

PREMIER FOODS PLC

TRADING STATEMENT FOR THE HALF YEAR FROM 1 JANUARY 2011 TO 25 JUNE 2011

30 June 2011

First half trading

Premier Foods will report half year results for the period from 1 January 2011 to 25 June 2011 on Friday 5 August 2011.

We expect to report trading profit for the ongoing business in H1 of between £65m and £70m versus £94m in the equivalent period in 2010. The 2011 result includes a £10m credit arising from reduced liabilities as a consequence of closing the pension schemes.

The decline in trading profit is due to a number of factors:

First, commodity costs increased by 14% year on year; equivalent to a £150m increase in costs in a full year. Although we have successfully repriced our products to reflect this, there was an inevitable time lag before the prices took effect, which led to a one-off cost of £15 million in Q1.

In addition, as a direct result of our successful repricing exercise, one of our major customers delisted a significant number of our Grocery lines. This cost Premier Foods around £10m in Q2 but the issue has now been fully resolved and the affected lines have been relisted.

Second, there was an unprecedented decline year on year in our markets, with both the Grocery and Bread markets falling by 5%, due to the depressed consumer environment exacerbated by unseasonably warm weather. The consequent decline in volumes reduced profit in both the Grocery and Hovis businesses.

Third, Brookes Avana will record a £10m decline in profit year on year in the first half. This includes a £5m charge for restructuring at our Leicester site following the decision from Marks and Spencer to remove a significant pie contract in stages over the next year.

In total, the year on year decline in profit caused by these factors weighed more heavily on the earlier months of the first half. Margins in Q2 improved as the new prices came into effect and as our extensive cost efficiency programmes yielded positive results. As a consequence, we have seen a substantial improvement in trading results over Q1. Q2 also contained £15m of one-off decline associated with the customer issue and the Brookes Avana restructuring charge. We are thus seeing an improving trend as we move into the second half.

In the second half, we anticipate many of the factors affecting the first half will not be repeated. Our markets returned to more normal levels in June and were flat year on year. Although the promotional environment continues to escalate, we have secured competitive levels of promotional display for the second half.

At Brookes Avana, we have concluded our discussions with Marks and Spencer, our main customer. This resulted in significant repricing at the start of Q2 as well as certainty over future sales volumes over the medium term. We have also secured new business from other customers equivalent to £30m of annualised sales. As a consequence we expect to see an improving trend in the second half and a positive run rate as we exit 2011.

We are also taking actions to defend recurring cash flows. We are reducing the planned capital expenditure programme in 2011 and are managing working capital. Our aim is to seek to mitigate the effect of the fall in trading profit during the year which will allow us to reduce net debt over the year.

Outlook

Given the state of the economy and pressure on consumer spending, we expect these slow market conditions to improve on the first half but to continue to be down year on year in the second half. We also expect promotional intensity to increase year on year. Nevertheless, we have largely completed our repricing and have succeeded in obtaining a strong promotional programme which should help us resume taking market share.

Hovis trading should improve although the ongoing pressure on Milling margins may lead to a small year on year decline in the second half. The additional volumes and the benefits of efficiencies should allow the Grocery business to show year on year progress in the second half although it is unlikely that this will offset the first half profit decline in full. The outlook is, as in any year, dependent on the Christmas trading period.

Notes:

- 1. All figures are subject to finalisation and audit review.
- 2010 H1 Sales and Trading profit comparatives will be posted on the Premier Foods website: <u>www.premierfoods.co.uk/investors/results-and-presentations/other-corporate-info</u> <u>rmation</u>

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