reporting period Heinz Foods SA (Pty) Ltd, a joint venture of the Group, initiated formal consultation with Spartan Factory employees regarding the contemplated closure of this factory. Although no final decision has been made, the contemplated closure of the factory is an indicator of impairment. The recoverable amount of a cash-generating unit is the higher of its fair value less costs to sell and value-in-use. As a result the carrying values of the goodwill and property, plant and equipment attributable to the Spartan factory were impaired. The final decision regarding the closure of the factory will only take place after full and proper consultation with the factory employees. The impairment charge of R11.1 million is recognised in the line item "Items of a capital nature" in the statement of comprehensive income. The impairment charge attributable to property, plant and equipment and goodwill is as follows:

| Nature | R'm |
|---|---|
| Property, plant and equipment | **12.4** |
| Goodwill | **2.0** |
| Subtotal | **14.4** |
| Tax effect | **(3.3)** |
| After tax effect | **11.1** |

## 9. Future capital commitments

Capital expenditure approved by the Board and contracted for amount to R809.3 million (30 September 2012: R818.4 million). Capital expenditure approved by the Board, but not contracted for yet, amount to R8.3 million (30 September 2012: R471.0 million). Capital commitments of joint ventures amount to R10.0 million (30 September 2012: R45.3 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.


**Directors:**
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