PIONEER FOODS

2019

SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

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SALIENT FEATURES

Revenue	+11%	R22 273 million
Adjusted operating profit (before items of a capital nature)*	-13%	R1 392 million
Earnings	-15%	R910 million
Earnings per share	-17%	479 cents
Diluted earnings per share	-12%	479 cents
Headline earnings ("HE")	-5%	R971 million
Headline earnings per share	-6%	511 cents
Diluted headline earnings per share	-1%	511 cents
Adjusted headline earnings*	-4%	R992 million
Adjusted headline earnings per share*	-6%	522 cents
Net cash profit from operating activities	-9%	R1 895 million
Net asset value per share	+3%	4 615 cents
Final gross dividend per listed ordinary share (2018: 260 cents)	-16%	219 cents
Total gross dividend per listed ordinary share (2018: 365 cents)	-11%	324 cents

** HE and operating profit (before items of a capital nature) are adjusted for the impact of the share-based payment charge of the Phase I B-BBEE equity transaction and the related hedge and, for 2019 only, once-off merger and acquisition costs.*

Pioneer Food Group Ltd 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")

Commentary

Introduction

Pioneer Foods delivered acceptable revenue and volume growth in a difficult trading environment, despite enduring weak demand in the general food and beverage sectors. The major business challenge during this period was the lagging recovery of the significant input inflation in sales pricing, which was, with the exception of the maize and Wellington's categories, effectively addressed.

Financial performance

Revenue increased by 11% to R22.3 billion, whereas volumes increased by 2%.

The gross profit margin decreased from 28.8% to 27.6% while adjusted operating profit (before items of a capital nature, the B-BBEE share-based payment charge and the related hedge costs ("BEE SBP"), as well as once-off merger and acquisition costs) decreased by 13.1% to R1 392 million. Consequently, the operating profit margin regressed from 8.0% to 6.2%, mainly due to the disappointing performances in maize and Wellingtons. Operating profit for the Group, excluding maize and Wellingtons, improved by 6.3%.

The share of profit from joint ventures and associates increased from Rnil to R87 million, mainly as a result of the Heinz Foods SA business, which now forms part of the Groceries division. Group earnings were negatively impacted by items of a capital nature amounting to a net after income tax loss of R61.0 million (2018: R55.2 million net profit after income tax). This loss in the current year relates for the most part to impairment charges on certain assets and trademarks, while the profit of the previous year relates to profit on the sale of assets and shares.

Adjusted headline earnings after taking into account the above adjustments decreased by 4% to R992 million (2018: R1 032 million).

Adjusted headline earnings per share declined by 6% to 522 cents per share (2018: 553 cents per share). Diluted headline earnings per share, adjusted for the BEE SBP and once-off merger and acquisition costs, therefore decreased by 1% to 522 cents per share (2018: 526 cents per share). The reduction in the number of shares in issue, as well as the conclusion of the Phase II strategic shareholder B-BBEE transaction, contributed positively to this figure.

Divisional performance

Segmental review for the year ended 30 September 2019

	SEGMENTAL REVENUE		SEGMENTAL OPERATING PROFIT*	
	2019 R'm	% CHANGE	2019 R'm	% CHANGE
Essential Foods	**13 185**	11	**743**	(19)
Groceries	**5 796**	13	**363**	(13)
International	**3 292**	4	**294**	3
Other^	**–**	–	**(8)**	52
Total	**22 273**	11	**1 392**	(13)

* *Before items of a capital nature, the BEE SBP and once-off merger and acquisition costs.*

^ *The unallocated corporate costs relate to the results of the insurance business and the ultimate holding company as well as corporate legal costs and costs of BEE socio-economic and enterprise development.*

Essential Foods

The wheat milling to baking value chain delivered a solid performance through strong bread volume growth after recent investments in baking capacity and distribution.

As mentioned above, the maize value chain felt the pressure of acute raw material cost increases and this, together with the lower quality of the crop, drove elevated White Star price premiums relative to price competition in the category. Although White Star super maize meal volume share was retained, the impact of the raw material dynamics could not be fully recovered in the year under review.

White Star Instant porridge however sustained strong volume growth at competitive pricing levels and strengthened its market leading position. Lower cost pasta imports continued to grow and posed significant risk to locally produced pasta. The balance of the portfolio delivered a satisfactory performance with Spekko rice sustaining sound volume and market share growth.

Groceries

The Groceries division recovered strongly in the latter part of the year due to higher prices and firmer margins. Whilst this improvement could not fully address the earnings regression in the first half, the resulting performance of the like-for-like business was reasonable for the full year.

The long life fruit juice business excelled once again, recording volume growth of 7% on slightly higher prices, and delivered strong operating profit growth in the process. Cereals also showed strong underlying volume growth, with inflation around 3%. The balance of the portfolio beyond Weet-Bix contributed positively, with corn flakes in particular showing a strong return to profitability. The Wellingtons business is showing signs of improvement, albeit off a low performance base, with the condiments portfolio in particular recording a good recovery.

International

Export volumes into the rest of Africa continued to be dampened by volatile currencies and constrained consumer markets. Trade barriers also impeded progress as foreign governments adopted a protectionist approach towards local manufacturing in order to mitigate the consequences of the constrained macro-economic backdrop.

The export of long life fruit juice and related groceries products into Zimbabwe in particular was hampered by the challenging and demanding economic conditions in that country.

Dried fruit exports experienced a significant decline in global pricing due to the US market's higher than anticipated stock levels from the previous season. This was further exacerbated by the better harvest of vine fruit in Turkey.

The UK business continued to make inroads with growth in private label sales as well as the Lizi's brand exceeding expectations due to innovation and increased numeric listings. The Nigerian business delivered to expectation with the sausage roll category posting double digit volume growth. The new Nigerian bread plant was commissioned during November 2019 and the focus is on delivering against this investment case.

Joint ventures

Joint ventures posted a marked improvement, helped by the exclusion of Heinz Foods SA (read Wellingtons) from this reporting line as well as a material improved performance from Bokomo Botswana and Bokomo Namibia. Bokomo Botswana's performance benefited from the milling upgrade in the prior comparative period.

Financial position

Net cash profit from operating activities decreased by 9% to R1 895 million (2018: R2 073 million). The material grain inflation led to an investment in working capital amounting to R527 million (2018: R281 million released). Stock levels year on year remained flat in terms of volume, while the inventory value increased by 11% related to inflation. Debtors days outstanding remained flat. The weaker operating performance together with the increased investment in working capital contributed to a decrease in net cash flow from operating activities of 43.7% to R1 121 million (2018: R1 991 million).

Capital expenditure for the year amounted to R660 million (2018: R626 million). Major investments include the completion of the new Durban wheat mill as well as the new packaging equipment for beverages. Pioneer Foods Ventures invested limited capital into innovative start-up food and beverage businesses.

The Group's net interest-bearing debt amounted to R927 million (2018: R893 million) at year-end, with a net debt to equity ratio of 10.4% (2018: 10.7%). During the year, the strategic shareholder Phase II B-BBEE equity transaction concluded and Pioneer Foods repurchased and cancelled 11 563 013 ordinary shares. The outstanding Phase II third-party finance of R428 million was also repaid.

Prospects

We anticipate inflationary cost pressure to continue with weak demand and muted consumer spending. Recovering the underlying cost inflation from market pricing remains key in this low volume growth environment. Efforts to optimise costs and improve efficiencies remain a priority.

Update on the PepsiCo offer and material adverse event condition

Shareholders are referred to the combined circular to Pioneer Foods shareholders distributed to shareholders on 29 August 2019 ("Circular") as well as the SENS announcement on the 14th of October 2019.

Progress to date

On 15 October 2019, at a Special General Meeting, nearly 100% of shareholders voted in support of the transaction. As the transaction is subject to regulatory approval from the South African Competition Commission, our joint submission, together with PepsiCo was filed in early September. Adjudication from the SA Competition Commission and thereafter the Competition Tribunal is expected in the new year.

There have also been competition commission filings in other jurisdictions – such as Namibia, Botswana, Nigeria, Kenya, Germany, COMESA and some others.

We anticipate the transaction to be finalised early in 2020.

Material adverse event condition

Capitalised terms used below and that are not otherwise defined, bear the meaning ascribed to them in the Circular.

Shareholders are hereby advised of the fulfilment of items (i) and (iii) of the Pioneer Foods Group Material Adverse Event Condition as set out in the Circular. Accordingly Pioneer Foods hereby advises that in respect of:

- item (i) of the Pioneer Foods Group Material Adverse Event, based on the fact no restatement has been required, this item of the Pioneer Foods Group Material Adverse Event Condition has been fulfilled; and
- in respect of item (iii) of the Pioneer Foods Group Material Adverse Event, the Pioneer Foods consolidated EBITDA (including Wider Group Consolidation) for the financial year ended 30 September 2019 is R2 021 million compared to the agreed measurement number of R2 055 million (which is well within the 90% range as stipulated in the Circular). Accordingly this item of the Pioneer Foods Group Material Adverse Event condition has been fulfilled.

Shareholders are reminded that item (ii) of the Pioneer Foods Group Material Adverse Event will be measured at the end of the month preceding the date in which it is determined that all other Conditions, save for those set out in the Circular, have been fulfilled or waived.

Shareholders are further reminded that the transaction remains subject to additional conditions, the details of which are set out in the Circular.

Dividend

A gross final dividend of 219 cents (2018: 260 cents) per share has been approved and declared by the Board for the year ended 30 September 2019 from income reserves. This is the maximum allowable dividend per the Implementation Agreement with PepsiCo. The applicable dates for the final dividend are as follows:

Last date to trade cum dividend	Tuesday, 28 January 2020
Trading ex-dividend commences	Wednesday, 29 January 2020
Record date	Friday, 31 January 2020
Payment date	Monday, 3 February 2020

The total dividend for the year under review is 324 cents (2018: 365 cents) per share which is a reduction of 11%.

The total amount of the dividend for the year is approximately R691 million (2018: R820 million) and is based on a dividend cover of 1.6 times (2018: 1.4 times). This is calculated as adjusted headline earnings for the year divided by the total dividend for the year, excluding the dividend on treasury shares held by a Group subsidiary.

A gross final dividend of 65.7 cents (2018: 78.0 cents) per class A ordinary share, being 30% of the gross final dividend payable to ordinary shareholders in terms of the rules of the relevant employee scheme, will be paid during February 2020.

Share certificates may not be dematerialised or rematerialised between Wednesday, 29 January 2020 and Friday, 31 January 2020, both days inclusive.

Note to shareholders

The above-mentioned proposed acquisition by PepsiCo of Pioneer Foods, if implemented, will result in significant and material changes to the structure and overall functioning of the Group, including delisting from the JSE Limited ("JSE"). As a result, the Group will publish the Annual Financial Statements, Notice of AGM and the Integrated Annual Report on or before 31 January 2020. This is in line with paragraph 3.19 of the Listings Requirements of the JSE.

ZL Combi
Chairman

TA Carstens
Chief Executive Officer

Tyger Valley
14 November 2019

Summary consolidated financial statements

for the year ended 30 September 2019

Group statement of comprehensive income

	AUDITED YEAR ENDED 30 SEPTEMBER 2019 R'm	AUDITED YEAR ENDED 30 SEPTEMBER 2018 R'm
Revenue	22 272.6	20 151.9
Cost of goods sold	(16 134.5)	(14 356.4)
Gross profit	6 138.1	5 795.5
Other income and gains/(losses) – net	129.9	197.4
Other expenses	(4 886.5)	(4 420.5)
Excluding the following:	(4 876.2)	(4 390.4)
Once-off merger and acquisition costs	(10.0)	–
Phase I B-BBEE transaction share-based payment and related hedge charge	(0.3)	(30.1)
Items of a capital nature	(80.5)	73.2
Operating profit	1 301.0	1 645.6
Investment income	30.3	28.0
Finance costs	(200.8)	(197.5)
Share of profit of investments accounted for applying the equity method	87.2	–
Profit before income tax	1 217.7	1 476.1
Income tax expense	(302.0)	(399.0)
Profit for the year	915.7	1 077.1
Other comprehensive income/(loss) for the year		
Items that will not subsequently be reclassified to profit or loss:		
Remeasurement of post-employment benefit obligations	(1.6)	2.2
Items that may subsequently be reclassified to profit or loss:	9.5	21.9
Fair value adjustments to cash flow hedging reserve	4.1	(12.2)
For the year	(16.5)	3.6
Current income tax effect	3.0	(5.7)
Deferred income tax effect	1.6	4.6
Reclassified to profit or loss	22.2	(20.5)
Current income tax effect	(1.6)	5.1
Deferred income tax effect	(4.6)	0.7
Fair value adjustments on equity investments through other comprehensive income (2018: available-for-sale financial assets)	(17.2)	0.6
For the year	(17.2)	18.8
Deferred income tax effect	–	6.4
Reclassified to profit or loss	–	(24.6)
Share of other comprehensive income of investments accounted for applying the equity method	8.1	7.4
Movement on foreign currency translation reserve	14.5	26.1
Total comprehensive income for the year	923.6	1 101.2
Profit for the year attributable to:		
Owners of the parent	909.8	1 072.6
Non-controlling interest	5.9	4.5
	915.7	1 077.1
Total comprehensive income for the year attributable to:		
Owners of the parent	914.6	1 090.9
Non-controlling interest	9.0	10.3
	923.6	1 101.2

Headline earnings reconciliation

	AUDITED YEAR ENDED 30 SEPTEMBER 2019 R'm	AUDITED YEAR ENDED 30 SEPTEMBER 2018 R'm
Reconciliation between profit attributable to owners of the parent and headline earnings		
Profit attributable to owners of the parent	909.8	1 072.6
Remeasurements	58.9	(61.2)
Net loss/(profit) on disposal of property, plant and equipment and intangible assets	9.3	(35.2)
Net profit on disposal of equity investments through other comprehensive income (2018: available-for-sale financial assets)	–	(24.6)
Fair value adjustment of step-up from joint venture to subsidiary	–	(13.4)
Impairment of property, plant and equipment	36.8	–
Impairment of intangible assets	34.4	–
Before tax	80.5	(73.2)
Tax effect on remeasurements	(21.6)	12.0
Remeasurements included in equity-accounted results	2.1	6.0
Remeasurements	2.3	7.3
Tax effect on remeasurements	(0.2)	(1.3)
Headline earnings	970.8	1 017.4
Phase I B-BBEE transaction share-based payment and related hedge charge	10.7	14.4
Once-off merger and acquisition costs	10.0	–
Adjusted headline earnings (Note 1)	991.5	1 031.8
Number of issued ordinary shares (million)	221.8	233.2
Number of issued treasury shares:		
– held by subsidiary (million)	18.0	18.0
– held by B-BBEE equity transaction participants (million)	–	18.1
– held by BEE trust (million)	10.7	10.7
Number of issued class A ordinary shares (million)	2.7	2.9
Weighted average number of ordinary shares (million)	189.9	186.7
Weighted average number of ordinary shares – diluted (million)	190.0	196.3
Earnings per ordinary share (cents):		
– basic	479.0	574.6
– diluted	479.0	546.5
– headline	511.1	545.0
– diluted headline	511.1	518.4
– adjusted headline (Note 1)	522.0	552.8
– diluted adjusted headline (Note 1)	522.0	525.7
Gross dividend per ordinary share (cents)	324.0	365.0
Gross dividend per class A ordinary share (cents)	97.2	109.5
Net asset value per ordinary share (cents)	4 615.2	4 496.6
Debt to equity ratio (%)	10.4	10.7

Note 1:
Headline earnings ("HE") is calculated based on Circular 4/2018 issued by the South African Institute of Chartered Accountants. Adjusted HE is defined as HE adjusted for the impact of the share-based payment charge on the Phase I B-BBEE transaction on profit or loss (and the impact of the related hedge) and, for 2019 only, significant once-off merger and acquisition costs.

Group statement of financial position

	AUDITED 30 SEPTEMBER 2019 R'm	AUDITED 30 SEPTEMBER 2018 R'm
Assets		
Property, plant and equipment	5 710.2	5 653.9
Goodwill	436.0	434.0
Other intangible assets	827.7	766.0
Investments in and loans to associates and joint ventures	869.0	791.3
Derivative financial instruments	141.4	128.7
Equity investments at fair value through other comprehensive income	4.0	–
Available-for-sale financial assets	–	77.9
Trade and other receivables	48.8	45.8
Deferred income tax	76.1	55.8
Non-current assets	8 113.2	7 953.4
Current assets	6 550.4	6 587.7
Inventories	3 536.7	3 176.6
Derivative financial instruments	42.8	28.0
Trade and other receivables	2 459.4	2 244.1
Current income tax	0.2	10.2
Cash and cash equivalents	511.3	1 128.8
Total assets	14 663.6	14 541.1
Equity and liabilities		
Capital and reserves attributable to owners of the parent	8 912.0	8 379.7
Share capital	22.2	23.3
Share premium	1 657.1	2 538.0
Treasury shares	(187.1)	(1 186.4)
Other reserves	192.6	188.9
Retained earnings	7 227.2	6 815.9
Non-controlling interest	44.3	35.3
Total equity	8 956.3	8 415.0
Non-current liabilities	2 354.6	2 396.2
Borrowings	1 283.3	1 405.1
Provisions for other liabilities and charges	115.2	112.2
Share-based payment liability	128.4	112.8
Derivative financial instruments	3.3	–
Deferred income tax	824.4	766.1
Current liabilities	3 352.7	3 729.9
Trade and other payables	3 116.6	3 018.5
Current income tax	15.3	15.2
Derivative financial instruments	12.7	32.8
Borrowings		
B-BBEE equity transaction third-party finance	–	451.5
Other	154.8	165.5
Loan from joint venture	21.5	21.0
Dividends payable	1.6	1.6
Share-based payment liability	30.2	23.8
Total equity and liabilities	14 663.6	14 541.1

Group statement of changes in equity

	AUDITED YEAR ENDED 30 SEPTEMBER 2019 R'm	AUDITED YEAR ENDED 30 SEPTEMBER 2018 R'm
Share capital, share premium and treasury shares	1 492.2	1 374.9
Opening balance	1 374.9	1 391.2
Movement in treasury shares – derecognition of previously consolidated Phase II BEE equity transaction participants	999.3	–
Ordinary shares issued – share appreciation rights	24.9	51.5
Ordinary shares bought back and cancelled	(2.7)	(67.8)
Shares bought back from Phase II BEE equity transaction participants and cancelled	(904.2)	–
Other reserves	192.6	188.9
Opening balance	188.9	213.1
Equity compensation reserve transactions	28.2	26.6
Ordinary shares issued – share appreciation rights	(24.9)	(51.5)
Deferred income tax on share-based payments	6.5	(15.4)
Share of other comprehensive income of investments accounted for applying the equity method	8.1	7.4
Treasury shares derecognised	(12.5)	–
Other comprehensive (loss)/income for the year	(1.7)	8.7
Retained earnings	7 227.2	6 815.9
Opening balance	6 815.9	6 422.9
Effect of changes in accounting policies	(2.3)	–
Restated opening balance	6 813.6	6 422.9
Profit for the year	909.8	1 072.6
Other comprehensive (loss)/income for the year	(1.6)	2.2
Dividends paid	(687.1)	(681.4)
Profit on disposal of Group treasury shares by Phase II BEE equity transaction participants and derecognition of these previously consolidated entities	202.6	–
Transaction cost on shares bought back	(10.1)	(0.4)
Non-controlling interest	44.3	35.3
Opening balance	35.3	25.0
Profit for the year	5.9	4.5
Share of other comprehensive income	3.1	5.8
Total equity	8 956.3	8 415.0

Group statement of cash flows

	AUDITED YEAR ENDED 30 SEPTEMBER 2019 R'm	AUDITED YEAR ENDED 30 SEPTEMBER 2018 R'm
Net cash profit from operating activities	1 894.8	2 072.5
Cash effect from hedging activities	(5.0)	2.1
Working capital changes	(527.2)	281.1
Net cash generated from operations	1 362.6	2 355.7
Settlement of share-based payment liability	(12.4)	(26.3)
Cash effect of forward purchase contracts related to share-based payments	19.3	25.5
Income tax paid	(248.0)	(364.4)
Net cash flow from operating activities	1 121.5	1 990.5
Net cash flow from investment activities	(606.9)	(866.6)
Property, plant and equipment and intangible assets		
– additions	(609.8)	(297.9)
– replacements	(50.4)	(328.4)
– proceeds on disposal	14.3	106.6
Business combinations	–	(511.4)
Proceeds on disposal of and changes in loans and equity investments at fair value through other comprehensive income (2018: available-for-sale financial assets)	(2.0)	79.3
Investment in joint venture	–	(15.0)
Investment in associates	(23.9)	–
Interest received	17.2	16.1
Dividends received	12.7	11.4
Dividends received from joint ventures	35.0	52.1
Dividends received from associate	–	20.6
Net cash flow from financing activities	(1 067.5)	(395.8)
Proceeds from borrowings – new syndicated and other borrowings	–	1 207.0
Repayment of syndicated bullet loans	–	(600.0)
Repayment of Phase II BEE equity transaction third-party finance	(427.8)	–
Repayments of other borrowings	(89.5)	(61.7)
External funding to Phase II BEE equity transaction participant	429.3	–
Derecognition of cash and cash equivalents of previously consolidated Phase II BEE equity transaction participants	(77.3)	–
Ordinary shares bought back	(2.7)	(67.8)
Other share scheme transactions	(13.1)	(3.7)
Interest paid	(199.3)	(189.2)
Dividends paid	(687.1)	(680.4)
Effect of exchange rate changes on cash and cash equivalents	2.2	3.0
Net cash, cash equivalents and bank overdrafts at beginning of year	1 033.5	302.4
Net cash, cash equivalents and bank overdrafts at end of year	482.8	1 033.5
Disclosed as:		
Cash and cash equivalents	511.3	1 128.8
Bank overdrafts and call loans (included in current borrowings)	(28.5)	(95.3)
	482.8	1 033.5

Group segment report

	AUDITED YEAR ENDED 30 SEPTEMBER 2019 R'm	AUDITED YEAR ENDED 30 SEPTEMBER 2018 R'm
Segment revenue		
Essential Foods	**13 184.9**	11 859.3
Groceries	**5 795.4**	5 119.6
International	**3 292.3**	3 173.0
Total	**22 272.6**	20 151.9
Segment results		
Essential Foods	**742.9**	915.3
Groceries	**362.7**	419.3
International	**294.4**	285.0
Other	**(8.2)**	(17.1)
	1 391.8	1 602.5
Once-off merger and acquisition costs	**(10.0)**	–
Phase I B-BBEE transaction share-based payment and related hedge charge	**(0.3)**	(30.1)
Operating profit before items of a capital nature	**1 381.5**	1 572.4
Reconciliation of operating profit (before items of a capital nature) to profit before income tax		
Operating profit before items of a capital nature	**1 381.5**	1 572.4
Adjusted for:		
Remeasurement of items of a capital nature	**(80.5)**	73.2
Interest income	**17.6**	16.6
Dividends received	**12.7**	11.4
Finance costs	**(200.8)**	(197.5)
Share of profit of investments accounted for applying the equity method	**87.2**	–
Profit before income tax	**1 217.7**	1 476.1

Notes to the summary consolidated financial statements
for the year ended 30 September 2019

1. Basis of preparation

The summary consolidated financial statements of the Group for the year ended 30 September 2019 have been prepared in accordance with the requirements of the JSE Limited Listings Requirements ("The Listings Requirements") for preliminary reports, and the requirements of the Companies Act of South Africa, Act 71 of 2008, as amended, applicable to summary financial statements. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council and also, as a minimum, to contain the information required by *IAS 34 – Interim Financial Reporting.* This summarised report is extracted from audited information, but has not been audited.

The annual financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The audited annual financial statements and the auditor's report thereon are available for inspection at the Company's registered office. The directors take full responsibility for the preparation of the preliminary report and that the financial information has been correctly extracted from the underlying financial records.

2. Accounting policies

The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived, are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements except for the adoption of the following new standards on 1 October 2018:

IFRS 9 – Financial Instruments; and
IFRS 15 – Revenue from Contracts with Customers

The impact of the adoption of the new accounting standards is disclosed in note 3.

The Group adopted all new as well as amended accounting pronouncements issued by the International Accounting Standards Board ("IASB") that are effective for financial years commencing 1 October 2018, however none of the other new or amended accounting pronouncements had a material impact on the consolidated results of the Group.

In preparing these summary consolidated 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 2018 except where impacted by the adoption of the new accounting standards as indicated above.

3. Changes in accounting policies

The quantitative impact of the initial application of the new accounting standards is summarised below:

	30 SEPTEMBER 2018 PREVIOUSLY DISCLOSED R'm	IFRS 15 IMPACT R'm	IFRS 9 IMPACT R'm	1 OCTOBER 2018 RESTATED FOR IFRS 9 AND 15 R'm	NOTE
STATEMENT OF FINANCIAL POSITION					
ASSETS					
Non-current assets					
Available-for-sale financial assets	77.9	–	(77.9)	–	3.1.2 (i)
Equity investments at fair value through other comprehensive income	–	–	77.9	77.9	3.1.2 (i)
Current assets					
Trade and other receivables	2 244.1	9.9	(3.2)	2 250.8	3.1.2 (ii) & 3.2.2 (ii)
Inventories	3 176.6	33.1	–	3 209.7	3.2.2 (ii)
EQUITY AND LIABILITIES					
Capital and reserves					
Retained earnings	6 815.9	–	(2.3)	6 813.6	3.1.2 (ii)
Non-current liabilities					
Deferred income tax	766.1	–	(0.9)	765.2	3.1.2 (ii)
Current liabilities					
Trade and other payables	3 018.5	43.0	–	3 061.5	3.2.2 (ii)

Comparative information has not been restated. The impact of initial application was applied retrospectively as an adjustment to opening retained earnings. Refer to notes 3.1 and 3.2 for further detail.

3.1 IFRS 9 – Financial Instruments

3.1.1 Nature of the change

IFRS 9 replaces IAS 39 and addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

In terms of IFRS 9 the classification of a financial asset depends on the entity's business model for managing the asset and the characteristics of the cash flows related to the financial asset as opposed to the 'specified-criteria' approach in terms of IAS 39.

IFRS 9 introduces a new impairment model in terms of which impairment losses are based on expected credit losses ("ECLs") as opposed to incurred credit losses under IAS 39.

3. Changes in accounting policies continued

3.1 IFRS 9 – Financial Instruments continued

3.1.2 Impact on initial application

The Group adopted IFRS 9 from 1 October 2018 which resulted in changes to accounting policies and adjustments to amounts recognised in the financial statements. The Group also adopted the consequential amendments to *IFRS 7 – Financial Instruments: Disclosure.*

In accordance with the transitional provisions in IFRS 9, the Group elected not to restate comparative information. The impact of the initial application was applied retrospectively as an adjustment to opening retained earnings as at 1 October 2018 and amounted to R2,288,501, representing an increase in the provision for impairment of trade receivables of R3,183,527 and a resulting decrease in deferred income tax of R895,026.

(i) Classification and measurement

On the date of initial application management assessed which business models apply to the financial assets held by the Group and classified its financial instruments into the appropriate categories as illustrated in the table below:

	30 SEPTEMBER 2018 IAS 39 R'm				1 OCTOBER 2018 IFRS 9 R'm			
	LOANS AND RECEIVABLES (AT AMORTISED COST)	AT FAIR VALUE THROUGH PROFIT/LOSS	AVAILABLE-FOR-SALE	TOTAL	AT AMORTISED COST	AT FAIR VALUE THROUGH PROFIT/LOSS	AT FAIR VALUE THROUGH OTHER COMPRE-HENSIVE INCOME	TOTAL
Non-current assets								
Derivative financial assets	–	128.7	–	**128.7**	–	128.7	–	**128.7**
Available-for-sale financial assets	–	–	77.9	**77.9**	–	–	–	**–**
Equity investments at fair value through other compre-hensive income	–	–	–	**–**	–	–	77.9	**77.9**
Trade and other receivables	45.8	–	–	**45.8**	45.8	–	–	**45.8**
Loans to joint ventures	14.4	–	–	**14.4**	14.4	–	–	**14.4**
Current assets								
Derivative financial assets	–	28.0	–	**28.0**	–	28.0	–	**28.0**
Trade and other receivables	2 117.1	–	–	**2 117.1**	2 117.1	–	–	**2 117.1**
Cash and cash equivalents	1 128.8	–	–	**1 128.8**	1 128.8	–	–	**1 128.8**
Total financial assets	3 306.1	156.7	77.9	**3 540.7**	3 306.1	156.7	77.9	**3 540.7**

3. Changes in accounting policies continued

3.1 IFRS 9 – Financial Instruments continued

3.1.2 Impact on initial application continued

***(i) Classification and measurement** continued*

	30 SEPTEMBER 2018 IAS 39 R'm				1 OCTOBER 2018 IFRS 9 R'm			
	LOANS AND RECEIVABLES (AT AMORTISED COST)	AT FAIR VALUE THROUGH PROFIT/LOSS	AVAILABLE-FOR-SALE	TOTAL	AT AMORTISED COST	AT FAIR VALUE THROUGH PROFIT/LOSS	AT FAIR VALUE THROUGH OTHER COMPRE-HENSIVE INCOME	TOTAL
Non-current liabilities								
Borrowings	1 405.1	–	–	1 405.1	1 405.1	–	–	1 405.1
Current liabilities								
Trade and other payables	2 675.8	–	–	2 675.8	2 675.8	–	–	2 675.8
Borrowings	617.0	–	–	617.0	617.0	–	–	617.0
Loan from joint venture	21.0	–	–	21.0	21.0	–	–	21.0
Derivative financial liabilities	–	32.8	–	32.8	–	32.8	–	32.8
Dividends payable	1.6	–	–	1.6	1.6	–	–	1.6
Total financial liabilities	4 720.5	32.8	–	4 753.3	4 720.5	32.8	–	4 753.3

Changes in classifications did not have any impact on the measurement of the underlying financial instruments.

The Group has reclassified listed and unlisted investments with a carrying value of R77.9 million from available-for-sale financial assets to equity investments carried at fair value and elected to present changes in the fair value in other comprehensive income ("OCI"). These investments are held as long-term investments rather than for short-term trading. In terms of the new classification, the recycling of accumulated amounts from the fair value reserve to profit or loss on the disposal of these investments will no longer be allowed.

(ii) Impairment

The Group has the following financial assets that are subject to the expected credit loss impairment model in terms of IFRS 9:

- Trade and other receivables
- Loans receivable
- Cash and cash equivalents

The Group determines impairment provisions by taking into account available forward looking information which could adversely impact a debtor's ability to pay. This includes an assessment of the local short- to medium-term economic outlook, the specific industry the counter party operates in as well as the regulatory and economic environment of the country it operates in.

ECLs are determined on an individual basis for credit impaired financial assets as the risk profiles relating to these customers are different to the categories identified in the collective assessment.

3. Changes in accounting policies continued

3.1 IFRS 9 – Financial Instruments continued

3.1.2 Impact on initial application continued

***(ii) Impairment** continued*

A financial asset is considered to be credit impaired (non-performing) when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events: significant financial difficulty of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments.

Financial assets subject to impairment are written off when there is no reasonable expectation of recovery and the amount is recognised in profit or loss within 'other operating expenses'. Subsequent recoveries of amounts previously written off are credited against the same line item.

Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, all the Group's recovery actions have been exhausted and once legal actions have been unsuccessful.

Trade receivables

The Group adopted the simplified approach for measuring impairment provisions for trade receivables. In terms of this approach, the impairment provisions are calculated with reference to lifetime ECLs. The Group determines impairment provisions both on an individual and a collective basis.

ECLs are determined on an individual basis for credit impaired financial assets as the risk profiles relating to these customers are different to the categories identified in the collective assessment.

The ECL on a collective basis is calculated using a formula incorporating the following parameters: Exposure at Default ("EAD"), Probability of Default ("PD") and Loss Given Default ("LGD") (i.e. PD x LGD x EAD = ECL). To determine the PD, exposures are segmented by customer type (e.g. multi-national, listed or private company etc.), whether collateral is held and the primary economic environment in which the customer operates. This is done to allow for risk differentiation. The Standard & Poor's ("S&P") credit rating for the country in which the customer operates, is assigned to a category and adjusted to take into account specific risk factors identified based on the information included above.

On this basis, the adjustment to opening retained earnings resulting from the initial application of IFRS 9 is summarised below:

	30 SEPTEMBER 2018 AS PREVIOUSLY REPORTED R'm	IFRS 9 IMPACT R'm	1 OCTOBER 2018 RESTATED FOR IFRS 9 R'm
Total provision for impairment	(14.6)	(3.2)	(17.8)
Gross carrying amount of trade receivables	2 090.7	–	2 090.7

The impact of the initial application was applied retrospectively as an adjustment to opening retained earnings as at 1 October 2018 and amounted to R2,288,501, representing an increase in the provision for impairment of trade receivables of R3,183,527 and a resulting decrease in deferred income tax of R895,026.

Impairment provisions for trade receivables are deducted from the gross carrying amount of the assets with the corresponding movement in the provision presented as 'other operating expenses' in profit or loss.

3. Changes in accounting policies continued

3.1 IFRS 9 – Financial Instruments continued

3.1.2 Impact on initial application continued

***(ii) Impairment** continued*

Other financial assets

Impairment provisions relating to loans receivable and cash and cash equivalents are determined in terms of the general expected credit loss model.

In terms of this model the Group considers the PD upon initial recognition of an asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information that could be indicative of a deterioration in the counterparty's ability to pay and includes the following indicators:

- credit ratings (as far as available)
- actual and expected defaults on contractual payments
- significant changes in the actual or expected operating results of the counterparty (to the extent available)
- actual or expected adverse changes in the industry, financial or economic environment the counterparty operates in that are expected to affect its ability to pay
- significant changes in the value of the collateral supporting the obligation
- macro-economic indicators such as market interest rates and growth rates of the relevant country in which the counterparty operates

The Group presumes that the credit risk of a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. A default on a financial asset occurs when the counterparty fails to make contractual payments within 60 days of the due date for payment.

The Group uses three categories for loans which reflect their credit risk and how the loan loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit rating companies, such as S&P. A summary of the assumptions underpinning the company's expected credit loss model is as follows:

CATEGORY	DEFINITION OF CATEGORY	BASIS FOR RECOGNITION OF ECL PROVISION
Performing	Loans whose credit risk is in line with original expectations.	12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime (stage 1).
Underperforming	Loans for which a significant increase in credit risk has occurred compared to original expectations; a significant increase in credit risk is presumed if interest and/or principal repayments are up to 30 days past due (see above for more detail).	Lifetime expected losses (stage 2).
Non-performing (credit impaired)	Interest and/or principal repayments are more than 30 days and up to 60 days past due or it becomes probable a customer will enter bankruptcy.	Lifetime expected losses (stage 3).
Write-off	Interest and/or principal repayments are more than 60 days past due, failure of a debtor to engage in a repayment plan, all recovery actions have been exhausted and legal actions have been unsuccessful.	Assets are written off.

3. Changes in accounting policies continued

3.1 IFRS 9 – Financial Instruments continued

3.1.2 Impact on initial application continued

***(ii) Impairment** continued*

Other financial assets continued

Loans receivable consist mainly of enterprise development loans extended to qualifying recipients as well as loans to associates and joint ventures.

Over the term of the loans, the Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of counterparty and adjusts these for forward-looking macroeconomic data.

The risk ratings of the counterparties where cash and cash equivalents and restricted cash are held, are taken into account in determining the likelihood that a counterparty will fail to meet its obligations. For counterparties with the following risk ratings management does not expect the counterparty to fail to meet its obligations: long-term (local) credit rating of BBB/A or higher and a short-term (local) credit rating of A-2/P-2 or higher in terms of the S&P or Moody's credit rating scales respectively. Cash and cash equivalents are considered to have minimal credit risk due to low probability of default for the financial institutions where the Group's cash is held.

Impairment provisions relating to loans receivable and cash and cash equivalents are deducted from the gross carrying amount of the assets with the corresponding movements in the provisions presented as 'other operating expenses' in profit or loss.

(iii) Derivatives and hedging activities

The Group elected to retain the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

3.2 IFRS 15 – Revenue from Contracts with Customers

3.2.1 Nature of the change

The International Accounting and Standards Board issued IFRS 15 which replaces *IAS 18 – Revenue.*

The core principle of IFRS 15 is that revenue is recognised when control of goods or services is transferred to a customer for an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods or services.

In terms of IAS 18, the timing of revenue recognition from the sale of goods was based primarily on the transfer of risks and rewards.

3.2.2 Impact on initial application

The Group adopted IFRS 15 from 1 October 2018 which resulted in changes in accounting policies, adjustments to amounts recognised in the financial statements (refer to the table in note 3) and additional disclosure (refer to note 5).

In accordance with the transitional provisions in IFRS 15, the Group adopted the modified retrospective application option in terms of which certain adjustments were made to amounts recognised in the financial statements at the date of initial application (1 October 2018). Comparative information was not restated.

The new accounting policies are set out below.

3. Changes in accounting policies continued

3.2 IFRS 15 – Revenue from Contracts with Customers continued

3.2.2 Impact on initial application continued

(i) Sale of goods

Timing of recognition

The Group manufactures and sells a range of fast moving consumer goods to retailers and wholesalers. Contracts with the Group's customers contain a single performance obligation to deliver the goods ordered by the customer.

Revenue is recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has accepted inventory risk related to the products and there is no unfulfilled obligation that could affect the customer's acceptance of the products and the Group has a present right to payment.

Delivery occurs when the products have been shipped to or delivered at the specific location, the risks of obsolescence and loss have been transferred to the customer and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied.

The adoption of IFRS 15 did not impact the Group's timing of revenue recognition since the point in time at which the control of goods are transferred (IFRS 15) agrees with the point in time at which the relevant risks and rewards (IAS 18) were transferred to the customer.

Measurement of revenue

Revenue reflects the listed sales price net of value-added tax, rebates and discounts, other incentives, adjustments for expected returns of good stock, stock write-offs and price differences. Accumulated experience is used to estimate and provide for discounts and rebates, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as sales are made with short-term credit terms, which is consistent with market practice.

The adoption of IFRS 15 did not impact the Group's measurement of revenue except for the accounting treatment of rights of return provided to customers. Refer to (ii) (Accounting for credit notes – good stock) immediately below for further detail.

(ii) Accounting for credit notes – good stock

When the customer has a right to return the product within a given period, the Group is obliged to refund the purchase price. The Group previously recognised a provision for returns which was measured on a net basis at the margin on the sale. The provision was accounted for as an adjustment to trade receivables and a corresponding adjustment to allowance for outstanding credit notes in profit or loss.

In terms of IFRS 15, a refund liability (trade and other payables) for the expected refunds to customers is recognised as an adjustment to revenue. At the same time, the Group has the right to recover the product from the customer where the customer exercises their right of return and the Group then recognises an asset (inventory) and a corresponding adjustment to cost of sales. The asset is measured with reference to the former carrying value of the product. The refund liability is determined with reference to historic experience of actual returns.

The costs to recover the products are not material as the products are usually returned during the normal distribution process.

Refer to the table in note 3 for the impact of the initial application of IFRS 15.

3. Changes in accounting policies continued

3.2 IFRS 15 – Revenue from Contracts with Customers continued

3.2.2 Impact on initial application continued

(iii) Variable consideration

Goods are often sold with retrospective growth incentives payable to customers and are typically based on aggregate sales over a 12-month period. A provision is recognised for expected growth incentives payable to customers in relation to sales made until the end of the reporting period with a corresponding adjustment to revenue. Historic experience is used to estimate and provide for the growth incentives, using the expected value method.

The accounting treatment under IFRS 15 is in line with the Group's previous accounting treatment for growth incentives and as a result had no impact on the Group's results and financial position.

(iv) Accounting for loyalty programmes

The Group makes payments to customers linked to a loyalty programme. These payments are not considered as payments for distinct goods or services received from the customer and as a result the amounts payable are recognised as adjustments to revenue. A contract liability is recognised for loyalty awards payable based on actual sales volumes adjusted with historical experience of non-redemptions. Revenue is recognised when the points are redeemed or when they expire.

The accounting treatment under IFRS 15 is in line with the Group's previous accounting treatment for the loyalty programme and as a result had no impact on the Group's results and financial position.

4. New accounting standards not yet effective and not early adopted

IFRS 16 – Leases replaces *IAS 17 – Leases* and will be effective for the Group's financial year commencing 1 October 2019. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise an asset representing the right to use the leased item and a related liability to pay rentals. The only exceptions are short-term and low-value leases and the Group will elect to adopt these exemptions.

The Group will consider a lease agreement with a non-cancellable period of 12 months or less (after due consideration of an option to extend, or an option to terminate, if the Group is reasonably certain to exercise the extension option, or not to exercise the termination option) as a short-term lease. A lease agreement of which the underlying asset's value is R100,000 or less will be considered a low-value lease.

The Group's implementation project is being finalised and includes the development of an IT solution to capture and maintain data for reporting purposes. The nature of leases within the Group that qualify for capitalisation in terms of IFRS 16 mainly relates to distribution warehouses, production and administration buildings, computer equipment and forklifts.

In accordance with the transitional provisions of IFRS 16, the Group will adopt the modified retrospective application option on adoption of the new standard with the cumulative impact recognised as an adjustment to opening retained earnings at the date of initial application. The measurement of the right-of-use asset was done retrospectively or at an amount equal to the lease liability, adjusted by the amount of prepaid or accrued lease payments recognised immediately before the date of initial application. This selection was made on a lease by lease basis. As a result, comparative information will not be restated. The Group has re-assessed all leases under the requirements of IFRS 16 and the assessment of which contracts contain a lease will not be grandfathered.

4. New accounting standards not yet effective and not early adopted continued

The expected quantitative impact of the initial application of the new accounting standard is illustrated below:

	30 SEPTEMBER 2019 AS DISCLOSED R'm	ESTIMATED IFRS 16 IMPACT R'm	1 OCTOBER 2019 ON INITIAL APPLICATION R'm
Statement of financial position			
ASSETS			
Non-current and current assets			
Property, plant and equipment	5 710.2	748.9	**6 459.1**
– Right-of-use assets	–	748.9	**748.9**
Trade and other receivables	2 508.2	(12.9)	**2 495.3**
– Prepayments	101.9	(12.9)	**89.0**
Total assets	8 218.4	736.0	**8 954.4**
EQUITY AND LIABILITIES			
Capital and reserves			
Retained earnings	7 227.2	(17.9)	**7 209.3**
Total capital and reserves	7 227.2	(17.9)	**7 209.3**
Non-current and current liabilities			
Borrowings	1 438.1	793.1	**2 231.2**
– Lease agreements	62.8	793.1	**855.9**
Deferred income tax	824.4	(3.8)	**820.6**
Trade and other payables	3 116.6	(35.4)	**3 081.2**
– Deferred income	37.7	(32.0)	**5.7**
– Other: operating leases straight-lining liability	57.8	(3.4)	**54.4**
Total liabilities	5 379.1	753.9	**6 133.0**
Total equity and liabilities	12 606.3	736.0	**13 342.3**

Apart from the expected impact on the statement of financial position as illustrated above, the adoption of the standard will also result in a reduction in the operating lease expense in profit or loss and an increase in depreciation charges (on the right-of-use assets) and finance costs (interest expense on the lease liability) in future periods.

The Group's activities as a lessor are not material and hence a significant impact on the financial statements is not expected from these activities other than additional disclosures in this regard.

The impact of other pronouncements that are not yet effective is not expected to be material to the Group in the current or future reporting periods.

5. Revenue

In terms of IFRS 15, revenue can be disaggregated into the following major product lines:

	YEAR ENDED 30 SEPTEMBER 2019 R'm		YEAR ENDED 30 SEPTEMBER 2018 R'm	
	SOUTH AFRICA	INTERNATIONAL	SOUTH AFRICA	INTERNATIONAL
Essential Foods	13 184.9	253.4	11 859.3	209.0
Milling and baking	10 892.4	250.8	9 678.2	205.3
Other grains	2 292.5	2.6	2 181.1	3.7
Groceries	5 795.4	3 038.9	5 119.6	2 964.0
Cereals	1 609.0	1 488.2	1 524.8	1 340.2
Beverages	2 536.1	735.3	2 346.0	769.2
Snacks and other groceries	1 650.3	815.4	1 248.8	854.6
Sub total	18 980.3	3 292.3	16 978.9	3 173.0
Total	22 272.6		20 151.9	

Geographically revenue is disaggregated as follows:

	YEAR ENDED 30 SEPTEMBER 2019 R'm	YEAR ENDED 30 SEPTEMBER 2018 R'm
South Africa	20 444.4	18 557.9
Foreign countries	1 828.2	1 594.0
Total	22 272.6	20 151.9

Foreign countries represent the activities of Group subsidiaries in largely the United Kingdom (mainly cereals) and in Nigeria (milling and baking). South Africa includes exports from manufacturing sites in South Africa.

6. Conclusion of Phase II B-BBEE equity transaction

During 2012, the Company issued 18,091,661 ordinary shares to the value of R999 million to strategic BEE partners, former and current black directors of the Company (hereafter collectively referred to as "BEE investors") in terms of a B-BBEE equity transaction. The subscription price of these shares was mainly financed by Pioneer Foods' wholly owned subsidiary, Pioneer Foods (Pty) Ltd, and by third-party funding from Rand Merchant Bank Ltd ("RMB") in the form of redeemable preference shares.

The funding structure of this transaction resulted in the establishment of a number of special-purpose vehicle companies ("SPVs") for the BEE investors. From inception of the Phase II B-BBEE equity transaction, the results and financial positions of these SPVs have been consolidated with those of the Group in terms of IFRS.

In October 2014, the Group unbundled its investment in Quantum Foods Holdings Ltd and the entity was subsequently listed on the JSE. As a result, the consolidated SPVs received 18,091,661 shares in Quantum Foods Holdings Ltd due to their shareholding in Pioneer Foods.

The terms of the financing provided to the BEE investors matured on 15 March 2019 which resulted in the conclusion of the Phase II B-BBEE equity transaction. Pioneer Food Group Ltd repurchased 11,563,013 ordinary shares from the BEE investors for a total consideration of R904 million in terms of its pre-emptive right under the B-BBEE equity transaction. The proceeds from the repurchase was utilised towards settling the outstanding preference share funding due to both Pioneer Foods and RMB.

The total amount of RMB redeemable preference share funding outstanding as at 15 March 2019 amounted to R428 million (30 September 2018: R451 million).

As from the conclusion date, the SPVs are no longer required to be consolidated in terms of IFRS. Quantum Foods Holdings Ltd has also repurchased its ordinary shares from the BEE investors in terms of its pre-emptive right under the B-BBEE equity transaction in May 2019.

Shareholders are further referred to the SENS announcements on 6 March 2019 and 12 March 2019 respectively for more detail on the share repurchase by Pioneer Foods.

The conclusion of the Phase II B-BBEE equity transaction and the subsequent derecognition of the SPVs on 15 March 2019 had the following impact:

	YEAR ENDED 30 SEPTEMBER 2019 R'm
Derecognition of previously consolidated Phase II B-BBEE equity transaction participants	
Equity investments at fair value through other comprehensive income	(59.7)
External funding to Phase II BEE equity transaction participant	429.3
Fair value reserve	12.5
Derecognition of treasury shares	(999.3)
Consideration in repect of shares bought back and cancelled	904.2
Loans written off	(7.1)
	279.9
Profit on disposal of Group treasury shares by Phase II BEE equity transaction participants and derecognition of these previously consolidated entities	(202.6)
Cash and cash equivalents derecognised	77.3

	YEAR ENDED 30 SEPTEMBER 2019	YEAR ENDED 30 SEPTEMBER 2018
7. Share capital		
During the period under review, the following share transactions occurred:		
Number of listed issued and fully paid ordinary shares		
At beginning of year	**233 177 067**	233 379 445
Shares issued in terms of employee share appreciation rights scheme	**249 660**	423 880
Shares bought back and cancelled	**(11 598 429)**	(626 258)
At end of year	**221 828 298**	233 177 067
249,660 (30 September 2018: 423,880) listed ordinary shares of 10 cents each were issued at an average price of R99.89 (30 September 2018: R121.54) per share in terms of the share appreciation rights scheme.		
35,416 (30 September 2018: 626,258) listed ordinary shares of 10 cents each were repurchased at an average price of R77.38 (30 September 2018: R108.34) per share. This excludes shares repurchased as part of the conclusion of the Phase II B-BBEE equity transaction.		
Purchase consideration paid for these ordinary shares bought back (R'000)	**2 741**	67 846
In addition, 11,563,013 listed ordinary shares of 10 cents each were repurchased at an average price of R78.19 per share from the B-BBEE equity transaction participants as part of the conclusion of the Phase II B-BBEE equity transaction.		
Purchase consideration paid for these ordinary shares bought back (R'000)	**904 112**	–
Number of treasury shares held by B-BBEE transaction participants		
At beginning of year	**18 091 661**	18 091 661
Shares bought back and cancelled by the Group	**(11 563 013)**	–
Derecognition of previously consolidated B-BBEE equity transaction participants	**(6 528 648)**	–
At end of year	**–**	18 091 661
Number of treasury shares held by Pioneer Foods Broad-Based BEE Trust		
At beginning and end of year	**10 745 350**	10 745 350
Number of treasury shares held by a subsidiary		
At beginning and end of year	**17 982 056**	17 982 056
Number of unlisted class A ordinary shares		
At beginning of year	**2 878 680**	3 174 920
Shares bought back and cancelled	**(228 620)**	(296 240)
At end of year	**2 650 060**	2 878 680
Purchase consideration paid for unlisted class A ordinary shares bought back (R'000)	**12 373**	26 316

8. Borrowings

The funding term of the redeemable preference share funding provided by RMB to BEE investors in terms of the Phase II B-BBEE equity transaction expired on 15 March 2019. The proceeds from the repurchase of Pioneer Foods shares by the Company was utilised by the participants to this transaction towards settling the outstanding preference share funding due to RMB. Refer to note 6 for more detail.

The total amount of RMB redeemable preference shares funding outstanding as at 15 March 2019 amounted to R428 million (30 September 2018: R451 million).

No material other new borrowings were concluded during the period under review. Other changes in borrowings mainly reflect repayments made in terms of agreements. Short-term borrowings fluctuate in accordance with changing working capital needs.

The Group is exposed to interest rate risk largely through its variable-rate syndicated bullet loans. As part of its overall risk management strategy the Group decided to hedge against a possible increase in interest rates by entering into a 2-year and 3-year interest rate swap agreement ("swaps") with a nominal value of R250 million each. The swaps became effective on 1 July 2019. Interest payments are linked to the 3-month Jibar and are settled quarterly.

The swaps have the economic effect of converting floating-rate interest payments into fixed-rate interest payments on R500 million of the Group's variable-rate term borrowings. The Group has elected to apply hedge accounting and as a result the movement in the fair value of the swaps are accounted for in other comprehensive income. As at 30 September 2019 the fair value of the swaps amounted to a liability of R6.2 million with a corresponding adjustment to the cash-flow hedging reserve.

9. Impairment of property, plant and equipment and intangible assets

During the current reporting period the Group impaired property, plant and equipment and trademarks of the following cash-generating units ("CGUs"):

CASH-GENERATING UNITS	NATURE OF ASSETS IMPAIRED	AMOUNT OF IMPAIRMENT (PRE-TAX) R'M	INCOME TAX EFFECT R'M	RECOVERABLE AMOUNT OF CGU R'm	RECOVERABLE AMOUNT BASED ON:
Groceries					
Frozen Foods	Intangible assets	21.9	(6.1)	84.4	Value-in-use
Fish Paste spreads	Intangible assets	12.5	(3.5)	7.8	Value-in-use
Werda prepared salads	Property, plant and equipment	13.8	(2.5)	10.0	Fair value less costs to sell
Essential Foods					
Quick cooking maize processing and packing	Property, plant and equipment	23.0	(6.4)	30.1	Value-in-use
Total		71.2	(18.5)		

Key assumptions used for value-in-use calculations
Growth rate of 5.3%
Discount rates from 16.3% to 21.6%

The growth rates used represent the long-term growth rate based on a medium-term outlook on forecasted inflation rates. The discount rates represent a pre-tax rate based on the weighted average cost of capital.

9. Impairment of property, plant and equipment and intangible assets continued

Frozen Foods business

The trademarks of the Frozen Foods business were fully impaired as a longer period is required to grow its profitability to the Group's target profitability in the current constrained South African economic environment. Only the intangible assets of this CGU were impaired.

The impairment loss was limited to the fair value less costs to sell of the individual items of property, plant and equipment comprising the CGU. In determining the fair value less costs to sell on these individual items, independent market-related valuations were obtained. The valuation inputs comprise of these valuations and the costs associated with the disposal thereof to assess the price at which the assets could be sold in orderly transactions between market participants. Market values obtained were specific to the assets of the entity and thus along with the costs of disposal are considered unobservable inputs. The fair value is thus classified as a level 3 fair value.

Fish Paste spreads business

The Redro and Peck's trademarks were fully impaired following the Group's ongoing portfolio analysis and category optimisation processes. This assessment was impacted by slow growth, reflective of continued pressure on consumer income, as well as changes in consumer preferences.

Werda prepared salads

An impairment loss was recognised on the property, plant, machinery and equipment of the Werda prepared salads business following management's firm commitment to dispose of this business. The Group intends to retain the distribution and sales rights attached to products of this business.

The recoverable amount of the CGU was determined with reference to its fair value less costs to sell based on the indicative terms of a draft sales agreement, representing management's assessment of the highest value and best use of the related assets. The fair value along with the costs of disposal are considered unobservable inputs. The fair value is thus classified as a level 3 fair value.

The assets of this CGU have not been reclassified as "non-current assets held-for-sale" and its performance not disclosed as "discontinued operations" since this CGU is not significant from the Group's perspective.

Quick cooking maize processing and packing business

An impairment loss was recognised on the plant, machinery and equipment associated with this processing and packing product line due to lower than expected demand for this innovative super maize meal offering with profitability below expectations given price support required to sustain growth.

10. Events after the reporting date

10.1 Dividend

The Board approved and declared a gross final dividend of 219.0 cents for the financial year ended 30 September 2019 (2019: gross interim dividend of 105.0 cents and 2018: gross final dividend of 260.0 cents) per ordinary share. This will amount to approximately R462,271,656 (2019: interim of R221,420,463 and 2018: final of R578,366,682) depending on the exact number of ordinary shares in issue at the record date. In addition, the 10,745,350 Pioneer Foods shares issued to the Pioneer Foods Broad-Based BEE Trust will receive 20% of the dividend payable, i.e. 43.8 cents (2019: gross interim of 21.0 cents and 2018: gross final dividend of 52.0 cents) per share, amounting to approximately R4,706,463 (2019: interim of R2,256,524 and 2018: final of R5,587,582).

The Board approved a gross final dividend of 65.7 cents for the financial year ended 30 September 2019 (2019: gross interim dividend of 31.5 cents and 2018: gross final dividend of 78.0 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 amount to approximately R1,741,089 (2019: interim of R852,519 and 2018: final of R2,177,557) 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 20%, to be withheld and paid to the South African Revenue Service 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 result of the double taxation agreement between South Africa and the country of domicile of such owner.

The net dividend amounts to 175.20 cents per ordinary share and 52.56 cents per class A ordinary share for shareholders liable to pay dividends tax. The dividend amounts to 219.0 cents per ordinary share and 65.7 cents per class A ordinary share for shareholders exempt from paying dividends tax.

The number of issued ordinary shares and issued class A ordinary shares is 221,841,328 and 2,604,980 respectively, as at the date of this declaration.

10.2 PepsiCo offer

On 15 October 2019 nearly 100% of shareholders voted in favour of the PepsiCo Offer to acquire the ordinary shares of Pioneer Foods. The terms of the offer is detailed in the combined circular distributed to Pioneer Foods shareholders on 29 August 2019. The effective date of the transaction is still subject to various conditions precedent.

Further to the approval of the PepsiCo offer, ordinary resolutions passed will give effect to an amendment to the Phantom Share Plan as well as a payment to certain direct or indirect participants in the 2012 Phase II BEE Transaction that elected to sell their Pioneer Foods ordinary shares, held directly or indirectly, to Pioneer Foods during March 2019. This payment will amount to R7.50 per share for the 11,563,013 Pioneer Foods ordinary shares repurchased from such Phase II B-BBEE equity transaction participants in terms of the March BEE Repurchase, totalling R86.7 million.

10.3 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 summary consolidated financial statements by the Board.

11. Future capital commitments

	30 SEPTEMBER 2019 R'm	30 SEPTEMBER 2018 R'm
Contractually committed		
– For next financial year	**169.9**	156.7
Approved by the Board, but not contractually committed yet	**617.6**	1 068.3
– For next financial year	**547.0**	614.4
– For year following next financial year	**70.6**	453.9
Share of items of joint ventures and associates	**67.8**	56.7
	855.3	1 281.7

12. Fair value measurement

The information below analyses assets and liabilities that are carried at fair value at each reporting period, by level of hierarchy as required by IFRS 7 and IFRS 13.

	FAIR VALUE MEASUREMENTS AT 30 SEPTEMBER 2019 USING:		
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS AND LIABILITIES (LEVEL 1) R'm	SIGNIFICANT OTHER OBSERVABLE INPUT (LEVEL 2) R'm	SIGNIFICANT UNOBSERVABLE INPUT (LEVEL 3) R'm
Financial assets measured at fair value			
Equity investments at fair value through other other comprehensive income			
– Unlisted securities	–	4.0	–
Derivative financial instruments			
– Foreign exchange contracts	–	16.6	–
– Forward purchase contracts on own equity	–	167.6	–
Financial liabilities measured at fair value			
Derivative financial instruments			
– Interest rate swaps	–	6.2	–
– Foreign exchange contracts	–	9.7	–
– Embedded derivatives	–	0.1	–

12. Fair value measurement continued

	FAIR VALUE MEASUREMENTS AT 30 SEPTEMBER 2018 USING:		
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS AND LIABILITIES (LEVEL 1) R'm	SIGNIFICANT OTHER OBSERVABLE INPUT (LEVEL 2) R'm	SIGNIFICANT UNOBSERVABLE INPUT (LEVEL 3) R'm
Financial assets measured at fair value			
Available-for-sale financial assets			
– Listed securities	76.9	–	–
– Unlisted securities	–	1.0	–
Derivative financial instruments			
– Foreign exchange contracts	–	7.0	–
– Forward purchase contracts on own equity	–	149.7	–
Financial liabilities measured at fair value			
Derivative financial instruments			
– Foreign exchange contracts	–	31.4	–
– Embedded derivatives	–	1.4	–

There have been no transfers between level one, two or three during the period, nor were there any significant changes to the valuation techniques and input used to determine fair values.

Financial assets and liabilities

The fair values of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) are based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. The appropriate quoted market price for financial liabilities is the current ask price. These instruments are included in level 1. Instruments included in level 1 comprise primarily JSE-listed equity investments classified as measured at fair value through other comprehensive income.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument were observable, the instrument is included in level 2.

The fair values of the forward purchase contracts on own equity are determined at each reporting date and any changes in the values are recognised in profit or loss. The fair values of the forward purchase contracts have been determined by an independent external professional financial instruments specialist by using a discounted cash flow model. The inputs to this valuation method include the risk free rate, dividend yield, contractual forward price and the spot price at the reporting date.

The fair value of foreign exchange contracts is determined using quoted forward exchange rates at the reporting date. The fair values of the interest rate swaps are calculated as the present value of the estimated future cash flows based on observable swap rates. These observable inputs represent the swap rate of an instrument with a similar remaining maturity as at year-end and was obtained from the relevant derivative dealers.

12. Fair value measurement continued

Financial assets and liabilities continued

The carrying amounts of cash, trade and other receivables less provision for impairment, trade and other payables and short-term borrowings are assumed to approximate their fair values due to the short term until maturity of these assets and liabilities.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair values of long-term investments and long-term borrowings are not materially different from the carrying amounts.

Non-financial assets and liabilities

During the current year impairments were recognised on non-financial assets as disclosed in note 9. The recoverable amounts of certain of the CGUs in respect of which impairments were recognised were determined with reference to fair value less costs to sell and further information regarding the determination of these fair values was included in note 9.

13. Preparation of financial statements

These summary consolidated financial statements have been prepared under the supervision of F Lombard, CA(SA), CFO.

14. Audit

The external auditors, PricewaterhouseCoopers Inc., have audited the Group's financial statements for the year ended 30 September 2019, from which these summary consolidated financial statements have been extracted, and their unqualified auditor's report is available for inspection at the registered office of the Company.

The Group's auditors have not reviewed nor reported on any of the comments relating to prospects.

15. Pro forma financial information

Any pro forma financial information contained in this announcement has been prepared for illustrative purposes only, in order to provide shareholders with comparable results. Because of its nature, it may not fairly present the Group's financial position, changes in equity, results of operations or cash flows.

The pro forma financial information is provided in accordance with the JSE Listings Requirements and the Guide on Pro Forma Financial Information issued by SAICA and is the responsibility of the directors.

An assurance report (in terms of ISAE 3420: Assurance Engagement to report on compilation of Pro Forma Financial Information) has been issued by the Group's auditors in respect of the pro forma financial information included in this summary report. The assurance report is available for inspection at the registered offices of the Company and will be included in the 2019 Integrated Report.

Directors:
ZL Combi (Chairman), TA Carstens (CEO)*, CG Botha, N Celliers, Prof ASM Karaan, F Lombard (CFO)*, NS Mjoli-Mncube, PJ Mouton, LE Mthimunye, SS Ntsaluba, AH Sangqu, NW Thomson (* Executive)

The following changes occurred to the Pioneer Foods Board during the year under review.

- Mr G Pretorius retired as independent non-executive director with effect from 15 February 2019.
- As a consequence of Mr Pretorius' retirement, the Board appointed Mr NW Thomson as lead independent director and chairperson of the human capital committee with effect from 15 February 2019.
- Mr Thomson stepped down as chairperson of the audit committee with effect 15 February 2019, but continues to serve as a member of the audit committee.
- Mr CG Botha was appointed as an independent non-executive director with effect from 12 December 2018 and subsequently appointed as chairperson of the audit committee with effect from 15 February 2019.

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