UNAUDITED INTERIM REPORT *for the six months ended 31 March 2008*

PIONEER FOODS
SINCE 1920

PIONEER FOOD GROUP LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 1996/017676/06)
(Share code: PFG ISIN code: ZAE000118279)
("Pioneer Foods" or "the Company")

REVENUE **R7.0 Billion**	**25%**
OPERATING PROFIT **(before items of a capital nature)** **R395 Million**	**12%**
HEADLINE EARNINGS **R222 Million**	**10%**
DIVIDEND PER ORDINARY SHARE **30 cents**	**11%**

GROUP INCOME STATEMENT

	Unaudited Six months ended 31 March 2008 R'm	2007 R'm	Audited Year ended 30 September 2007 R'm
Revenue	**6,978.9**	5,582.7	11,676.6
Cost of goods sold	**(5,116.2)**	(3,927.0)	(8,225.8)
Gross profit	**1,862.7**	1,655.7	3,450.8
Depreciation and amortisation	**(128.3)**	(110.5)	(250.5)
Net other expenses	**(1,339.9)**	(1,192.1)	(2,368.4)
Items of a capital nature	**1.3**	4.3	1.1
Operating profit	**395.8**	357.4	833.0
Investment income	**15.9**	8.1	16.8
Finance costs	**(98.2)**	(54.6)	(131.6)
Profit from associated companies	**0.6**	–	0.1
Profit before income tax	**314.1**	310.9	718.3
Income tax expense	**(90.0)**	(104.4)	(211.3)
Profit for the period	**224.1**	206.5	507.0
Attributable to:			
Equity holders of the Group	**223.6**	205.9	506.2
Minority interest	**0.5**	0.6	0.8
	224.1	206.5	507.0
Number of issued ordinary shares (million)	**181.2**	181.2	181.2
Number of issued treasury shares:			
– held by subsidiary (million)	**18.0**	18.0	18.0
– held by share incentive trusts (million)	**8.4**	9.6	8.9
Number of issued class A ordinary shares (million)	**13.3**	15.4	14.2
Weighted average number of ordinary shares (million)	**154.3**	152.7	153.1
Earnings per ordinary share (cents):			
– basic	**144.9**	134.9	330.7
– diluted	**140.8**	130.3	320.5
– headline	**144.0**	132.3	328.4
– diluted headline	**140.0**	127.7	318.2
Dividend per ordinary share (cents)	**30.0**	27.0	93.0
Dividend per class A ordinary share (cents)	**9.0**	8.1	27.9
Net asset value per share (cents)	**2,417.8**	2,135.2	2,338.6
Debt to equity ratio (%)	**53.0**	42.8	33.1
Reconciliation between profit attributable to equity holders and headline earnings			
Profit attributable to equity holders of the Group	**223.6**	205.9	506.2
Items of a capital nature	**(1.3)**	(4.3)	(1.1)
Net profit on disposal of property, plant and equipment	**(0.4)**	(3.8)	(6.1)
Net (profit)/loss on disposal of investments and subsidiary	**(0.9)**	(0.8)	0.2
Impairment of property, plant, equipment and intangible assets	**–**	0.3	4.8
Tax effect on items of a capital nature	**(0.1)**	0.4	(2.5)
Headline earnings	**222.2**	202.0	502.6

GROUP BALANCE SHEET

	Unaudited 31 March 2008 R'm	2007 R'm	Audited 30 September 2007 R'm
Assets			
Property, plant and equipment	**2,787.5**	2,347.4	2,540.6
Goodwill	**283.7**	281.9	280.2
Other intangible assets	**414.8**	423.7	415.5
Biological assets	**9.8**	5.8	7.9
Investments and loans in joint ventures and associates	**30.0**	10.1	15.0
Available-for-sale financial assets	**32.9**	29.9	34.8
Trade and other receivables	**8.4**	8.2	7.2
Deferred income tax assets	**27.4**	28.3	25.5
Non-current assets	**3,594.5**	3,135.3	3,326.7
Current assets	**4,270.5**	3,580.0	3,502.4
Inventories	**2,121.7**	1,670.3	1,622.3
Biological assets	**132.4**	106.4	111.3
Derivative financial instruments	**9.3**	0.2	5.4
Trade and other receivables	**1,786.6**	1,588.5	1,510.2
Current income tax assets	**31.3**	17.1	2.4
Cash and cash equivalents	**189.2**	197.5	250.8
Total assets	**7,865.0**	6,715.3	6,829.1
Equity and liabilities			
Capital and reserves attributable to equity holders of the Group	**3,741.7**	3,280.3	3,609.2
Share capital	**18.1**	18.1	18.1
Share premium	**733.1**	739.4	734.6
Treasury shares	**(250.3)**	(245.7)	(249.6)
Other reserves	**161.3**	78.7	149.4
Retained earnings	**3,079.5**	2,689.8	2,956.7
Minority interest	**6.0**	5.6	5.8
Total equity	**3,747.7**	3,285.9	3,615.0
Non-current liabilities	**663.7**	731.2	674.7
Borrowings	**156.2**	240.1	187.4
Provisions for other liabilities and charges	**77.4**	71.5	71.9
Deferred income tax liabilities	**430.1**	419.6	415.4
Current liabilities	**3,453.6**	2,698.2	2,539.4
Trade, dividends and other payables	**1,402.5**	1,325.2	1,213.7
Current income tax liabilities	**21.4**	9.5	48.9
Derivative financial instruments	**8.6**	0.8	18.5
Borrowings	**2,021.1**	1,362.7	1,258.3
Total equity and liabilities	**7,865.0**	6,715.3	6,829.1

GROUP CASH FLOW STATEMENT

	Unaudited Six months ended 31 March 2008 R'm	2007 R'm	Audited Year ended 30 September 2007 R'm
Net cash profit from operating activities	**540.4**	484.3	1,117.4
Cash effect from hedging activities	**(34.8)**	(50.8)	64.2
Working capital changes	**(604.4)**	(327.6)	(350.7)
Net cash (utilised)/generated by operations	**(98.8)**	105.9	830.9
Income tax paid	**(127.6)**	(146.4)	(225.5)
Net cash flow from operating activities	**(226.4)**	(40.5)	605.4
Net cash flow from investment activities	**(363.7)**	(318.0)	(645.9)
Property, plant, equipment and intangible assets			
– additions and replacements	**(369.8)**	(248.0)	(611.6)
– proceeds on disposal	**6.2**	26.8	49.7
Business combinations and disposal of subsidiary	**–**	(102.2)	(94.0)
Proceeds on disposal of and changes in investments and loans	**(16.0)**	(2.7)	(6.8)
Interest received	**15.5**	7.7	15.9
Dividends received	**0.4**	0.4	0.9
Net cash deficit	**(590.1)**	(358.5)	(40.5)
Net cash flow from financing activities	**(55.2)**	(184.4)	(331.9)
Proceeds from/(repayments of) borrowings	**148.2**	(41.0)	(68.2)
Treasury shares	**(0.7)**	8.3	4.3
Employee share schemes transactions	**(2.3)**	(5.0)	(2.6)
Interest paid	**(98.2)**	(54.6)	(131.6)
Dividends paid	**(102.2)**	(92.1)	(133.8)
Net cash and short-term borrowings on disposal of subsidiary	**–**	–	(3.0)
Net decrease in cash, cash equivalents and bank overdrafts	**(645.3)**	(542.9)	(375.4)
Net cash, cash equivalents and bank overdrafts at beginning of year	**(885.5)**	(510.1)	(510.1)
Net cash, cash equivalents and bank overdrafts at end of year	**(1,530.8)**	(1,053.0)	(885.5)

GROUP SEGMENTAL ANALYSIS

	Unaudited Six months ended 31 March 2008 R'm	2007 R'm	Audited Year ended 30 September 2007 R'm
Segment revenue			
Staple foods	**5,037.7**	3,823.4	8,323.0
Branded products	**2,061.6**	1,840.2	3,520.9
	7,099.3	5,663.6	11,843.9
Less: Internal revenue	**(120.4)**	(80.9)	(167.3)
	6,978.9	5,582.7	11,676.6
Segment results (Operating profit before items of a capital nature)			
Staple foods	**264.9**	264.0	615.6
Branded products	**151.7**	127.8	256.5
Unallocated	**(22.1)**	(38.7)	(40.2)
	394.5	353.1	831.9

GROUP STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 31 March 2008 R'm	2007 R'm	Audited Year ended 30 September 2007 R'm
Share capital, share premium and treasury shares	**500.9**	511.8	503.1
Opening balance	**503.1**	505.6	505.6
Movement in treasury shares	**(0.7)**	8.2	4.3
Employee share scheme – repurchase of shares	**(1.5)**	(2.0)	(6.8)
Other reserves	**161.3**	78.7	149.4
Opening balance	**149.4**	104.9	104.9
Transfers from retained earnings	**0.7**	0.1	0.2
Equity compensation reserve transactions	**7.6**	9.4	21.0
Conversion of foreign currency	**18.2**	(2.8)	(8.0)
Fair value gains on available-for-sale financial assets	**(2.6)**	3.1	6.9
Hedging reserve	**(12.0)**	(36.0)	24.4
Retained earnings	**3,079.5**	2,689.8	2,956.7
Opening balance	**2,956.7**	2,576.2	2,576.2
Profit for the period	**223.6**	205.9	506.2
Dividend	**(102.1)**	(92.1)	(133.8)
Transfers to other reserves	**(0.7)**	(0.1)	(0.2)
Management share incentive scheme – disposal of shares	**2.1**	–	8.5
Employee share scheme – stamp duty on share transactions	**(0.1)**	(0.1)	(0.2)
Minority interest	**6.0**	5.6	5.8
Opening balance	**5.8**	5.0	5.0
Dividend	**(0.3)**	–	–
Profit for the period	**0.5**	0.6	0.8
Total equity	**3,747.7**	3,285.9	3,615.0

Notes

1. Basis of preparation

This consolidated unaudited interim financial statements of the Group for the six months ended 31 March 2008 have been prepared in accordance with *International Financial Reporting Standards ("IFRS")*, IAS 34 - *Interim Financial Reporting* and the *Listing Requirements* of the JSE Ltd.

2. Accounting policies

The accounting policies applied in this interim financial statements comply with *IFRS* and are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 30 September 2007.

3. Contingent liability due to complaint referrals by the Competition Commission of South Africa

As announced on 7 May 2008, Pioneer Foods received a complaint referral from the Competition Commission ("the Commission") in connection with the alleged operation of a bread cartel within the Republic of South Africa and contravention of sections 4(1)(b)(i) and (ii) of the Competition Act 89/1998 ("the referral"). Pioneer Foods and its advisors are studying the contents of the referral and will respond to the Commission in due course.

Should Pioneer Foods ultimately not be successful in its defence against the complaint, an administrative penalty may be imposed in terms of section 59 of the Competition Act. The amount of the penalty would be determined by taking into account various factors listed in section 59(3) of the Competition Act, but may not exceed 10% of the annual revenue of Pioneer Foods.

The Group remains firmly committed to participate constructively with Competition authorities and other parties to facilitate a speedy conclusion of the matter. No provision for a possible penalty has been made. The board appointed a sub-committee to oversee the process and management's handling of the investigation. External experts have been appointed to assist on various fronts, ranging from legal counsel to forensic investigation.

As previously reported, the Commission has indicated that further complaint referrals will be made regarding alleged restrictive practices in the national flour markets. Further announcements will follow at the appropriate time.

COMMENTARY

RESULTS

Headline earnings increased by 10.0% to R222 million on the back of a 25.0% growth in revenue to R7 billion for the six months ended 31 March 2008. This earnings growth is moderate if compared to rather weak results in the comparative reporting period. If the once-off deferred tax effect due to the lower income tax rate is reversed, headline earnings grew by only 3.0%.

Growth in revenue was driven predominantly by increased sales prices, as well as sustained volume growth in wheaten products, bread, pasta, rice, *Pepsi* and *Weet-Bix*. The higher selling prices were necessitated by substantially increased cost of raw materials, specifically wheat, and other costs.

Cash profit from operating activities increased by 11.6% to R540 million, whereas operating profit before items of a capital nature increased with 11.7% to R395 million. This lower growth rate in relation to revenue growth resulted in the operating profit margin declining from 6.3% to 5.7% due to the lagged recovery of steep increases in raw material and other costs. Pleasing though is the increase of the branded products margin from 6.9% to 7.4% mainly due to improved results from cereals.

Total debt increased to almost R2 billion, mainly as a result of an investment in working capital of R604 million together with R370 million invested in fixed capital. The increased debt, along with increased interest rates, resulted in an increase in net finance cost by R36 million for the reporting period. The substantial increase in working capital changes by R604 million (2007: R328 million) is largely the result of the abnormal increase in the cost of wheat, as well as increased debtors following the increased selling prices. Cash profit from operations was insufficient to fund the increased working capital needs for the period under review.

The fixed capital expenditure is in line with the approved capital expansion programme to address capacity constraints in the milling, baking, *Weet-Bix* and *Pepsi* businesses.

OPERATIONAL REVIEW

Despite good volume growth, Sasko Bakeries posted disappointing results, mainly due to margin pressure caused by rapidly rising input costs and delayed increases in selling prices. Excellent performances were achieved by the rice and pasta businesses due to significant sales volume growth, supporting the strategy to diversify the product basket into these categories.

The Agri division continued to perform disappointingly, mainly due to the sustained losses in the egg business. The broiler business performed well for the first quarter, but experienced significant margin pressure in the second quarter due to the oversupply of chicken during this period.

During October 2007 the Bokomo and SAD divisions were merged with the objective to leverage the benefits of a bigger division which houses some of South Africa's strongest food brands. This division posted a pleasing performance on the back of good volume growth from Weet-Bix and improved efficiencies from the Moir's and Kwality Biscuit businesses.

The Ceres Beverage Company also performed well, given the constraints of CO_2 shortages and load shedding. Although the fruit juice and fruit concentrate mixture businesses struggled to sustain sales volumes, profit growth was still achieved. Despite the CO_2 shortages the targeted sales volumes of *Pepsi* were achieved, but the venture, as planned, was not earnings enhancing yet.

RECAPITALISATION AND DEBT RESTRUCTURE

During the previous financial year the board approved an extensive capital expansion programme. The capital will predominantly be utilised to address capacity constraints across all divisions which constraints were caused by the substantial growth in the business over the past number of years. An analysis of the Group's debt capacity, mindful of current debt levels and the increased investment in working capital on the back of abnormally high food inflation, resulted in the decision to attract additional shareholder capital.

A renounceable rights offer of 20 million ordinary shares at an issue price of R25 per share, totalling R500 million, was subsequently approved by the board. The rights offer is underwritten by Zeder Investments Ltd to a maximum of R360 million. Kaap Agri (Pty) Ltd and Moorreesburgse Koringboere (Pty) Ltd, have irrevocably undertaken to follow their rights to a minimum of R100 million and R28.35 million respectively. A minimum amount of R488.35 million is therefore guaranteed to be added to shareholder equity. The debt to equity ratio at the end of the reporting period would have improved from 53.0% to 35.5% if this equity injection was executed on the balance sheet date as reported.

Concurrent with this process the board approved a restructure of Group debt to closer align the term of debt to the long-term nature of the capital programme. Group assets will be encumbered to the extent required as security for the loans to ensure optimal pricing and availability of funds.

Following the close of the interim period, an additional R1.5 billion has been committed in principle by a syndication of financial institutions for a period of five years. In addition to this, short-term borrowing facilities are in place to ensure liquidity to optimally fund working capital requirements.

PROSPECTS

The prospects of the Group are very much linked to the success in managing profit margins which will be difficult to achieve in the current climate given the challenging trading environment.

Given the lagged recovery of record high input costs, further price increases will follow and could cause volume growth in key staple categories to slow in the following months.

Nevertheless, the board remains positive that with the added capacity coming on-stream in the next 18 months, and the defensive nature of the product mix, the Group will be able to maintain its earnings growth momentum in the medium to long term, while recognising that margin pressure will cause growth to slow in the current financial year. The Group will do well to achieve growth in earnings for the year to 30 September 2008.

DIVIDEND

The board has approved an interim dividend of 30.0 cents (2007: 27.0 cents) per ordinary share. The applicable dates are the following:

Last date of trading cum dividend:	Friday, 6 June 2008
Trading ex dividend commences:	Monday, 9 June 2008
Record date:	Friday, 13 June 2008
Dividend payable:	Thursday, 3 July 2008

An interim dividend of 9.0 cents (2007: 8.1 cents) per class A ordinary share, being 30.0% of the interim dividend payable to ordinary shareholders in terms of the rules of the relevant employee share scheme, will be paid during July 2008.

By order of the board

HE Blanckenberg — Chairman

WA Hanekom — Managing Director

Paarl, 21 May 2008

DIRECTORS: HE Blanckenberg (Chairman), JA Louw (Vice-chairman), WA Hanekom (Managing)*, LR Cronjé*, TA Carstens*, MT Swanepoel*, WA Agenbach, GD Eksteen, JN Hamman, N Mjoli-Mncube, AH Sangqu, AC Singleton, Dr FA Sonn, Dr MI Survé, AW Bester, JH van Niekerk (* Executive)
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