



Abridged Report

for the year ended 30 September 2006

REVENUE +14% * CASH PROFIT +4% * HEADLINE EARNINGS PER SHARE +4% * DIVIDEND PER SHARE +14%

Group Income Statement

	Audited year ended 30 September 2006 R'm	Audited year ended 30 September 2005 R'm
Revenue	9,603.8	8,446.3
Cost of sales	(6,602.9)	(5,723.2)
Gross Profit	3,000.9	2,723.1
Net operating expenses	(2,260.5)	(2,000.8)
Items of a capital nature	76.7	15.4
Operating profit	817.1	737.7
Investment income	14.6	29.4
Finance costs	(74.3)	(82.0)
Profit from associated companies	0.5	1.0
Profit before income tax	757.9	686.1
Income tax expense	(186.1)	(177.9)
Profit for the year	571.8	508.2
Attributable to:		
Equity holders of the Group	571.3	504.6
Minority interest	0.5	3.6
	571.8	508.2
Number of issued ordinary shares (million)	181.2	181.2
Number of issued class A ordinary shares (million)	16.2	-
Weighted average number of ordinary shares (million)	151.4	155.6
Earnings per ordinary share (cents)	377.4	324.3
Diluted earnings per ordinary share (cents)	364.2	318.2
Headline earnings per ordinary share (cents)	325.9	313.5
Dividend per ordinary share (cents)	85.2	74.8
Dividend per class A ordinary share (cents)	25.6	-
Reconciliation between profit attributable to equity holders and headline earnings		
Profit attributable to equity holders of the Group	571.3	504.6
Items of a capital nature	(76.7)	(15.4)
Net profit on disposal of property, plant and equipment	(87.7)	(14.5)
Net profit on disposal of investments and subsidiary	(1.2)	(6.1)
Impairment of property, plant and equipment	6.3	-
Impairment of trademarks	2.4	8.6
Impairment of goodwill	3.5	1.7
Goodwill reversal of amortisation	-	(10.4)
Goodwill reversal due to deferred taxation asset recognised subsequent to business combination	-	5.3
Tax effect on items of a capital nature	(0.6)	(0.4)
Items of a capital nature of associated companies	(0.5)	(1.0)
Headline earnings	493.5	487.8

Group Balance Sheet

	Audited 30 September 2006 R'm	Audited 30 September 2005 R'm
Assets		
Property, plant, equipment and intangible assets	2,853.2	2,574.5
Investments and loans in joint ventures and associates	11.2	22.9
Available-for-sale financial assets	25.2	18.5
Trade and other receivables	4.6	2.1
Deferred income tax assets	23.4	17.4
Non-current assets	2,917.6	2,635.4
Current assets	2,976.5	2,259.3
Inventories	1,380.2	970.5
Biological assets	97.0	94.6
Derivative financial instruments	19.2	4.3
Trade and other receivables	1,209.4	1,017.3
Cash and cash equivalents	270.7	172.6
Total assets	5,894.1	4,894.7
Equity and liabilities		
Capital and reserves attributable to equity holders of the Group	3,186.7	2,650.5
Minority interest	5.0	4.7
Total equity	3,191.7	2,655.2
Non-current liabilities	739.4	531.4
Borrowings	272.4	67.5
Provisions	69.0	76.6
Deferred income tax liabilities	398.0	387.3
Current liabilities	1,963.0	1,708.1
Trade and other payables, income tax, dividends	1,050.2	1,008.5
Derivative financial instruments	11.2	6.4
Borrowings	901.6	693.2
Total equity and liabilities	5,894.1	4,894.7

Segmental Analysis

	Audited year ended 30 September 2006 R'm	Audited year ended 30 September 2005 R'm
Segment revenue		
Staple foods	6,830.0	6,252.7
Branded products	2,766.0	2,179.6
Unallocated	212.0	197.7
	9,808.0	8,630.0
Less : Internal revenue	(204.2)	(183.7)
	9,603.8	8,446.3
Segment results (Operating profit before items of a capital nature)		
Staple foods	581.7	555.3
Branded products	204.1	199.1
Unallocated	(45.4)	(32.1)
	740.4	722.3

Group Cash Flow Statement

	Audited year ended 30 September 2006 R'm	Audited year ended 30 September 2005 R'm
Net cash profit from operating activities	966.8	928.1
Cash effect from hedging activities	49.6	14.0
Working capital changes	(573.7)	113.6
Net cash generated from operations	442.7	1,055.7
Income tax paid	(209.9)	(132.0)
Net cash flow from operating activities	232.8	923.7
Net cash flow from investment activities	(354.4)	(768.1)
Property, plant, equipment and intangible assets		
- additions and replacements	(535.0)	(375.6)
- proceeds on disposal	167.4	20.5
Net of business combinations and changes to existing subsidiaries	(11.0)	(609.0)
Net of proceeds on disposal of and changes in investments and loans	9.6	166.6
Interest received	13.6	12.9
Dividends received	1.0	16.5
Net cash (deficit) / surplus	(121.6)	155.6
Net cash flow from financing activities	81.0	(619.2)
Proceeds from / (repayments of) borrowings	274.6	(218.7)
Ordinary shares bought back	-	(25.7)
Treasury shares	7.3	(201.4)
Employee share schemes transactions	(4.4)	-
Interest paid	(74.3)	(82.0)
Dividends paid	(122.2)	(91.4)
Net cash and short-term borrowings from business combinations	-	(4.4)
Net decrease in cash, cash equivalents and bank overdrafts	(40.6)	(468.0)

Commentary

The Group achieved further growth in the year under review with revenue increasing by 14% to R9.6 billion. Exclusion of acquisitions made in the previous year would have limited the revenue increase to 9%. This increase in comparable revenue is mainly due to volume growth in maize meal products, breakfast cereals, beverages and dried fruit products. Operating profit increased to R817 million. After exclusion of the cost of the newly implemented broad based employee share scheme, as well as items of a capital nature, the comparable operating profit increased by 5% to R756 million. This moderate growth in relation to revenue growth of 14%, illustrates the increased pressure on profit margins during the year under review. The Group's comparable operating profit margin decreased from 8.6% in 2005 to 7.9% in 2006. This is firstly the result of the lag in recovering substantial increases in raw material, energy and staff costs in final product prices. Secondly, the contribution to operating profit from some new acquisitions and expansions is not yet in relation to their revenue contribution. A significant investment was made in brand building and manufacturing facilities to enhance quality, efficiency and capacity. Finally, the cost of industrial action had a negative effect on profit margins.

Headline earnings, after exclusion of the cost of the newly implemented broad based employee share scheme, increased by 4% to R509 million. Cash profit from operating activities increased by 4% to R967 million, while a major increase in working capital of R574 million limited the contribution of net cash generated from operations to R443 million. The increased investment in working capital was the result of the substantially increased cost of wheat and especially maize, along with a considerably larger physical stockholding than in the previous year. Coupled with an investment of R535 million in additions and replacements of property, plant, equipment and intangible assets, the Group's net debt position increased to R903 million, representing a 28% debt to equity ratio.

The higher growth of 13% in net profit to R571 million is mainly the result of the profit from the sale of the corrugated board business, Craft Box. Involvement in this industry does not form part of the long term vision of Pioneer Foods as a food and beverage company and a strategic decision was taken to sell this successful enterprise. The cash unlocked through this transaction, with the business having been sold to a black owned company, will be re-invested in further expansions in the food and beverage industries.

The Sasko division performed satisfactorily given the significant increase in the price of wheat and maize. These price increases were the result of the decrease in the value of the rand, a substantially smaller local maize crop, as well as a major increase in world prices of grain commodities. The continued growth of sales of *White Star* super maize meal to an extent buffered the effect of the pressure on profit margins. Wheat products performed acceptably and sales volumes were largely maintained.

The bread business performed well for the larger part of the year with continued growth in bread sales. Industrial action during the last two months of the financial year, however, was detrimental to sales volumes and the financial performance of this business. The pasta business also performed well with increased sales volumes. In the rice business the launch of *Spekko* as a national brand was well received and growth in sales volumes was achieved.

The performance of the Bokomo Foods division was negatively influenced by a lack of capacity which limited its ability to fully supply the market. Towards the end of the financial year new capacity was commissioned at the *Weet-Bix*, *Corn Flake* and *ProNutro* production facilities. The *Moir's* business achieved excellent sales volume growth. The upgrading and repositioning of *Kwaliti Biscuits* continued to be a challenge and impacted negatively on the performance of the division.

The Agri division performed well and maintained good profitability levels. Demand in the chicken industry was boosted by growth in the per capita consumption of white meat. Demand for eggs also remained buoyant, while capacity output was restricted by a country-wide outbreak of Newcastle disease. The S.A.D division continued its improvement in results for the year under review. Local sales showed good volume growth, while export volumes were under pressure during the first half of the year due to the abnormally small raisin crop in 2005.

The Ceres Beverage Company's juices category achieved good sales volume growth in the local market while export sales volumes achieved double-digit growth. The concentrate mixtures category also achieved good sales volume growth with positive financial results in the first full financial year of involvement in this category. Sales volumes of *Pepsi* achieved growth in line with expectations. Costs associated with re-establishing *Pepsi* as a competitive player in the local market limited any contribution to earnings.

A satisfactory performance was achieved by the Heinz joint venture. The frozen foods brands *Today's* and *Mama's* performed exceptionally well. The businesses in Namibia and Botswana posted excellent results.

Group Statement of Changes in Equity

	Audited year ended 30 September 2006 R'm	Audited year ended 30 September 2005 R'm
Share capital, share premium and treasury shares	505.6	504.2
Opening balance	504.2	731.3
Shares bought back	-	(25.7)
Movement in treasury shares	7.3	(201.4)
Employee share scheme - repurchase of shares	(5.9)	-
Other reserves	104.9	22.1
Opening balance	22.1	1.9
Transfers to retained earnings	(0.1)	(0.5)
Share-based payments	23.1	8.2
Conversion of foreign currency	19.9	(3.0)
Fair value gains on available-for-sale financial assets	4.7	5.7
Hedging reserve	35.2	9.8
Retained earnings	2,576.2	2,124.2
Opening balance	2,124.2	1,740.5
Derecognition of negative goodwill	-	24.2
Profit for the year	571.3	504.6
Dividend	(122.3)	(90.9)
Transfers from other reserves	0.1	0.5
Disposal of management share incentive scheme shares	4.2	-
Employee share scheme - stamp duty on share transactions	(1.3)	-
Acquisition equity adjustment	-	(54.7)
Minority interest	5.0	4.7
Opening balance	4.7	37.4
Business combinations	-	(59.0)
Adjustments to prior year business combination	-	23.0
Dividend	(0.2)	(0.3)
Profit for the year	0.5	3.6
Total equity	3,191.7	2,655.2

IFRS

The first time adoption of International Financial Reporting Standards (IFRS) for preparing the financial statements for 2006 resulted in a restatement of results as previously published under SA GAAP. The effect on Group results was material, largely due to the re-assessment of the useful lives and residual values of all its property, plant and equipment. The net after tax effect of all the changes was an increase in capital and reserves of R448 million at 1 October 2004. Complete information relating to the effect of these changes is supplied in the audited financial statements.

Broad based black economic empowerment

Shareholders approved a broad based employee share scheme in January 2006 which has been successfully implemented. An initial total of 11 079 employees, of whom more than 85% are black as defined, now own in excess of 9% of the voting rights in the Group as owners of class A ordinary shares. A first dividend of 7.6 cents per class A ordinary share was paid to these employee shareholders in August 2006. A second dividend of 18 cents per share will be paid to these shareholders in February 2007.

Trading of shares

The trading of the Group's shares on the over-the-counter market, managed and controlled by Barnard Jacobs Mellet Private Client Services (Pty) Ltd (BJM), has been terminated. Pioneer Foods has acquired and implemented the same trading system used by BJM. This proven trading system will be hosted in Pioneer Foods' data centre and can be accessed via the Pioneer Foods website for any information regarding current and historic share prices, bids and offers, as well as any related information. While Pioneer Foods will facilitate the system for price determination, the specialised services of validating and settling transactions have been outsourced to BJM. This means that all instructions for either selling or buying of Pioneer Foods' shares must still be placed with BJM. In terms of an agreement between the Group and BJM, BJM will be responsible to capture the instructions directly on the system hosted in Pioneer Foods' data centre.

Prospects

The substantial increase in the investment in working capital by R574 million had a material effect on the Group's debt position which increased to R903 million. The board has approved capital expenditure for the new financial year in excess of R800 million to fund the expansion of the Group's capacity and to further enhance production efficiencies. Although there is uncertainty regarding future grain prices due to very low world stock levels and the possible effect thereof on working capital needs, the board is confident that the cash generation ability of the Group will be able to fund the working and fixed capital needs.

The potential need for capital for further acquisitions of a substantial size has prompted the board to consider all possible funding options. A further issue for consideration is the stated intent of the board to facilitate a 25.1% total BEE shareholding in the Group. The board will timely communicate any proposals affecting shareholders.

The lag in recovering significant increases in raw material and other costs from the market led to a decrease in profit margins towards the end of the financial year. Increases in final product prices are in process of being implemented. The Group's performance in the new year will depend on the success of recovering these increased costs from the market. A further effect of these increased prices may be a moderation in the current strong growth in sales volumes.

Dividend

A final dividend of 60.0 cents (2005: 55.2 cents) per ordinary share has been declared to increase the total dividend for the year to 85.2 cents (2005: 74.8 cents) per ordinary share. The total payout for the year amounts to R154.3 million, an increase of 14%. These dividends are payable on 6 February 2007 to all shareholders registered on 29 December 2006. A dividend of 18 cents (2005: nil) per class A ordinary share, being 30% of the dividend payable to ordinary shareholders in terms of the rules of the relevant employee share scheme, will be paid in February 2007. The total payout for the year to class A ordinary shareholders will be R4.3 million.

By order of the board.

H E Blanckenberg
Chairman

W A Hanekom
Managing Director

Paarl, 29 November 2006

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