PIONEER FOODS

SINCE 1920

Unaudited Report for the six months ended 31 March 2007

Registration Number 1996-017676-06

REVENUE +19% * OPERATING PROFIT +3% * HEADLINE EARNINGS -9% * DIVIDEND PER ORDINARY SHARE +7%

Group Income Statement

	Unaudited six months ended 31 March 2007 R'm	Unaudited six months ended 31 March 2006 R'm	Audited year ended 30 September 2006 R'm
Revenue	5,582.7	4,694.1	9,603.8
Cost of goods sold	(3,927.0)	(3,222.5)	(6,602.9)
Gross profit	1,655.7	1,471.6	3,000.9
Net operating expenses	(1,302.6)	(1,128.4)	(2,260.5)
Items of a capital nature	4.3	1.6	76.7
Operating profit	357.4	344.8	817.1
Investment income	8.1	7.1	14.6
Finance costs	(54.6)	(31.6)	(74.3)
Profit from associated companies	-	-	0.5
Profit before income tax	310.9	320.3	757.9
Income tax expense	(104.4)	(97.2)	(186.1)
Profit for the period	206.5	223.1	571.8
Attributable to:			
Equity holders of the Group	205.9	222.5	571.3
Minority interest	0.6	0.6	0.5
	206.5	223.1	571.8
Number of issued ordinary shares (million)	181.2	181.2	181.2
Number of issued class A ordinary shares (million)	15.4	18.1	16.2
Weighted average number of ordinary shares (million)	152.7	150.8	151.4
Earnings per ordinary share (cents)	134.9	147.6	377.4
Diluted earnings per ordinary share (cents)	130.3	142.0	364.2
Headline earnings per ordinary share (cents)	132.3	146.7	325.9
Dividend per ordinary share (cents)	27.00	25.20	85.20
Dividend per class A ordinary share (cents)	8.10	7.56	25.56
Reconciliation between profit attributable to equity holders and headline earnings			
Profit attributable to equity holders of the Group	205.9	222.5	571.3
Items of a capital nature	(4.3)	(1.6)	(76.7)
Net profit on disposal of property, plant and equipment	(3.8)	(0.7)	(87.7)
Net profit on disposal of investments and subsidiary	(0.8)	(0.9)	(1.2)
Impairment of property, plant and equipment	0.3	-	6.3
Impairment of trademarks	-	-	2.4
Impairment of goodwill	-	-	3.5
Tax effect on items of a capital nature	0.4	0.2	(0.6)
Items of a capital nature of associated companies	-	-	(0.5)
Headline earnings	202.0	221.1	493.5

Group Balance Sheet

	Unaudited 31 March 2007 R'm	Unaudited 31 March 2006 R'm	Audited 30 September 2006 R'm
Assets			
Property, plant, equipment and intangible assets	3,058.8	2,614.3	2,853.2
Investments and loans in joint ventures and associates	10.1	19.1	11.2
Available-for-sale financial assets	29.9	21.5	25.2
Trade and other receivables	8.2	6.2	4.6
Deferred income tax assets	28.3	18.9	23.4
Non-current assets	3,135.3	2,680.0	2,917.6
Current assets	3,562.9	2,918.2	2,976.5
Inventories	1,670.3	1,371.3	1,380.2
Biological assets	106.4	92.6	97.0
Derivative financial instruments	0.2	-	19.2
Trade and other receivables	1,588.5	1,153.3	1,209.4
Cash and cash equivalents	197.5	174.7	270.7
	3,562.9	2,791.9	2,976.5
Assets classified as held for sale	-	126.3	-
Total assets	6,698.2	5,598.2	5,894.1
Equity and liabilities			
Capital and reserves attributable to equity holders of the Group	3,280.3	2,803.2	3,186.7
Minority interest	5.6	5.1	5.0
Total equity	3,285.9	2,808.3	3,191.7
Non-current liabilities	731.2	542.5	739.4
Borrowings	240.1	59.5	272.4
Provisions	71.5	81.6	69.0
Deferred income tax liabilities	419.6	401.4	398.0
Current liabilities	2,681.1	2,247.4	1,963.0
Trade and other payables, income tax, dividends	1,317.6	988.5	1,050.2
Derivative financial instruments	0.8	3.8	11.2
Borrowings	1,362.7	1,215.5	901.6
	2,681.1	2,207.8	1,963.0
Liabilities directly associated with assets classified as held for sale	-	39.6	-
Total equity and liabilities	6,698.2	5,598.2	5,894.1

Group Segmental Analysis

	Unaudited six months ended 31 March 2007 R'm	Unaudited six months ended 31 March 2006 R'm	Audited year ended 30 September 2006 R'm
Segment revenue			
Staple foods	3,823.4	3,272.8	6,830.0
Branded products	1,840.2	1,414.3	2,766.0
Unallocated	-	108.0	212.0
	5,663.6	4,795.1	9,808.0
Less : Internal revenue	(80.9)	(101.0)	(204.2)
	5,582.7	4,694.1	9,603.8
Segment results (Operating profit before items of a capital nature)			
Staple foods	264.0	251.1	581.7
Branded products	127.8	106.5	204.1
Unallocated	(38.7)	(14.4)	(45.4)
	353.1	343.2	740.4

Group Cash Flow Statement

	Unaudited six months ended 31 March 2007 R'm	Unaudited six months ended 31 March 2006 R'm	Audited year ended 30 September 2006 R'm
Net cash profit from operating activities	484.3	461.8	966.8
Cash effect from hedging activities	(50.8)	(0.7)	49.6
Working capital changes	(327.6)	(520.8)	(573.7)
Net cash generated/(utilised) from operations	105.9	(59.7)	442.7
Income tax paid	(146.4)	(140.3)	(209.9)
Net cash flow from operating activities	(40.5)	(200.0)	232.8
Net cash flow from investment activities	(318.0)	(194.7)	(354.4)
Property, plant, equipment and intangible assets			
- additions and replacements	(248.0)	(205.6)	(535.0)
- proceeds on disposal	26.8	3.9	167.4
Net of business combinations and changes to existing subsidiaries	(102.2)	-	(11.0)
Net of proceeds on disposal of and changes in investments and loans	(2.7)	(0.1)	9.6
Interest received	7.7	6.5	13.6
Dividends received	0.4	0.6	1.0
Net cash deficit	(358.5)	(394.7)	(121.6)
Net cash flow from financing activities	(184.4)	(128.6)	81.0
(Repayments of)/proceeds from borrowings	(41.0)	(20.5)	274.6
Treasury shares	8.3	-	7.3
Employee share schemes transactions	(5.0)	7.4	(4.4)
Interest paid	(54.6)	(31.6)	(74.3)
Dividends paid	(92.1)	(83.9)	(122.2)
Net decrease in cash, cash equivalents and bank overdrafts	(542.9)	(523.3)	(40.6)

Group Statement of Changes in Equity

	Unaudited six months ended 31 March 2007 R'm	Unaudited six months ended 31 March 2006 R'm	Audited year ended 30 September 2006 R'm
Share capital, share premium and treasury shares	511.8	511.6	505.6
Opening balance	505.6	504.2	504.2
Movement in treasury shares	8.2	7.4	7.3
Employee share scheme - repurchase of shares	(2.0)	-	(5.9)
Other reserves	78.7	28.7	104.9
Opening balance	104.9	22.1	22.1
Transfers from/(to) retained earnings	0.1	(0.1)	(0.1)
Share-based payments	9.4	7.7	23.1
Conversion of foreign currency	(2.8)	(2.5)	19.9
Fair value gains on available-for-sale financial assets	3.1	2.0	4.7
Hedging reserve	(36.0)	(0.5)	35.2
Retained earnings	2,689.8	2,262.9	2,576.2
Opening balance	2,576.2	2,124.2	2,124.2
Profit for the period	205.9	222.5	571.3
Dividend	(92.1)	(83.9)	(122.3)
Transfers (to)/from other reserves	(0.1)	0.1	0.1
Disposal of management share incentive scheme shares	-	-	4.2
Employee share scheme - stamp duty on share transactions	(0.1)	-	(1.3)
Minority interest	5.6	5.1	5.0
Opening balance	5.0	4.7	4.7
Dividend	-	(0.2)	(0.2)
Profit for the period	0.6	0.6	0.5
Total equity	3,285.9	2,808.3	3,191.7

Commentary

Results

The performance of Pioneer Foods for the period under review was influenced by a number of significant macro economic changes:

- The boom in consumer spend led to excellent demand for the Group's products. A number of products, however, could not be adequately supplied because of a shortage of production capacity.
- World stock levels of most grain commodities are currently at record low levels, which resulted in substantially increased prices. These grain commodities form the base for the production of staple food for the consumers who can least afford the consequential increases in food prices.
- Increases in a number of other cost items such as staff and energy costs were above inflation for various macro economic reasons, including the weaker exchange rate, world prices and supply and demand for scarce resources.
- Interest rates have been rising since the comparative period.
- The cost of capital expenditure is increasing rapidly because of the weaker exchange rate, as well as significant increases in land and building costs.

The above-mentioned factors had a material effect on the business and the Group's performance for the six months to March 2007 was below expectations.

Revenue increased by 19% to R5,6 billion, mainly because of price increases in the staple food businesses and excellent volume growth by the branded product businesses. Despite good growth achieved in sales volumes, it was not possible to timeously recover all raw material and cost increases from the market. The results were further negatively affected by increased finance cost on higher debt levels due to the substantially increased investment in working and fixed capital. The income tax expense was also higher than in the comparative period mainly due to increased secondary tax on companies. This was the result of increased dividend declarations along with reduced dividend credits relative to the comparative period. A growth of 3% to R353 million was achieved in operating profit before items of a capital nature. The increased finance and income tax costs, however, resulted in headline earnings declining by 9% to R202 million. Headline earnings per ordinary share declined marginally more by 10% to 132 cents, due to an increased weighted average number of ordinary shares in issue than in the comparative period.

Net cash profit from operating activities increased by 5% to R484 million. The funding of volume growth in branded products, as well as increased raw material cost and final product prices, resulted in an additional investment in working capital of R328 million. A further net investment of R318 million in fixed assets resulted in the net interest bearing debt of the Group increasing to R1,4 billion.

The bigger increase in revenue relative to the growth in operating profit resulted in the operating profit margin declining from 7,3% to 6,3%. The profit in monetary terms of staple foods was merely maintained on much increased selling prices, whereas the operating profit margin of the branded businesses was negatively affected by the significant growth of the *Pepsi* sales at a limited margin.

The Sasko division maintained volumes, market share and operating profit. Although a number of increases in final product prices were implemented, the substantial increase in raw material and other operating costs have not yet been sufficiently recovered from the market to ensure the maintenance of margins and returns on capital invested.

As was well publicised in the press, allegations were made in the period under review by the Competition Commission of possible contraventions of the country's competition laws by the Western Cape bakery business of this division. The Group is giving its full cooperation to facilitate a speedy conclusion and resolve these allegations.

The Agri division experienced a decrease in results especially in the egg business where market forces did not allow a recovery of the increased raw material costs in egg prices. S.A.D posted a much improved performance, benefiting from a bigger raisin crop and the weaker rand. Savoury Foods was successfully integrated into S.A.D and made a positive contribution to earnings.

The Bokomo Foods division performed well, largely on the back of continued sales volume growth across its range of products. The Ceres Beverage Company achieved a good performance with excellent volume growth. The sales volumes of the *Pepsi* range of products continued to increase at excellent growth rates. Exports in this division also benefited from the weaker rand compared to the previous period.

Trading of shares

Since December 2006 trading in Group shares has been facilitated on the same trading system previously used by Barnard Jacobs Mellet Private Client Services (Pty) Ltd (BJM). The trading system is now hosted at the Pioneer Foods data centre in Paarl. Any information about the Group's shares can be accessed via the company's website. The specialised services of validating and settling of transactions were initially outsourced to BJM, but since April 2007, PSG Online Securities Ltd and Sanlam Private Investments (Pty) Ltd have also been contracted to trade directly on the system. To ensure proper governance and manage concerns that the Group could influence the trading activities of its own shares, the Group's auditors will annually certify that key controls are in place to properly govern the share trading environment.

Prospects

Future earnings will mostly be affected by the ability to timeously pass on price increases of raw materials and other costs to the market. The challenge is to maintain a delicate balance between affordability for consumers and the need to ensure a sustainable business that can fund the continuous increase in working and fixed capital needs while satisfying the Group's shareholders.

Strong demand for Group products requires an aggressive capital expenditure programme to ensure capacity to supply total consumer demand. Following the substantial capital spend of R535 million in 2006, the Board has approved capital expenditure of more than R800 million for this financial year. The ability to limit the time lag between creating capacity, and achieving production at acceptable levels of return on the new capital employed, will have a material effect on future earnings.

Debt levels will remain high due to substantial capital commitments and the price levels of raw materials that are expected to remain relatively high for the foreseeable future. This will result in increased investment in working capital over a longer term.

It is expected that the earnings trend for the full year will not deviate much from what was achieved for the first six months. The Board is however positive that a new base for long term earnings growth is currently being established.

Recapitalisation and listing

Pioneer Foods has experienced substantial growth in the last number of years. This growth, apart from acquisitions, was fuelled by economic growth in the country and has placed capacity across most divisions under pressure. The expansion of the Group was fully funded with short and long term borrowings, supported by the Group's strong cash generating ability. The funding of this expansion and additional investment in working capital resulted in increased debt levels. The debt to equity ratio is still acceptable at 43% given the growth strategy of the Group. However, an immediate challenge is the Group's ability to timeously fund a much needed repositioning of capacities solely depending on internally generated funds. A speedy repositioning will enable the Group to benefit from the current economic growth in the country by creating a next level of earnings ability. A further challenge is that the current debt levels may not accommodate further acquisitions of any substantial size, should an opportunity arise.

In order to execute the Group's growth strategy, the Board has decided to embark on a process aimed at raising equity capital through a rights issue to ordinary shareholders. The Board is positive that a listing on the JSE should form part of future plans. All stakeholders will be informed timeously about any progress made in this regard. Accordingly shareholders are advised to exercise caution when dealing in their Pioneer Foods shares until further particulars of such actions are published.

Dividend

An interim dividend of 27.0 cents (2006: 25.2 cents) per ordinary share is declared and represents a 7% increase. The total payout for the period to ordinary shareholders amounts to R48,9 million and is payable on 18 July 2007 to all ordinary shareholders registered on 15 June 2007. An interim dividend of 8.1 cents (2006: 7.6 cents) per class A ordinary share, being 30% of the interim dividend payable to ordinary shareholders in terms of the rules of the relevant employee share scheme, will be paid in July 2007.

By order of the board.

H E Blanckenberg
Chairman

W A Hanekom
Managing Director

Paarl, 23 May 2007

Website: http://www.pioneerfoods.co.za