# Half Year Results

## Half Year ended 25 June 2011

5 August 2011

*Certain statements in this presentation are forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by those statements. Forward looking statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Accordingly, undue reliance should not be placed on forward looking statements.*

# Introduction

Ronnie Bell

Chairman

# Half Year Review

Jim Smart

Chief Financial Officer

# 2011 H1 Review

- Challenging market conditions
- Pricing delivered to cover input cost inflation, albeit with a one quarter pricing stagger
- Temporary dispute with major customer impacted Q2 volumes; now resolved
- Promotional activity levels in our markets increased during H1
- Brookes Avana loss
- Pension Credit of £11m[1]
- Meat-free and Canning disposals completed – total net proceeds £362m

**A Particularly Challenging Environment**

[1] Ongoing business, excluding Meat-free and Canning

# Financial Review

Jim Smart

Chief Financial Officer

# Group Profit and Loss

| £m | 2011 H1 | 2010 H1 | % |
|---|---|---|---|
| Continuing sales | 1,095 | 1,119 | (2.1) |
| **Ongoing Trading profit** | **67** | **94** | (28.7) |
| Add: Canning Trading profit | 7 | 11 | (36.4) |
| **Continuing Trading profit** | **74** | **105** | **(29.5)** |
| Amortisation of intangible assets | (42) | (40) | (5.0) |
| Pension financing | 9 | 2 | - |
| Fair value movements on forex derivatives | 1 | (4) | - |
| **Operating profit** | **42** | **63** | **(33.3)** |
| Net regular interest | (59) | (77) | 24.4 |
| Other interest | 14 | (44) | **-** |
| **Loss before tax** | **(3)** | **(58)** | **94.8** |
| Tax credit | 5 | 15 | (66.7) |
| **Profit/(loss) after tax** | **2** | **(43)** | **-** |
| **Basic earnings per share from continuing operations** | **0.1p** | **(1.8p)** | **-** |

# Ongoing Business Results

| £m | 2011 H1 | 2010 H1 | YoY % |
|---|---|---|---|
| Branded sales | 632 | 652 | (3.2) |
| Non-branded sales | 342 | 330 | 3.8 |
| **Sales (Pro forma to 30 June)** | **974** | **982** | **(0.9)** |
| EBITDA | 89 | 116 | (23.3) |
| **Trading profit** | **67** | **94** | **(28.7)** |
| | | | |
| Net regular interest[1] | (54) | (71) | 23.9 |
| **Adjusted PBT[1]** | **13** | **23** | **(43.5)** |
| Adjusted EPS (pence)[1] | 0.4 | 0.7 | (42.9) |
| | | | |
| Recurring cash flow from ongoing business | (38) | (13) | - |

[1] Pro forma results, assume the disposal of Meat-free and Canning businesses occurred on 1 January 2010

# Recurring Cash Flow

| £m | 2011 H1 | 2010 H1 |
|---|---|---|
| **Trading profit** | **67** | **94** |
| Depreciation | 22 | 22 |
| Other non-cash items | 3 | 2 |
| Non cash pension (credit) / charge | (1) | 10 |
| Pension contributions | (42) | (38) |
| Working capital | (16) | (26) |
| Regular capital expenditure | (30) | (33) |
| Interest[1] | (41) | (43) |
| Taxation | - | (1) |
| **Recurring cash flow from ongoing business** | **(38)** | **(13)** |

- Increase in cash out flow in H1 due to Trading profit performance
- Higher pension contributions offset by lower capital expenditure and lower working capital

[1] Pro forma interest assumes the disposal of Meat-free and Canning businesses occurred on 1 January 2010

# Cash Flow

| £m | 2011 H1 | 2010 H1 |
|---|---|---|
| **Recurring cash flow from ongoing business** | **(38)** | **(13)** |
| Trading profit – disposed businesses | 8 | 16 |
| Other cash flows – disposed businesses | (21) | (2) |
| **Recurring cash flow from total group** | **(51)** | **1** |
| Disposal proceeds | 196 | 4 |
| Financing fees, discontinued operations & other | (23) | (6) |
| **Movement in net debt** | **122** | **(1)** |

- H1 disposal proceeds reflect completion of Meat-free transaction in Q1
- Other includes £18m finance leases associated with Canning transaction
- Canning disposal net proceeds of £167m to follow in H2

# Financial Obligations - Debt

| £m | 2011 H1 | 2010 H1 | % |
|---|---|---|---|
| Gross debt | 1,156 | 1,379 | 16.2 |
| Deferred issuance costs | (17) | (15) | 13.3 |
| **Net debt** | **1,139** | **1,364** | **16.5** |
| Pro forma net debt | 972 | - | - |
| | | | |
| 12 month rolling EBITDA | 323 | 354 | (8.8) |
| **Net debt / EBITDA** | **3.53x** | **3.85x** | **0.32x** |
| | | | |
| Average gross borrowings | 1,348 | 1,517 | 11.1 |
| Securitisation | 90 | 90 | - |
| **Average debt (last 12 months)** | **1,438** | **1,607** | **10.5** |
| | | | |
| **Average debt / EBITDA (last 12 months)** | **4.45x** | **4.54x** | **0.09x** |
| **Pro forma average debt** | **1,137** | | |
| **Pro forma average debt / EBITDA (last 12 months)** | **4.00x** | **-** | |

# Financial Obligations - Other

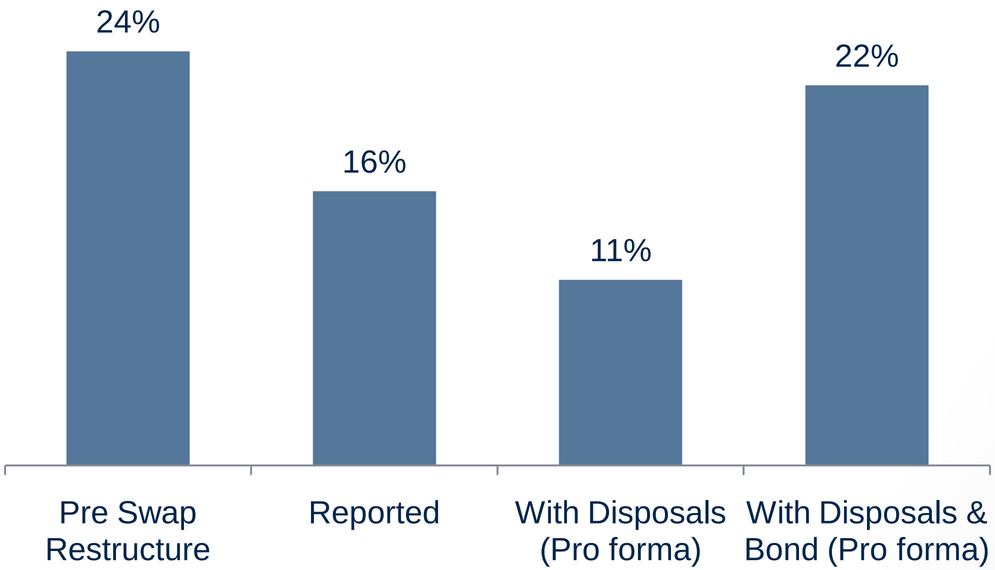
| £m | 2011 H1 | 2010 FY |
|---|---|---|
| Finance leases | 1 | 19 |
| Swap mark to market – hedging | 108 | 123 |
| Swap agreed settlement | 112 | 112 |
| Pension gross deficit (IAS 19 basis) | 273 | 321 |
| **Other financial obligations – gross of tax** | **494** | **575** |
| **Other financial obligations – net of tax** | **367** | **421** |
| | | |
| Actuarial pension deficit (April 2010) – gross of tax | 535 | - |
| Actuarial pension deficit (April 2010) – net of tax | 391 | - |

# Pensions

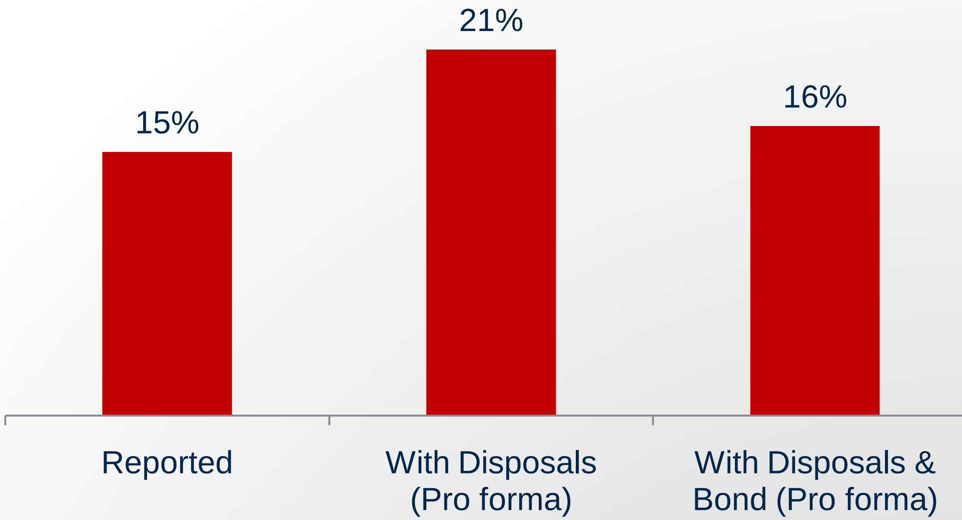
- Defined benefit schemes closed to new members
  - Existing members offered career average scheme
  - Significantly caps the rate at which liabilities escalate
  - Credit of £11m recognised in Trading profit reflects reduction in past service liability
- Agreement with pension funds on basis of security sharing to enable us to issue a bond
- Actuarial pension deficit finalised at £535m gross of tax
- Agreement to pay additional £6m in 2012 and £10m in 2013 in recognition of these agreements and scheme asset underperformance
- Deficit payments agreed until 2014 and thereafter subject to 2013 actuarial valuation and affordability

# Financial Obligations – Covenants

**Interest Covenant Headroom - June 2011**




**Leverage Covenant Headroom - June 2011**




| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2.55x | 2.55x | 2.55x | 2.25x | Tests | 4.25x | 4.25x | 4.25x |

- Interest covenant headroom tightened by swap restructure and disposals
- Disposals reduce interest covenant headroom while increasing leverage headroom
- Lending banks have approved the swap restructure and disposals and have agreed to reset interest covenant on a bond issue

Assumes pro forma business and bond issue

# Operating Review

Jim Smart

Chief Financial Officer

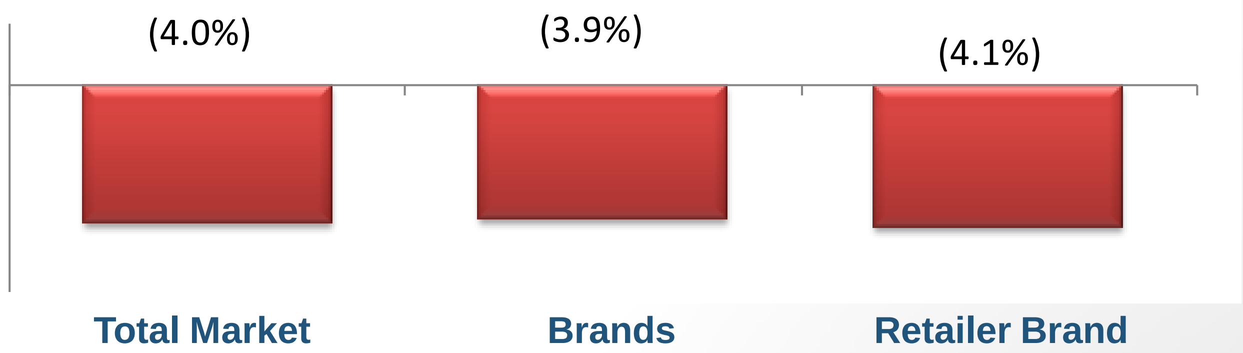
# 2011 H1 Operating Review

- Significant factors:
  - Considerable declines in Grocery and Bread market volumes
  - Input cost inflation and pricing stagger
  - Dispute with a major customer
  - Promotional activity escalating
- Grocery
- Hovis
- Brookes Avana

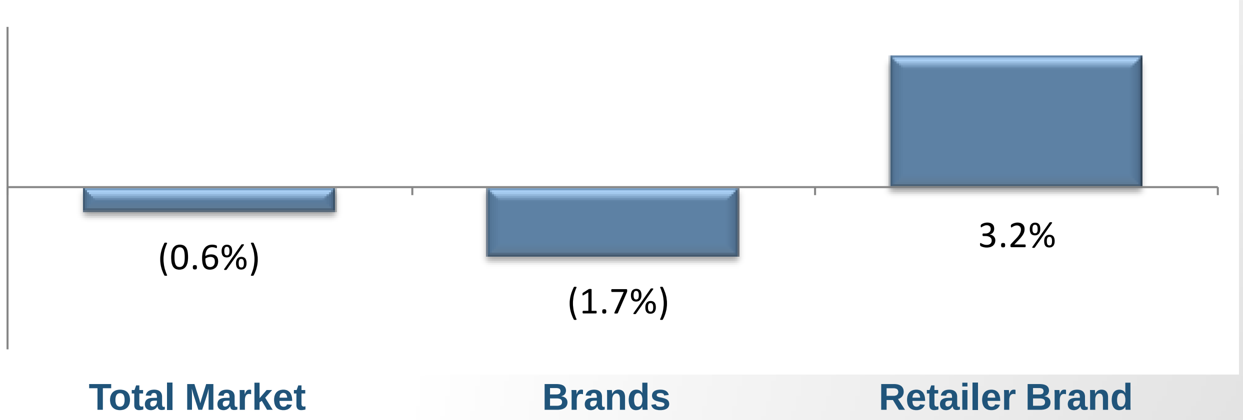
# Market Performance In Our Categories

**Total value of our categories £5bn**

Volume % Decline
2011 H1 vs 2010 H1




Value % Decline
2011 H1 vs 2010 H1

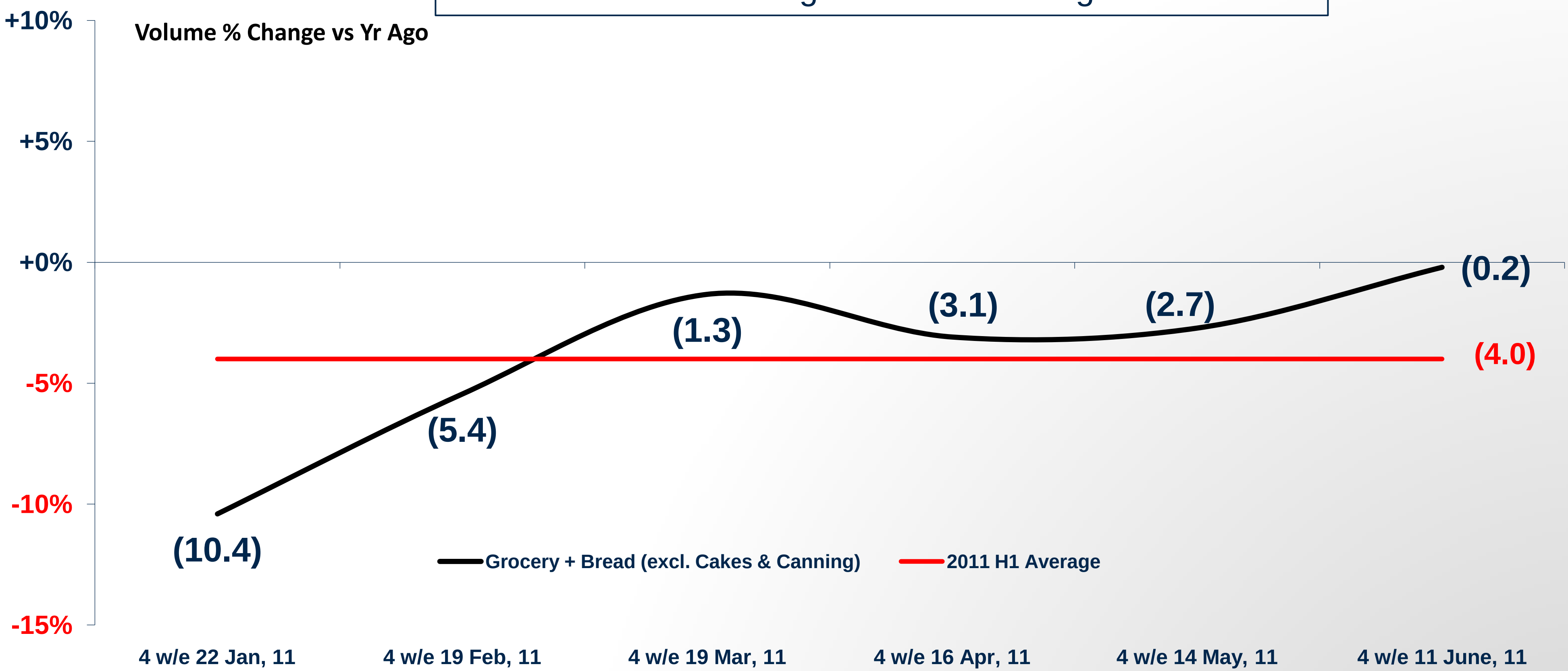



**Our Markets Have Experienced Volume Declines in H1**

Source: Symphony IRI Infoscan Total Grocery Outlets, 26 w/e 11 June 2011

# Grocery & Bread Market Volume Performance

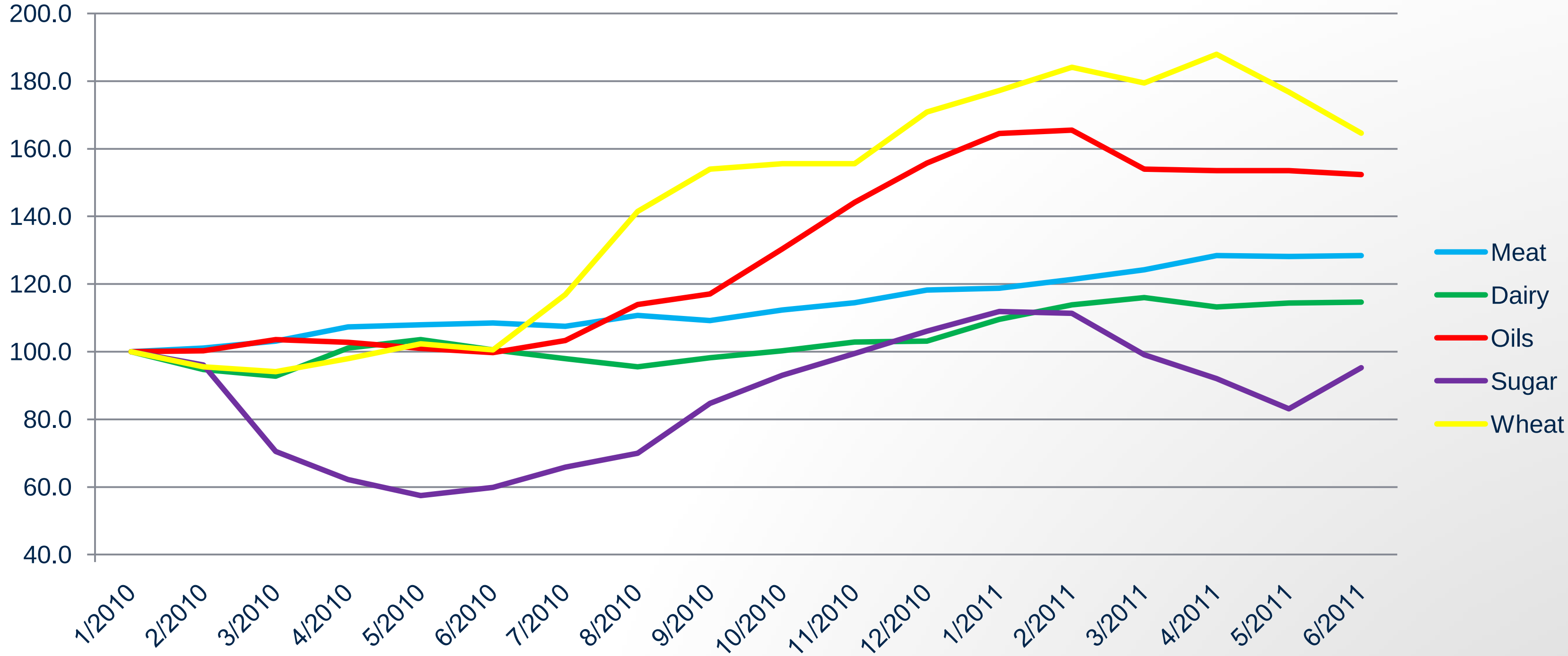
Excluding Cakes & Canning




- Long-term market average growth of 1.0%
- Market performance in 2010 was a decline (0.7%), while December grew by 7.4%
- Following a market decline in 2011 H1 of (4.0%), July improved to 0.9% growth

Source: Symphony IRI Infoscan Grocery Outlets Premier Grocery + Bread Categories excl Cakes & Canning, 4 w/e 11 June 2011

# Input Cost Inflation




- Commodity cost increases a significant factor in 2011 H1
- Annualised cost inflation of £150m

**Commodity Costs Remain Volatile But Have Levelled Off So Far**

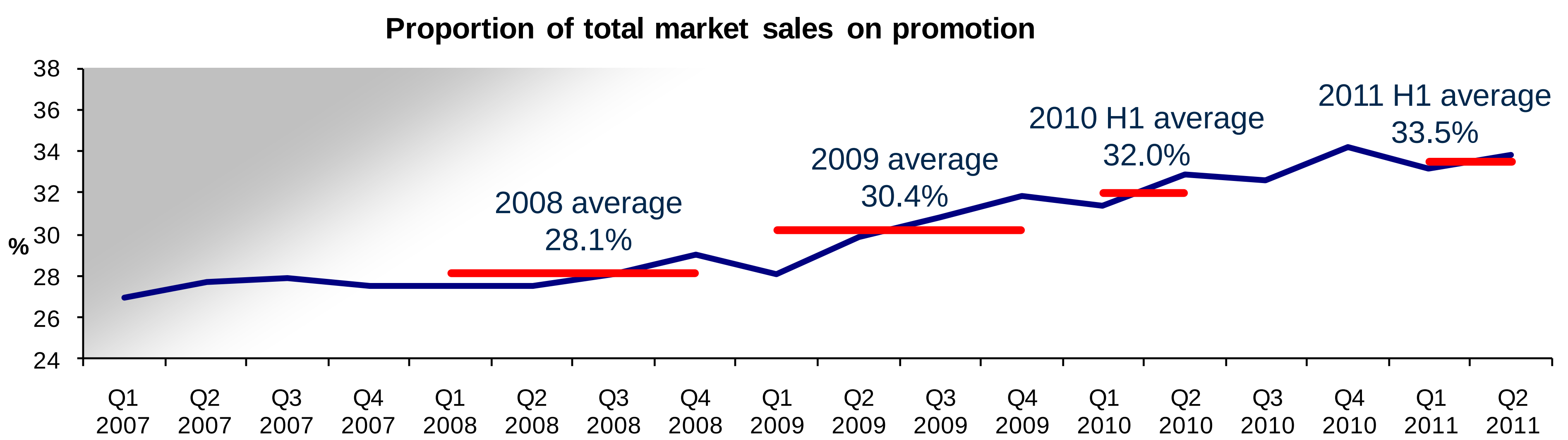
Source: Food and Agricultural Organisation of the UN, 2010 Index =100, Wheat index source: HGCA

# Price Recovery

- Pricing realised to cover input cost inflation
  - Came into effect beginning of Q2 with a stagger of £15m
  - Subsequent temporary dispute with major customer
    - De-listed products in Loyd Grossman, Sharwood's, Batchelor's, Branston
    - Resultant short-term impact on volumes and market share
    - Profitability impact c.£10m
    - All product lines re-listed
    - Strong promotional programme agreed for H2

**Dispute Now Resolved**

# Promotional Activity - The Market




- 2011 H1 value sold on deal increased to 33.5% from 2010 H1 average of 32.0%
- Market promotional activity increased 5%, while Premier Foods spend reduced 2%
- Strong promotional programme in place for H2

**Promotional Activity In The Market Has Increased Further**

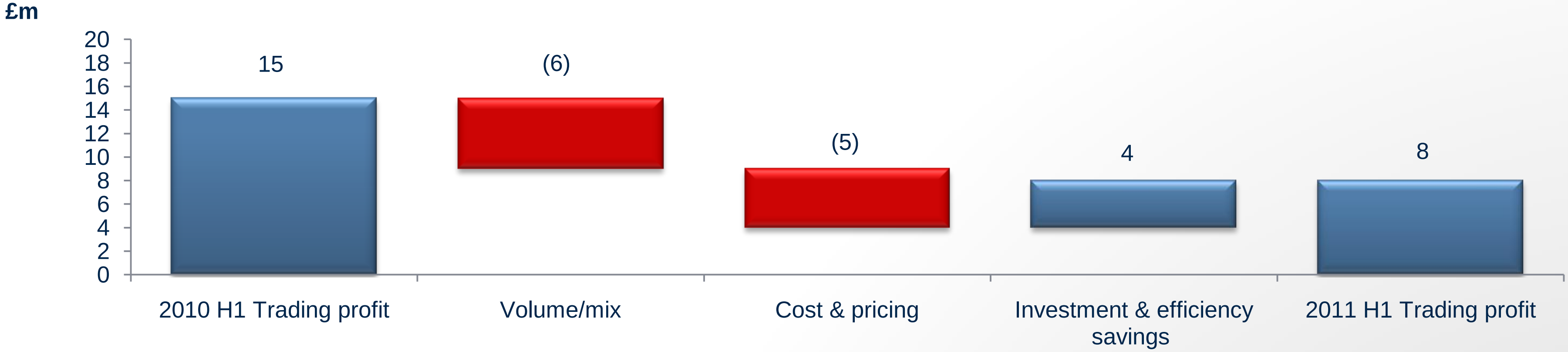
Source: Kantar Worldpanel Purchase, 12 w/e 12 June 2011

# Grocery Trading Profit


- Volumes impacted by market declines, customer dispute and lower promotional spend
- Consistent delivery of procurement savings ahead of the market
- Input cost inflation and pricing stagger partly offset by lower promotional spend
- Manufacturing efficiencies of £5m offset by utilities inflation of £1m; 4% of controllable costs through continuous improvement programmes
- Marketing investment kept flat to last year, despite challenging environment
- Pension credit of £7m in Grocery due to past service credits associated with scheme changes

**Continue To Deliver Procurement And Manufacturing Efficiencies**

# Hovis Trading Profit




- Market volume declines impacting both branded and Non-branded bread
- Pricing covered input costs in H1
- Milling margins under pressure reflecting additional industry capacity
- Lower costs due to past service pension credit

**Hovis Affected By Market And Milling Margins**

# Brookes Avana

- Pricing achieved in Q2, but impacted by pricing stagger
- Main contract movements
  - M&S contracts won in Indian, lost on Pies, Potato products and Italian lines
  - New business won from other major customers at South Wales sites
  - Branded products launched in Mr. Kipling and Ambrosia
- Loss of £30m pie contract at Leicester site
  - Loss phased over next 12 months
  - Restructuring costs £4m in H1
  - Requirement to win further business prior to contract loss
- Margins down due to contract churn and short-term manufacturing inefficiencies
- Anticipate continued losses in H2

# Innovation & Brand Investment

- Innovation
  - Sales from new products 5.7% of sales in H1:
    - Hovis Hearty Oats
    - Loyd Grossman for One
    - Ambrosia Puds
  - Continue to invest in innovation to deliver growth

- Brand Investment
  - Near term projects focusing on Ambrosia and Mr. Kipling
  - Ambrosia Oats products based on 'Good Morning Britain' healthy eating occasion, with major capital investment
  - Capital investment on Mr. Kipling Puddings and individual slices




**Brands Investment Continues**

# Efficiency & Cost Savings Programmes Continue

- Manufacturing controllable costs delivering 4% target
- Procurement efficiency savings continue with £11m benefit in H1
- Cost savings post disposals
  - Sale of Canning business provides opportunity for logistics savings
  - Further Head Office administrative savings
  - Operating expense savings of £20m per annum by 2013
- These savings will help fund brand investment

**Efficiency and Savings Fuel Brand Investment**

# Summary

- Pricing implemented to cover £150m cost inflation
- Investment behind brands continues
- We will continue to reduce our net debt organically
- Completed two major disposals this year
- Continue to deliver efficiency savings
- Further administrative cost saving plans

**We Are Doing The Right Things In A Challenging Environment**

# The Best in British Food with Brands You Really Love

# Q&A

# Appendices

# Definitions

- Trading profit is defined as operating profit before exceptional items, amortisation and impairment of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS39 and pension credits or charges in relation to the difference between the expected return on pension assets and interest costs on pension liabilities and administration costs.

- Adjusted profit before tax is defined as Trading profit less net regular interest.

- Adjusted earnings per share is defined as Adjusted profit before tax less tax at a notional tax rate for the Group divided by the average number of shares in issue during the period.

- None of Trading profit, Adjusted profit before tax or Adjusted earnings per share is a measure of profitability defined under IFRS and may not be comparable from one company to another.

- All financial metrics refer to the ongoing Group (excluding the Meat-free and Canning businesses) unless otherwise indicated.  For the purposes of the financial statements the Meat-free business is disclosed within discontinued operations and the canning business is disclosed within the Grocery segment in continuing operations.

# Results Basis Definitions

- Statutory basis
  - Meat-free is treated as discontinuing
  - Canning is treated as continuing, not a separately identifiable business segment

- Pro forma ongoing business basis
  - Assumes Meat-free and Canning businesses were sold 1 January 2010
  - 2010 Sales £2,104m, Trading profit £267m

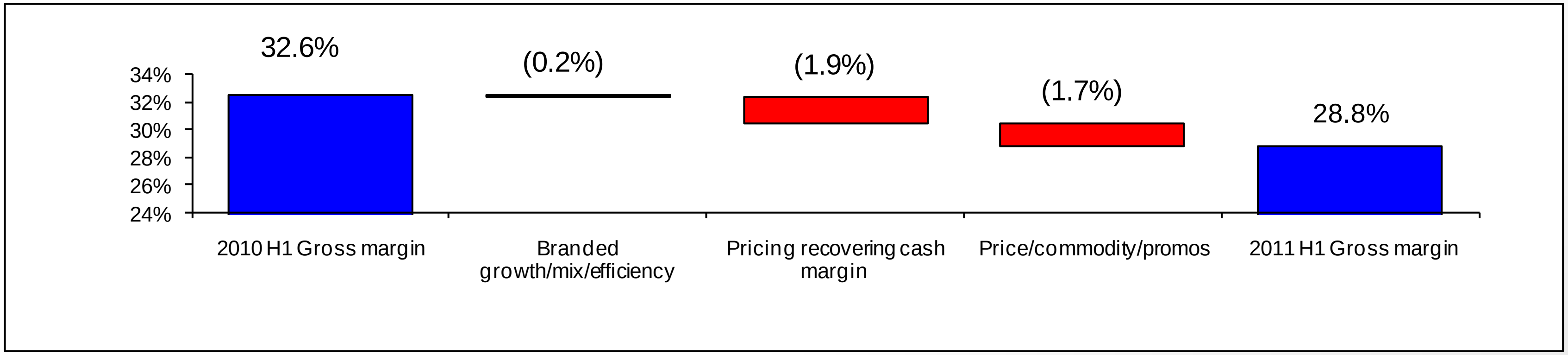
- Sales definitions
  - Statutory sales include Canning sales and exclude Meat-free to 25 June 2011
  - Prior year statutory sales to 26 June 2010, i.e one more trading day
  - Pro forma sales to 30 June 2011 excludes both Canning and Meat-free sales

# Segmental Analysis

| Sales (% Growth) | Reported | | | Pro forma | | |
|---|---|---|---|---|---|---|
| | Branded | Non-Branded | Total | Branded | Non-Branded | Total |
| Grocery | (7.1) | (7.4) | (7.2) | (6.5) | (6.3) | (6.5) |
| Hovis | 4.3 | 9.9 | 6.7 | 4.6 | 10.5 | 7.1 |
| Brookes Avana | - | 3.4 | 3.4 | - | 3.9 | 3.9 |
| **Total** | **(3.6)** | **3.1** | **(1.4)** | **(3.2)** | **3.8** | **(0.9)** |

| Trading profit ongoing (£m) | 2011 H1 | 2010 H1 | YoY % |
|---|---|---|---|
| Grocery | 72 | 81 | (11.1) |
| Hovis | 8 | 15 | (46.7) |
| Brookes Avana | (13) | (2) | - |
| **Total** | **67** | **94** | **(28.7)** |

# Gross Margin Bridge

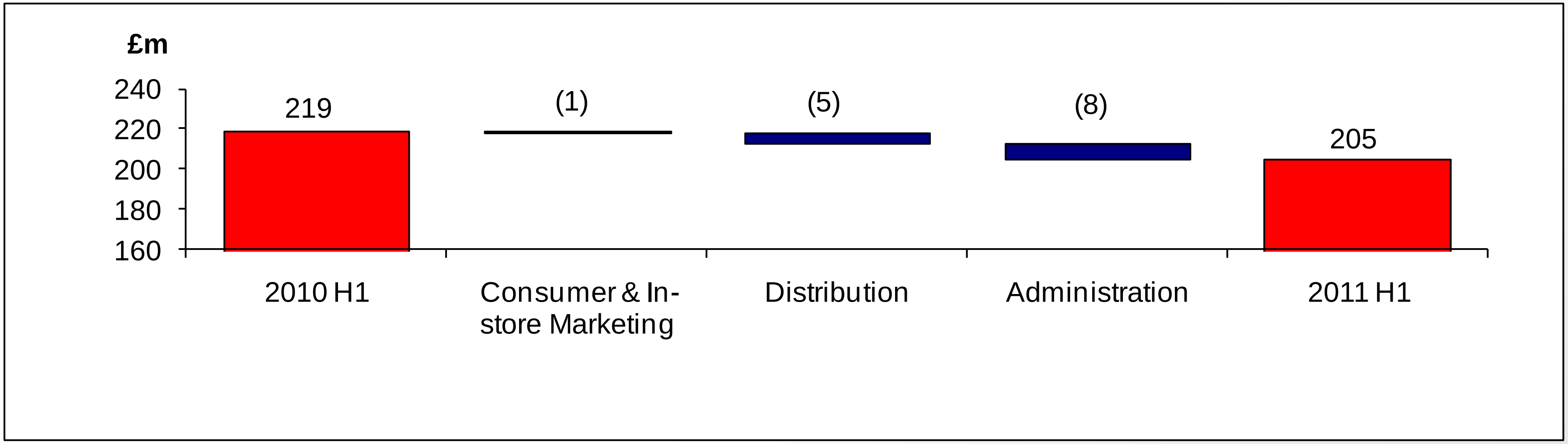



- **Branded growth/mix/efficiency**: Manufacturing and procurement efficiencies are offset by mix due to Branded sales mix decline from 66.4% to 64.9%

- **Pricing recovering cash margin**: Aims to recover cash margin and hence reduces gross margin percentage by 1.9%

- **Pricing/commodity/promotions**: Impact of input cost inflation and pricing recovery resulted in a 3.6% adverse Gross Margin movement. Pricing gap accounts for 1.7% of this decline

# Trading Operating Expenses




- Consumer marketing held broadly flat
- Distribution savings driven from efficiencies
- Administration savings reflect past service pension credit due to move from final salary to career average pension schemes partly offset by restructuring in Brookes Avana

# Impact of Disposals

| £m | Meat-free | Canning | Combined |
|---|---|---|---|
| Sales (Pro forma to 30 June 2011) | 21 | 154 | 175 |
| Trading profit | 1 | 7 | 8 |
| Cash flow from trading | (10) | (3) | (13) |
| | | | |
| Completion date | 7 March 2011 | 23 July 2011 | - |
| Gross proceeds | 205 | 182 | 387 |
| Net proceeds | 195 | 167 | 362 |
| Loss on disposal | 14 | c.5 | c.19 |
| | | | |
| Leverage impact (Net debt/EBITDA x) | 0.38x | 0.23x | 0.61x |
| EPS impact (pence) | (0.28p) | (0.65p) | (0.93p) |

# Interest Charges

| £m | 2011 H1 | 2010 H1 | % |
|---|---|---|---|
| Bank debt interest | (22) | (31) | 29.0 |
| Securitisation interest | (1) | (1) | - |
| Swap contract interest | (29) | (38) | 23.7 |
| **Cash interest** | **(52)** | **(70)** | **25.7** |
| Amortisation and deferred fees | (7) | (7) | - |
| **Net regular interest charge** | **(59)** | **(77)** | **23.4** |
| Unwind of provision discount & other | (1) | (1) | - |
| IAS39 – fair valuation of financial instruments | 15 | (43) | - |
| **Reported net interest charge** | **(45)** | **(121)** | **62.8** |
| | | | |
| Average debt (last 12 months) | 1,438 | 1,607 | 10.5 |
| Effective cash interest coupon (12 month rolling basis) | 7.9% | 8.8% | 0.9ppt |

# Swap Instruments

| Instrument Type | Nominal Value £m | Coupon % | Maturity | MTM £m |
|---|---|---|---|---|
| | | | | |
| Cap & collar swaps | 350 | 5.75 | June 2012 | 17 |
| Vanilla | 50 | 4.60 | May 2013 | 3 |
| Vanilla | 100 | 5.00 | June 2013 | 13 |
| Vanilla | 575 | 6.87 | Dec 2013 | 75 |
| | **1,075** | **6.21** | | **108** |

| Agreed settlement amounts due (gross of tax) | £m |
|---|---|
| | |
| 2012 | 33 |
| 2013 | 79 |
| | **112** |

# Covenants

| £m | 2011 H1 | 2011 FY | 2012 |
|---|---|---|---|
| Covenant Net debt | 1,131 | | |
| Covenant EBITDA (Leverage test) | 313 | | |
| Covenant EBITDA (Interest test) | 326 | | |
| Covenant Interest | 110 | | |
| | | | |
| Net debt / EBITDA test | 4.25 | 3.90 | 3.45 |
| Net debt / EBITDA actual | 3.61 | | |
| Net debt / EBITDA headroom % | 15% | | |
| | | | |
| EBITDA / Interest test | >2.55 | >2.75 | >3.30 |
| EBITDA / Interest actual | 2.96 | | |
| EBITDA / Interest headroom % | 16% | | |

# Taxation

- The accounting tax rate for the year is anticipated to be around 26%
- Cash tax rates for 2011 are expected to be minimal as a result of:
  - Capital allowances in excess of depreciation charges
  - Pension contributions in excess of the profit and loss charge
  - Increased by the amortisation of intangible assets that are not eligible for tax relief
  - A small liability arising on the operations in Ireland
- 2010 P&L credit on continuing activities - £5.6m
  - Credit includes £4.4m arising as a result of restating deferred tax balances at the lower rate of corporation tax (per Finance (No. 3) Act)
- Without the above adjustment the tax credit would be £1.2m, a rate of 41.5% of the loss for the period
- No taxation arises on the sale of the Meat-free business as a result of the Substantial Shareholding Exemption

# Balance Sheet

| £m | 2011 H1 | 2010 H1 |
|---|---|---|
| Fixed Assets – Property, plant & equipment | 530 | 621 |
| Fixed Assets - Intangibles / goodwill | 2,019 | 2,450 |
| Total Fixed Assets | 2,549 | 3,071 |
| Assets Held For Sale | 166 | - |
| Working Capital | | |
| Stock | 160 | 217 |
| Debtors | 309 | 320 |
| Creditors | (445) | (425) |
| Total Working Capital | 24 | 112 |
| Net debt | | |
| Gross debt | (1,255) | (1,385) |
| Cash | 116 | 21 |
| Total net debt | (1,139) | (1,364) |
| Other net liabilities | (625) | (814) |
| | 975 | 1,005 |
| Share Capital & premium | 1,149 | 1,149 |
| Reserves | (174) | (144) |
| | 975 | 1,005 |