



# 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 Group\* or \*the Company\*)

<b>revenue</b>	<b>R14,9 billion</b>	↑	<b>27%</b>
<b>operating profit</b> (before items of a capital nature)	<b>R865 million</b>	↑	<b>4%</b>
<b>headline earnings per ordinary share</b>	<b>292 cents</b>	↓	<b>11%</b>
<b>dividend per ordinary share</b>	<b>96 cents</b>	↑	<b>3%</b>

## GROUP INCOME STATEMENT

	Audited Year ended 30 September 2008 R'm	Audited Year ended 30 September 2007 R'm
Revenue	14,884.4	11,676.6
Cost of goods sold	(11,003.4)	(8,225.8)
Gross profit	3,881.0	3,450.8
Other expenses	(3,015.9)	(2,618.9)
Items of a capital nature	(19.4)	1.1
Operating profit	845.7	833.0
Investment income	31.5	16.8
Finance costs	(250.8)	(131.6)
Profit from associated companies	0.7	0.1
Profit before income tax	627.1	718.3
Income tax expense	(174.4)	(211.3)
Profit for the year	452.7	507.0
Attributable to:		
Equity holders of the Group	452.2	506.2
Minority interest	0.5	0.8
	452.7	507.0

## GROUP CASH FLOW STATEMENT

	Audited Year ended 30 September 2008 R'm	Audited Year ended 30 September 2007 R'm
Net cash profit from operating activities	1,141.7	1,117.4
Cash effect from hedging activities	(140.5)	64.2
Working capital changes	(511.2)	(350.7)
Net cash generated by operations	490.0	830.9
Income tax paid	(178.3)	(225.5)
Net cash flow from operating activities	311.7	605.4
Net cash flow from investment activities	(648.9)	(645.9)
Property, plant, equipment and intangible assets		
– additions and replacements	(647.8)	(611.6)
– proceeds on disposal	25.1	49.7
Business combinations and disposal of subsidiary	(35.2)	(94.0)
Proceeds on disposal of and changes in investments and loans	(22.5)	(6.8)
Interest received	30.5	15.9
Dividends received	1.0	0.9
Net cash flow from financing activities	1,140.9	(331.9)
Proceeds from/(repayments of) borrowings	1,066.6	(68.2)
Ordinary shares issued	485.7	–
Treasury shares – share incentive trusts	(10.4)	4.3
Employee share schemes transactions	(1.5)	(2.6)
Interest paid	(250.8)	(131.6)
Dividends paid	(148.7)	(133.8)
Net cash and short-term borrowings from business combinations and on disposal of subsidiary	2.8	(3.0)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	806.5	(375.4)
Net cash, cash equivalents and bank overdrafts at beginning of year	(885.5)	(510.1)
Net cash, cash equivalents and bank overdrafts at end of year	(79.0)	(885.5)

## NOTES (continued)

- Debt restructure**  
Group debt was restructured to better align the term of debt with the nature of investments funded. During the year the Group obtained syndicated financing of R1.3 billion in the form of bullet and amortising loans. These loans are secured with mortgages over certain Group immovable properties and notarial bonds over certain Group items of plant and equipment with carrying values of R1.2 billion at year-end. New short-term facilities of R2.3 billion were obtained from the same syndication transaction of which R450 million were utilised at year-end. These are secured by pledges over inventories, biological assets and trade receivables with year-end carrying values of R3.8 billion.
- Impairment**  
The Group re-assessed and impaired the carrying values of the underlying assets of the Moir's and Kwality businesses with an after-tax amount of R20.5 million. These impairment losses were calculated by comparing the carrying amount of the cash-generating unit (CGU) to the value in use of these CGUs.
- Segments**  
The Group's business segments were amended during 2008 to achieve improved presentation of the organisational units for which information is reported to management. Comparative figures for 2007 were restated accordingly. Sasko includes wheat flour, maize meal, rice, pasta and bread products. Sasko also includes the foreign African businesses and the business of Bowman Ingredients. Agri Business includes eggs, broilers and animal feeds. Bokomo Foods includes breakfast cereals, dried fruit products and other fast moving consumer goods and the Heinz Foods SA and Bokomo Foods (UK) businesses. Ceres Beverages includes fruit juices, fruit concentrate mixtures and carbonated soft drinks.
- Contingent liabilities**
- Complaint referral by Competition Commission**  
In May 2008 Pioneer Foods (Pty) Ltd received a complaint referral by the Competition Commission for alleged restrictive practices in contravention of section 4(1)(b)(i) and section 4(1)(b)(ii) of the Competition Act of 1998 in the national bread market. Pioneer Foods submitted its response to the complaint referral within the set time limits. The Competition Commission opted not to respond to the answering affidavit. Independent legal advice indicated that Pioneer Foods has reasonable prospects of a successful defence against all the charges in the complaint referral. This referral is in addition to the one received in the previous financial year for alleged restrictive practices in the Western Cape bakeries. Independent legal advice in that case also indicated a reasonable chance of a successful defence against all or some of the charges in that complaint referral. Accordingly, no provision was made in the year under review for the payment of any penalties. A liability only arises if contraventions of the Act are ultimately proven against Pioneer Foods. Should Pioneer Foods not be successful in its defence, an administrative penalty may be imposed in terms of section 59 of the Competition Act. The amount of the administrative penalty would be determined by taking into account the factors listed in section 59(3) of the Competition Act, but may not exceed 10% of the annual turnover of Pioneer Foods in the financial year preceding the referral. A pre-trial conference was held in October 2008 with a follow-up conference to be held in December 2008. It is foreseen that at that meeting a trial date will be set. In keeping with its unwavering commitment to good corporate governance, the board established a committee, consisting of mostly independent non-executive directors, to investigate all related matters. External consultants are assisting the committee in this assignment. Management instituted a Competition Compliance Programme which includes ongoing assessments of business practices and training of employees. A Competition Compliance Charter for the Group is also in the process of being finalised.
- Dispute with egg contract producers**  
Prior to year-end claims were received from some contract producers for the alleged breach of the terms of specific supply agreements. Based on advice from the Group's legal advisors, management is convinced the Group will not incur any material liability in respect of this matter. The Group's legal advisors are currently attending to this matter.
- Guarantees**  
The Group issued guarantees of R158.4 million (2007: R163.8 million) at year-end, primarily for loans by third parties to contracted suppliers.
- Audit report**  
The external auditors, PricewaterhouseCoopers Inc., have audited the Group's annual financial statements and the abridged financial statements contained herein for the year ended 30 September 2008. Copies of their unqualified audit reports are available on request at the Company's registered office.

## HEADLINE EARNINGS RECONCILIATION

	Audited Year ended 30 September 2008 R'm	Audited Year ended 30 September 2007 R'm
Reconciliation between profit attributable to equity holders and headline earnings		
Profit attributable to equity holders of the Group	452.2	506.2
Items of a capital nature	19.4	(1.1)
Net profit on disposal of property, plant and equipment	(1.7)	(6.1)
Net (profit)/loss on disposal of investments	(1.2)	0.2
Impairment of property, plant, equipment and intangible assets	22.3	4.8
Tax effect on items of a capital nature	(3.3)	(2.5)
Headline earnings	468.3	502.6
Number of issued ordinary shares (million)	201.2	181.2
Number of issued treasury shares:		
– held by subsidiary (million)	18.0	18.0
– held by share incentive trusts (million)	8.6	8.9
Number of issued class A ordinary shares (million)	12.6	14.2
Weighted average number of ordinary shares (million)	160.2	153.1
Earnings per ordinary share (cents):		
– basic	282.3	330.7
– diluted	275.5	320.5
– headline	292.4	328.4
– diluted headline	285.3	318.2
Dividend per ordinary share (cents)	96.0	93.0
Dividend per class A ordinary share (cents)	28.8	27.9
Net asset value per ordinary share (cents)	2,437.6	2,338.6
Debt to equity ratio (%)	34.2	33.1

## GROUP STATEMENT OF CHANGES IN EQUITY

	Audited Year ended 30 September 2008 R'm	Audited Year ended 30 September 2007 R'm
<b>Share capital, share premium and treasury shares</b>	<b>976.6</b>	<b>503.1</b>
Opening balance	503.1	505.6
Movement in treasury shares	(10.4)	4.3
Ordinary shares issued	485.7	–
Employee share scheme – repurchase of shares	(1.8)	(6.8)
<b>Other reserves</b>	<b>16.6</b>	<b>149.4</b>
Opening balance	149.4	104.9
Transfers from retained earnings	0.9	0.2
Equity compensation reserve transactions	7.2	21.0
Conversion of foreign currency	9.8	(8.0)
Fair value adjustments to available-for-sale financial assets	(6.5)	6.9
Transfer to cash-settled liability	(28.2)	–
Hedging reserve	(116.0)	24.4
<b>Retained earnings</b>	<b>3,263.6</b>	<b>2,956.7</b>
Opening balance	2,956.7	2,576.2
Profit for the year	452.2	506.2
Dividends paid	(148.6)	(133.8)
Transfers to other reserves	(0.9)	(0.2)
Management share incentive scheme – disposal of shares	4.3	8.5
Employee share scheme – stamp duty on share transactions	(0.1)	(0.2)
<b>Minority interest</b>	<b>6.0</b>	<b>5.8</b>
Opening balance	5.8	5.0
Dividend paid	(0.3)	–
Profit for the year	0.5	0.8
<b>Total equity</b>	<b>4,262.8</b>	<b>3,615.0</b>

## GROUP BALANCE SHEET

	Audited 30 September 2008 R'm	Audited 30 September 2007 R'm
<b>Assets</b>		
Property, plant and equipment	2,942.7	2,540.6
Goodwill	269.6	280.2
Other intangible assets	409.9	415.5
Biological assets	11.9	7.9
Investments in and loans to joint ventures and associates	32.4	15.0
Available-for-sale financial assets	29.2	34.8
Trade and other receivables	12.3	7.2
Deferred income tax assets	36.2	25.5
Non-current assets	3,744.2	3,326.7
Current assets	4,297.0	3,502.4
Inventories	2,184.1	1,622.3
Biological assets	143.5	111.3
Derivative financial instruments	13.7	5.4
Trade and other receivables	1,690.8	1,510.2
Current income tax assets	39.2	2.4
Cash and cash equivalents	225.7	250.8
<b>Total assets</b>	<b>8,041.2</b>	<b>6,829.1</b>
<b>Equity and liabilities</b>		
Capital and reserves attributable to equity holders of the Group	4,256.8	3,609.2
Share capital	20.1	18.1
Share premium	1,216.5	734.6
Treasury shares	(260.0)	(249.6)
Other reserves	16.6	149.4
Retained earnings	3,263.6	2,956.7
Minority interest	6.0	5.8
Total equity	4,262.8	3,615.0
Non-current liabilities	1,758.8	674.7
Borrowings	1,181.3	187.4
Provisions for other liabilities and charges	78.3	71.9
Share-based payment liability	19.4	–
Derivative financial instruments	37.4	–
Deferred income tax liabilities	442.4	415.4
Current liabilities	2,019.6	2,539.4
Trade, dividends and other payables	1,485.6	1,213.7
Current income tax liabilities	18.4	48.9
Derivative financial instruments	16.3	18.5
Borrowings	499.3	1,258.3
<b>Total equity and liabilities</b>	<b>8,041.2</b>	<b>6,829.1</b>

## GROUP SEGMENTAL ANALYSIS

	Audited Year ended 30 September 2008 R'm	Audited Year ended 30 September 2007 R'm
<b>Segment revenue</b>		
Sasko	8,143.0	5,848.8
Agri Business	2,493.4	2,106.9
Bokomo Foods	2,539.4	2,217.3
Ceres Beverages	2,082.9	1,807.3
	15,258.7	11,980.3
Less: Internal revenue	(374.3)	(303.7)
	14,884.4	11,676.6
<b>Segment results (Operating profit before items of a capital nature)</b>		
Sasko	622.0	453.8
Agri Business	3.5	100.7
Bokomo Foods	239.4	213.0
Ceres Beverages	77.8	106.4
Unallocated	(77.6)	(42.0)
	865.1	831.9

## NOTES

- Basis of preparation**  
These abridged financial statements are derived from the audited annual financial statements of the Group for the year ended 30 September 2008 which have been prepared in accordance with International Financial Reporting Standards (IFRS), the Listing Requirements of the JSE Limited and the Companies Act of South Africa (1973), as amended. The abridged financial statements comply with the requirements of IAS 34 – Interim financial reporting.
- Accounting policies**  
These abridged financial statements incorporate accounting policies that are consistent with those adopted in the Group's annual financial statements and with those of previous financial years, except for the adoption of IFRS 7 – Financial Instruments: Disclosures. Adoption of IFRS 7 had no impact on the Group's results of either the current or the prior year.
- Change in accounting estimates**
- Re-assessment of the useful lives of trademarks**  
The useful lives of certain Group trademarks were re-assessed as being indefinite as there are no foreseeable limits to the period over which these assets are expected to generate net cash inflows for the entity. This resulted in an increase in profit after income tax of R8.8 million for the year.
- Broad-based employee share scheme**  
The Group changed its accounting treatment of the broad-based employee share scheme from equity-settled to cash-settled to reflect the Group's current settlement practices. The opening balance of the equity compensation reserve on 1 October 2007 was, therefore, transferred to the share-based payment liability.
- Share capital**
- Rights issue**  
During the year 20,000,000 ordinary shares of 10 cents each were issued at R25 per share. Issue costs of R14.3 million were written off against share premium.
- Treasury shares held by the share incentive trusts**  
A net number of 715,513 shares of 10 cents each were sold. The trust exercised 415,384 rights as part of the rights offer.
- Unlisted class A ordinary shares**  
During the year 1,593,900 shares of 10 cents each were bought back from employees that left employment for an amount of R1.8 million.

## Results

Revenue increased by 27% to R14.9 billion through good volume growth in a number of product categories, along with price increases to recover significantly higher input costs. The exceptionally high cost of raw material and other input costs such as fuel and energy and generally depressed economic conditions, caused challenging trading conditions. This is reflected in the decrease in the Group's operating profit margin from 7.1% to 5.8%. Cash profit from operating activities increased by 2% to R1 142 million and operating profit, before items of a capital nature, increased by 4% to R865 million.

Investments of R648 million in fixed capital and R511 million in working capital contributed to an increase in debt levels. This together with higher average interest rates caused a material increase in net finance cost of R105 million to R220 million for the year.

This contributed to headline earnings decreasing by 7% to R468 million. Headline earnings per ordinary share declined by 11% to R292. The larger decline when expressed in per share terms compared to total headline earnings is due to the increase in the weighted number of ordinary shares in issue after the rights issue in June 2008.

The fixed capital spend is primarily directed to ease capacity constraints in the milling, baking, Weet-Bix and Pepsi businesses. The substantial increase in working capital, specifically inventory, resulted from the steep increase in wheat cost. Stock volumes however remained comparable to the previous year. Along with higher general inflation this resulted in increased final product prices, leading to an increased investment in debtors.

Total Group debt at year-end was R1 455 million, a ratio of 34% to net equity.

## Operational Review

The Sasko segment performed particularly well despite a substantially increased cost base, predominantly from raw material cost increases. Divisional revenue increased by 39% to R8.1 billion and operating profit by 37% to R622 million, resulting in a slightly decreased operating margin of 7.6%.

Volume growth and an increased profit contribution from specifically the rice and pasta businesses were very pleasing. Satisfactory bread volume growth was achieved, despite a number of substantial price increases during the year. This trend, along with good maize flour volume growth, again confirmed the defensive nature of the division's basket of products.

Sales volumes of wheat products slowed considerably towards the end of the year as a result of materially increased sales prices. However, this decline in volume, particularly during the last quarter of the financial year, was in line with industry trends and thus indicative of a change in consumer consumption patterns.

The Agri Business segment disappointed with negative contributions from both the egg and broiler businesses. Although revenue increased by 18% to R2.5 billion, it was not sufficient to recover the increased cost of maize and soya that rose by 40% and 50% respectively during the year under review.

The segment's operating profit declined from R101 million to R4 million, virtually eroding the 4.8% margin achieved in the previous year. Oversupply due to increased capacity in both the egg and broiler markets, as well as declining demand for these sources of protein, prevented a reasonable recovery of significant raw material and other cost increases in final product prices. The animal feeds business on the other hand performed well and achieved improved results.

The Bokomo Foods segment posted an increased contribution to earnings. Revenue for the division increased by 15% to R2.5 billion with operating profit increasing by 12% to R239 million. The operating margin decreased slightly from 9.6% to 9.4%.

The performance of the breakfast cereal business was satisfactory. Price increases to recover the steep rising raw material costs, limited volume growth. Biscuits, baking aids and the UK breakfast cereals businesses delivered improved results. The dried fruit business performed well with increased sales volumes in both the local and export markets.

Revenue in the Ceres Beverages segment increased by 15% to R2.1 billion. However, the tough trading conditions contributed to the operating profit declining by 27% to R78 million. The already low operating profit margin thus decreased from 5.9% to 3.7%.

The fruit juice business performed satisfactorily with export sales achieving good volume growth in particular. The contribution from the fruit concentrate mixtures business was lower than expected as aggressive competitor activities negatively affected realistic pricing strategies and constrained sales volumes. Pepsi volumes continued its double digit growth benefiting from improving consumer awareness. The addition of further production capacity enabled a steady increase in the market share of this exciting venture. Cold and wet summer conditions influenced sales volumes in debtors.

## Rights Issue

An analysis of the Group's debt capacity, mindful of the planned expansion capital program and the increased investment in working capital, resulted in the decision to attract additional shareholder capital to partially fund the capital expenditure program.

The board subsequently approved a non-renewable rights offer of 20 million ordinary shares at an issue price of R25 per share, totalling R500 million. The rights offer was underwritten by Zeder Investments Limited to a maximum of R360 million, or 14.4 million shares. A positive response from shareholders, subscribing for 88.4% of the rights offer shares, limited the underwriter's investment to R58 million, or 2.3 million shares. The fact that the two largest shareholders, namely Kaap Agri Ltd and Mooresburgse Koringboere (Pty) Ltd expressed a vote of confidence in the future of the Group by following all their rights, was very encouraging.

## Prospects

The board remains optimistic about the short and longer term growth potential of Pioneer Foods. A number of factors will determine the speed and magnitude of the Group's earnings growth. The potential turnaround in the egg and broiler businesses, the contribution potential from the Pepsi venture and the optimisation of profitability of the Bokomo Foods division are of particular interest. A sustained solid performance from the milling and baking businesses is also key to future earnings growth.

The significant decline in international and local wheat prices during the last quarter of the year under review is expected to contribute to lower food inflation in the Group's basket of products in the current year. This will positively affect earnings while limiting further increases in working capital.

Debt however is expected to largely remain at current levels. The board is confident in the inherent strength of the Group's product basket and development potential and expects margins to improve over time as operating costs stabilise and inflation subsides.

## Dividend

The board approved a final dividend of 66 cents (2007: 66 cents) per ordinary share. This is in addition to an interim dividend of 30 cents (2007: 27 cents) per ordinary share declared and paid earlier in the year for a total dividend of 96 cents (2007: 93 cents) per ordinary share. The applicable dates are as follows:

Last date of trading cum dividend: Friday, 23 January 2009  
Trading ex dividend commences: Monday, 26 January 2009  
Record date: Friday, 30 January 2009  
Dividend payable: Monday, 2 February 2009  
A final dividend of 19.8 cents (2007: 19.8 cents) per class A ordinary share, being 30% of the final dividend payable to ordinary shareholders in terms of the rules of the relevant employee share scheme, will be paid in February 2009.

Share certificates may not be dematerialized or rematerialized between Monday, 26 January 2009 and Friday, 30 January 2009, both days inclusive.

By order of the board.

**HE Blanckenberg** **WA Hanekom**  
Chairman *Managing Director*  
Paarl, 26 November 2008

For more information visit our website at [www.pioneerfoods.co.za](http://www.pioneerfoods.co.za)