Half Year Results 30th June 2014

22nd July 2014

CAUTIONARY STATEMENT

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.

1 Gavin Darby
Chief Executive Officer

HALF YEAR RESULTS 2014 - INTRODUCTION

- Sales momentum impacted by challenging markets
- Strong second half commercial plans in place
- Continued focus on cost reduction
- Trading profit expectations for the full year unchanged
- Medium-term leverage target unchanged

2 Alastair Murray

Chief Financial Officer

2014 HALF YEAR RESULTS

Power Brand sales	**(4.9%)**
Branded sales	**(6.1%)**
Trading profit	**+2.1%**
Adjusted PBT	**£17m**
Adjusted eps	**2.3p**
Net debt	**£572m**

Power Brands Sales and Trading profit on underlying basis

GROCERY POWER BRANDS IMPACTED BY CHALLENGING MARKET CONDITIONS

Sales (£m)	2014 H1	2013 H1	Growth (%)
Power Brands	**241**	**253**	**(4.9%)**
Support brands	83	92	(9.2%)
Total branded	**324**	**345**	**(6.1%)**
Non-branded	40	43	(6.0%)
Total	**364**	**388**	**(6.1%)**

TRADING PROFIT UP 2.1%

£ millions	2014 H1	2013 H1
Underlying business sales	**364**	**388**
Underlying business Trading profit	**48**	**47**
Add: previous disposals	1	2
Continuing operations Trading profit	**49**	**49**
Amortisation of intangible assets	(20)	(24)
Net interest on pension and administration costs	(17)	(13)
Restructuring costs relating to disposal activity	0	(4)
Impairment	(16)	(1)
Re-financing costs	-	(0)
Loss on disposal of businesses	(6)	(2)
Operating (loss)/profit	**(10)**	**5**
Operating profit before impairment and loss on disposal of business	**12**	**8**

INTEREST

£m	2014 H1	2013 H1
Bank debt interest	11	12
Bond interest	9	-
Swap contract interest	2	3
Securitisation interest	1	2
Cash interest	**23**	**17**
Amortisation and deferred fees	8	10
Net regular interest	**31**	**27**
IAS 39 – fair valuation of financial instruments	(1)	(7)
Write off of financing costs	15	-
Other	-	1
Net finance expense	**45**	**21**

- 2014 H1 includes dual running of bond interest and previous term loan facility
- Write off of financing costs associated with previous financing agreements

ADJUSTED EARNINGS PER SHARE

£m	2014 H1	2013 H1	%
Underlying Trading profit	**48**	**47**	**2.1%**
Net Regular Interest	(31)	(27)	(12.8%)
Adjusted PBT	**17**	**20**	**(12.6%)**
Notional Tax @ 21.5%/ 23.25%	(3)	(5)	19.2%
Adjusted earnings	**14**	**15**	**(10.5%)**
Adjusted earnings per share (pence)	**2.3**	**6.3**	**(63.6%)**

- Net regular interest higher due to dual running of Bond interest and previous term loan interest
- Adjusted PBT of £17m reflects higher interest costs in H1
- Weighted average shares in H1 = 588.2 million
- Full year 2014 weighted average shares = 706.8 million

RECURRING CASH FLOW

£m	2014 H1	2013 H1
Underlying Trading profit	**48**	**47**
Depreciation	8	9
Other non-cash items	2	1
Interest	(22)	(23)
Taxation	-	-
Pension contributions	(37)	(3)
Capital expenditure	(19)	(15)
Working capital	(10)	(15)
Recurring cash flow	**(30)**	**1**

- Pension deficit contributions weighted to H1, Full Year guidance unchanged
- Working capital reflects Grocery outflows
- Capital expenditure, tax and interest all in line with expectations
- Interest and pension cash flows expected to be significantly lower in H2

NET DEBT

£m	2014 H1	2013 H1
Recurring cash inflow	**(30)**	**1**
Disposed businesses cash flows	(1)	(4)
Restructuring activity	(4)	(25)
Operating cash flow from total Group	**(35)**	**(28)**
Net disposal proceeds	16	91
Financing fees & other costs of finance	(57)	0
Loan notes	(16)	-
Purchase of own shares	(1)	-
Net equity proceeds	340	-
Free cash flow	**247**	**63**
Other non-cash items	12	
Opening Net debt	(831)	
Closing Net debt	**(572)**	

- Financing fees include £7m plain vanilla swap close out
- Net equity proceeds of £340m after underwriting and advisory fees
- Medium term leverage target of 2.5x Net debt/EBITDA unchanged

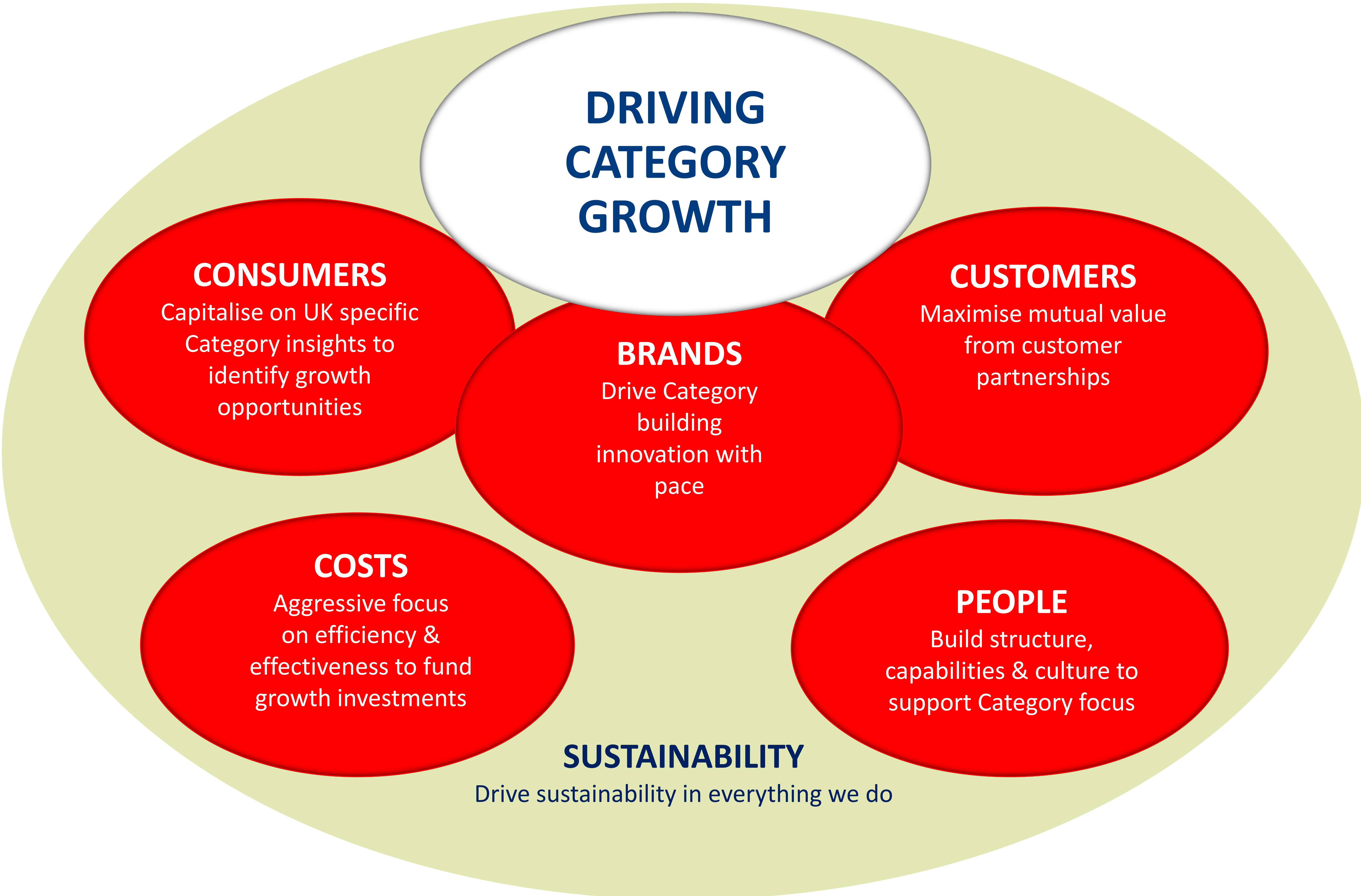
LOWER PENSIONS VALUATION DUE TO IMPROVED ASSET RETURNS

IAS19 Accounting Valuation (£m)	30 June 2014	31 Dec 2013
Assets	3,365	3,219
Liabilities	(3,901)	(3,822)
Gross deficit	**(536)**	**(603)**
Net deficit (Tax @ 21.5%/23.25%)	**(421)**	**(463)**
Discount rate	4.20%	4.40%

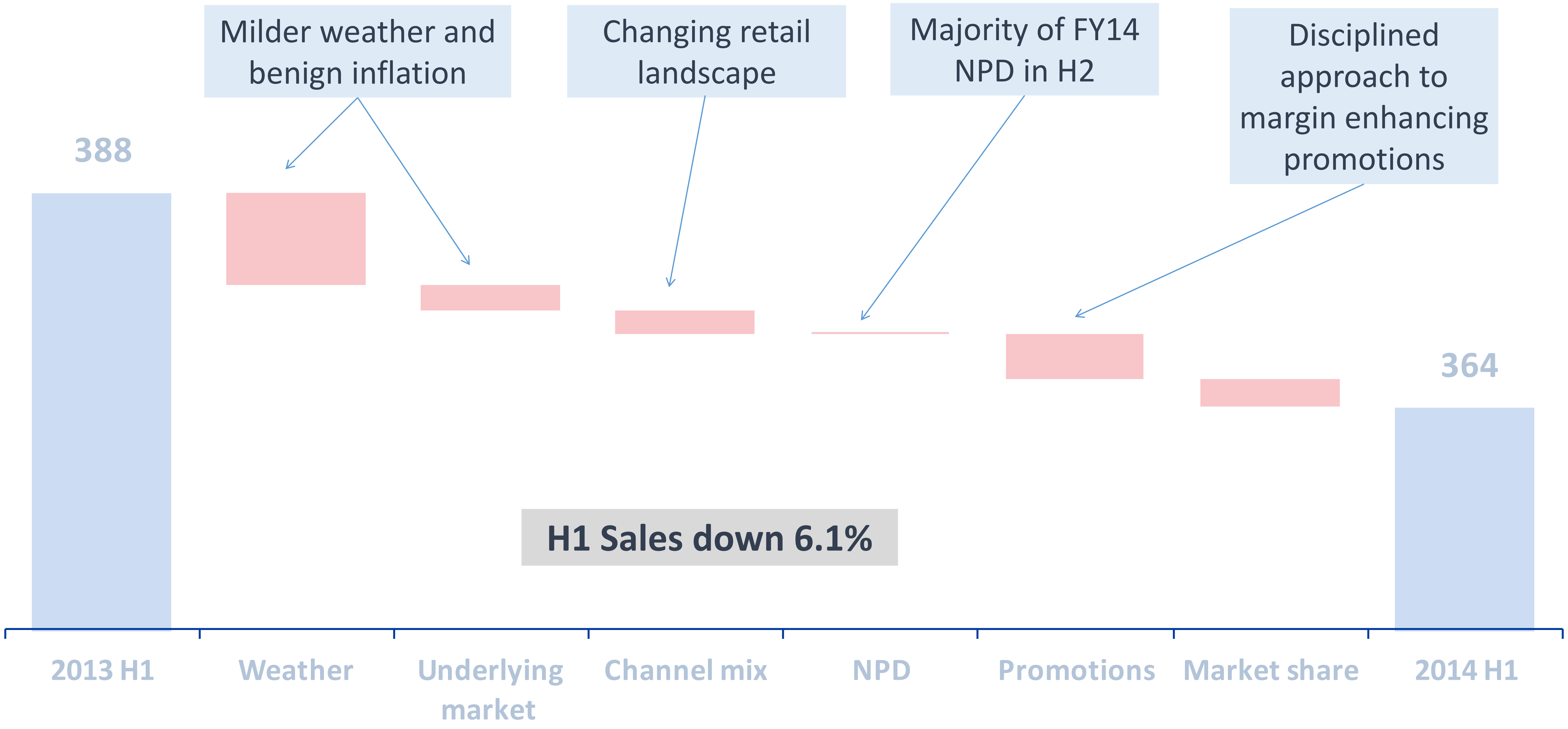
- Pension deficit contributions fixed until 2019 following capital restructuring
- Discounted future post tax cash flows c.£390m

3 Gavin Darby
Chief Executive Officer

CATEGORY FOCUSED GROWTH STRATEGY
Designed to drive value growth

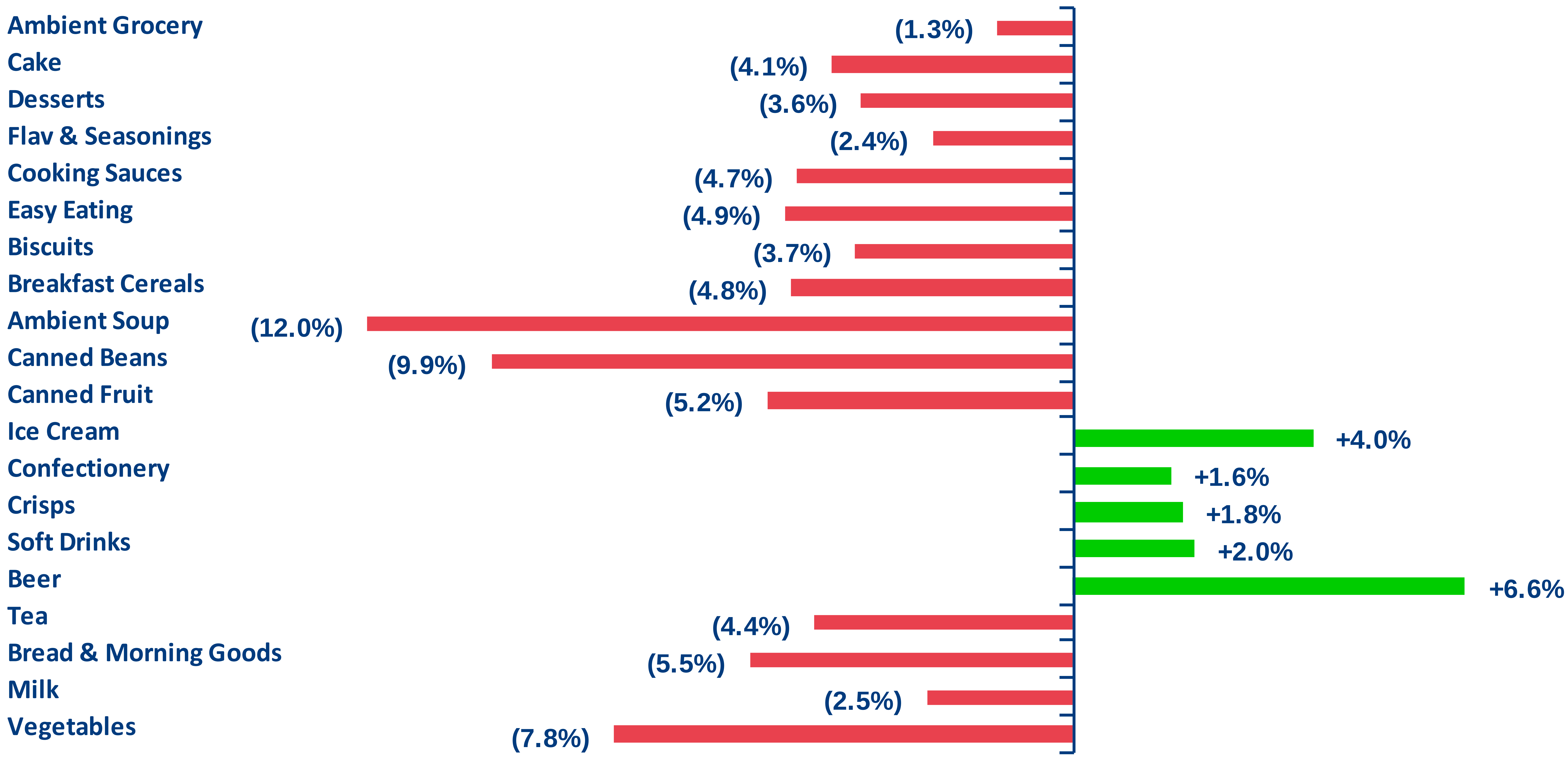


H1 SALES PERFORMANCE



- Milder weather a significant impact on category performance
- Price inflation in our categories at its lowest level for 4 years
- Structural change in channel mix is taking place
- Categories remain competitive, but we are making disciplined choices to improve margins
- No significant switching evident between brands and non-branded
- Our customer partnerships remain strong

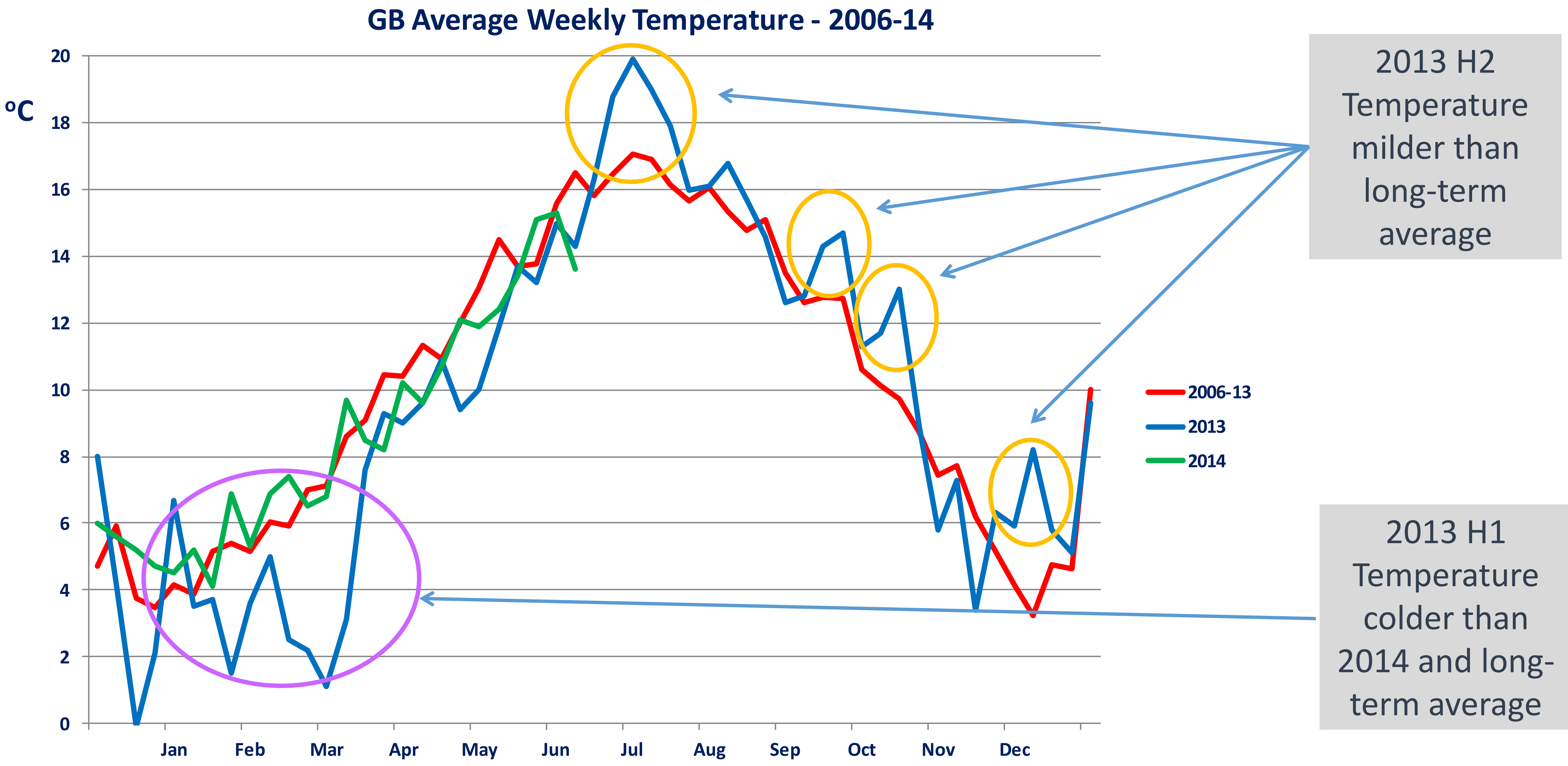
MANY GROCERY CATEGORIES HAVE EXPERIENCED DECLINES SO FAR THIS YEAR



- Ambient and fresh categories seen declines
- Beer and Snacks categories supported by World Cup effect
- Ice Cream also displayed growth

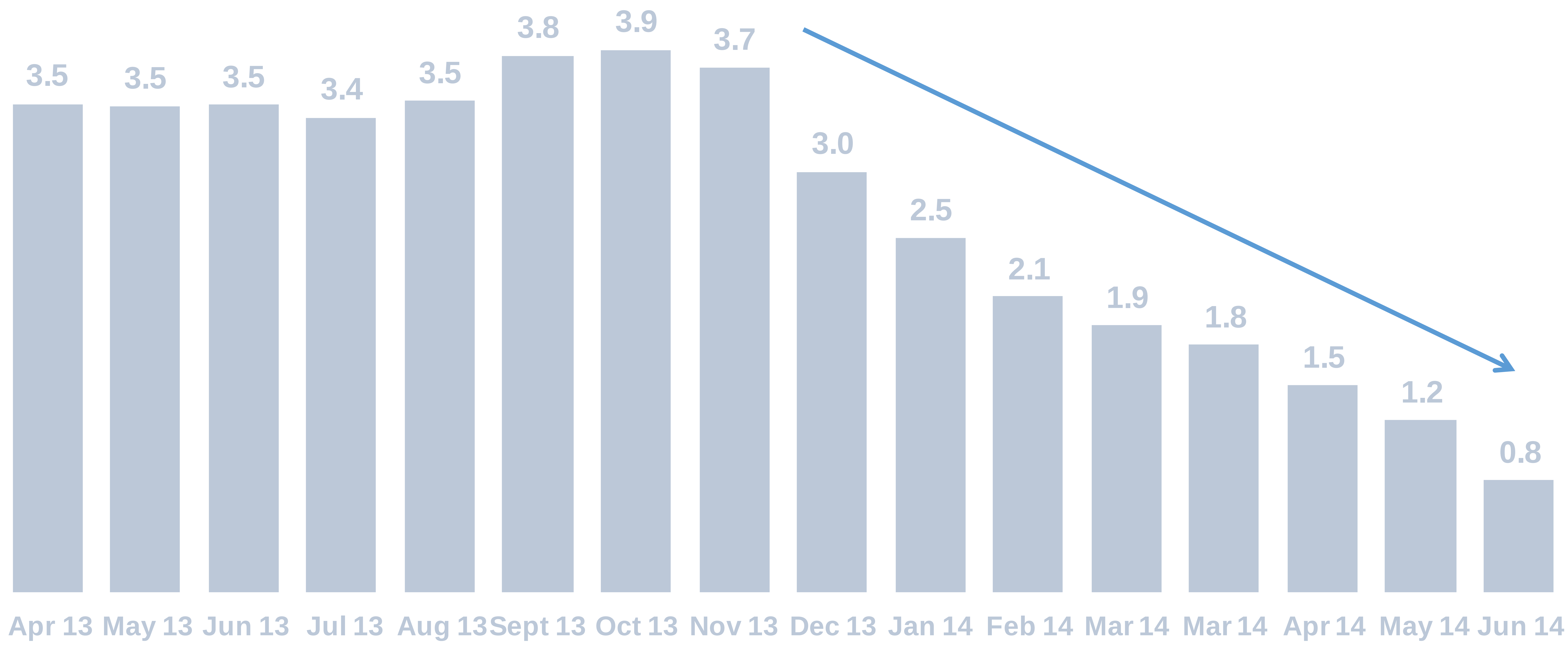
Source: IRI, Total Grocers, YTD 14 June 2014

HISTORIC TEMPERATURE TRENDS SHOW 2013 DIVERGENCE FROM AVERAGES



- UK weather was exceptionally cold in 2013 H1; 2013 H2 was warmer
- Combination of a later and warmer Easter in 2014 compounded sales decline

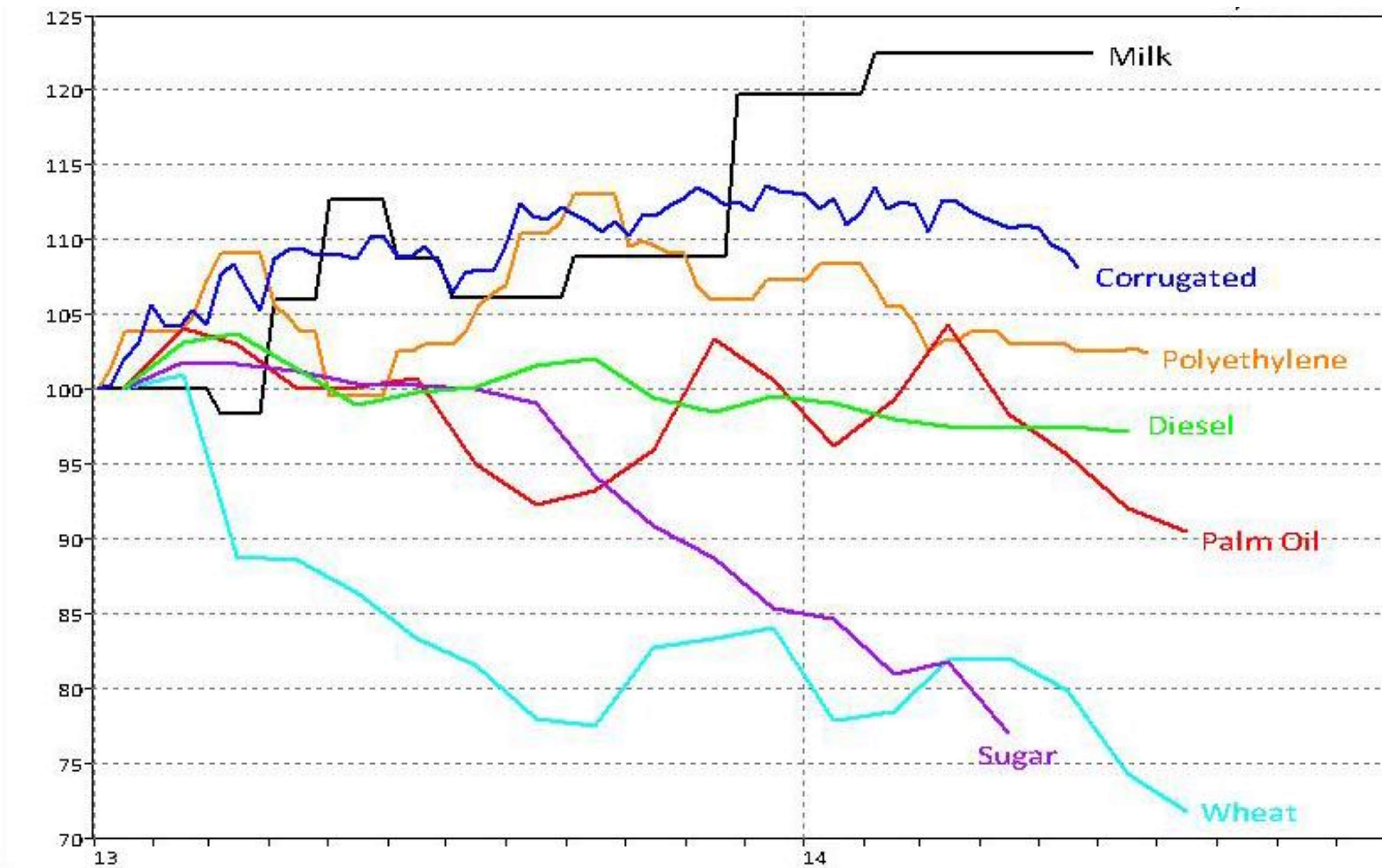
FOOD INFLATION HAS FALLEN SHARPLY SINCE THE START OF 2014



- These levels are the lowest since early 2010
- Reflect the competitive retail landscape and lower input cost inflation

Source: Kantar Worldpanel, Total Grocery, 12 week ended 22 June 2014

BENIGN INPUT COST ENVIRONMENT

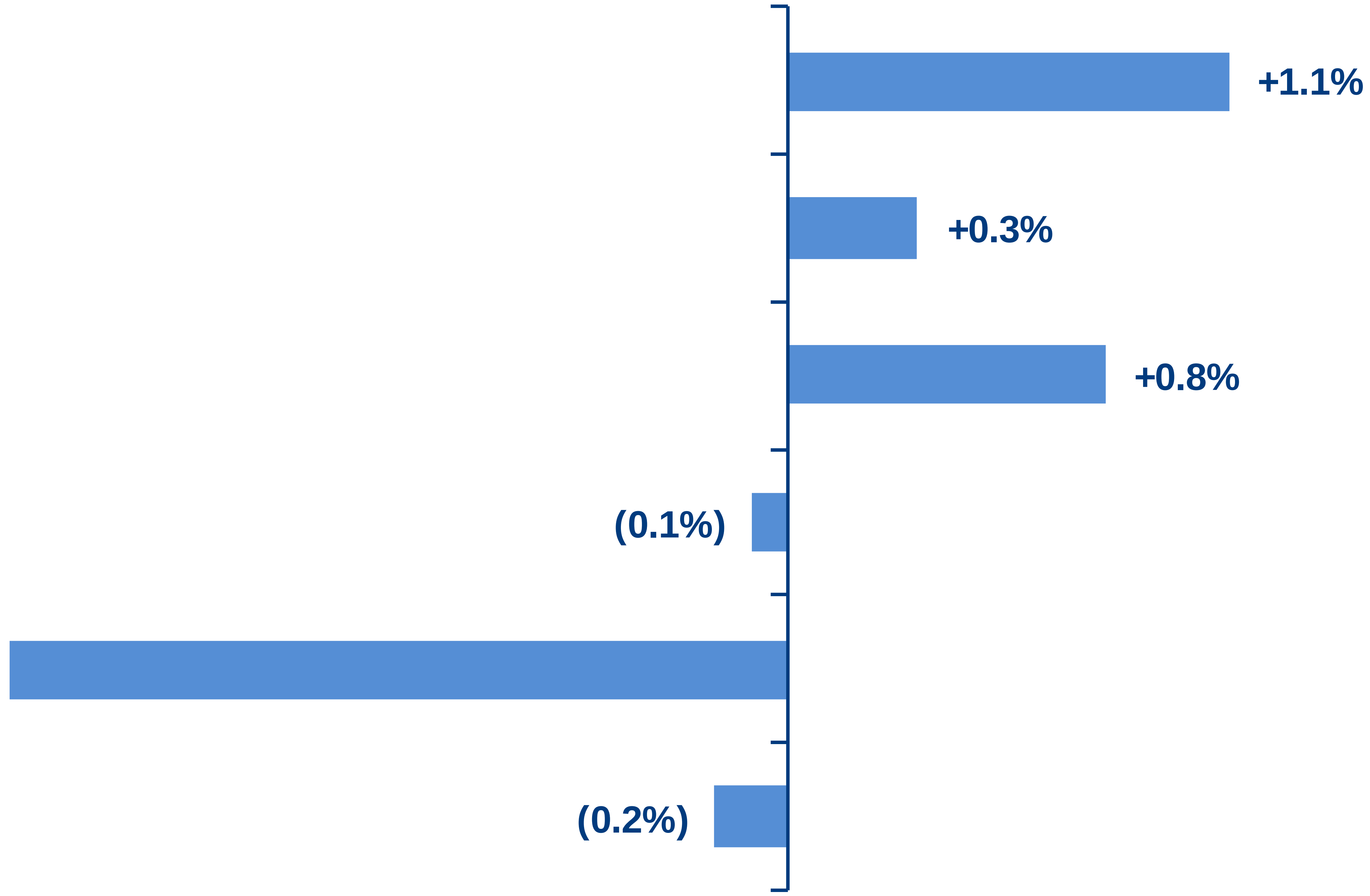


- Some variation across our categories, but overall the position is benign
- This trend expected to be unchanged for duration of 2014

Source: Mintec Datagain information service, January 2013 – June 2014

SIGNIFICANT CHANNEL MIX SHIFT IS TAKING PLACE

	Channel Size (£bn)	Market share% Movements, 2014 vs 2013
Hard Discounters	£7bn	+1.1%
High St. Discounters	£5bn	+0.3%
Online	£6bn	+0.8%
Convenience	£15bn	(0.1%)
Large Supermarkets	£68bn	(2.0%)
Others	£3bn	(0.2%)

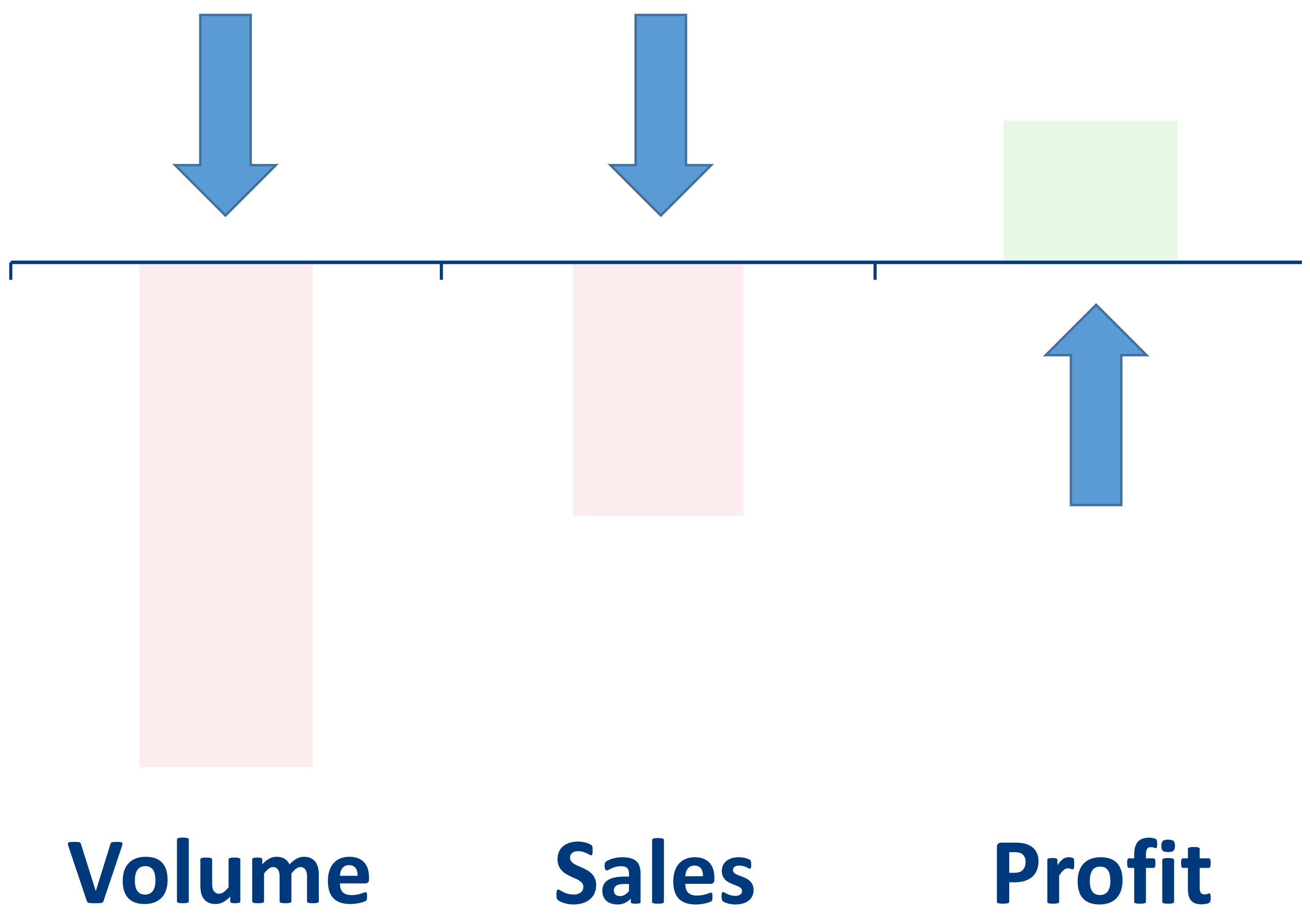


- New formats growing at the expense of larger supermarkets

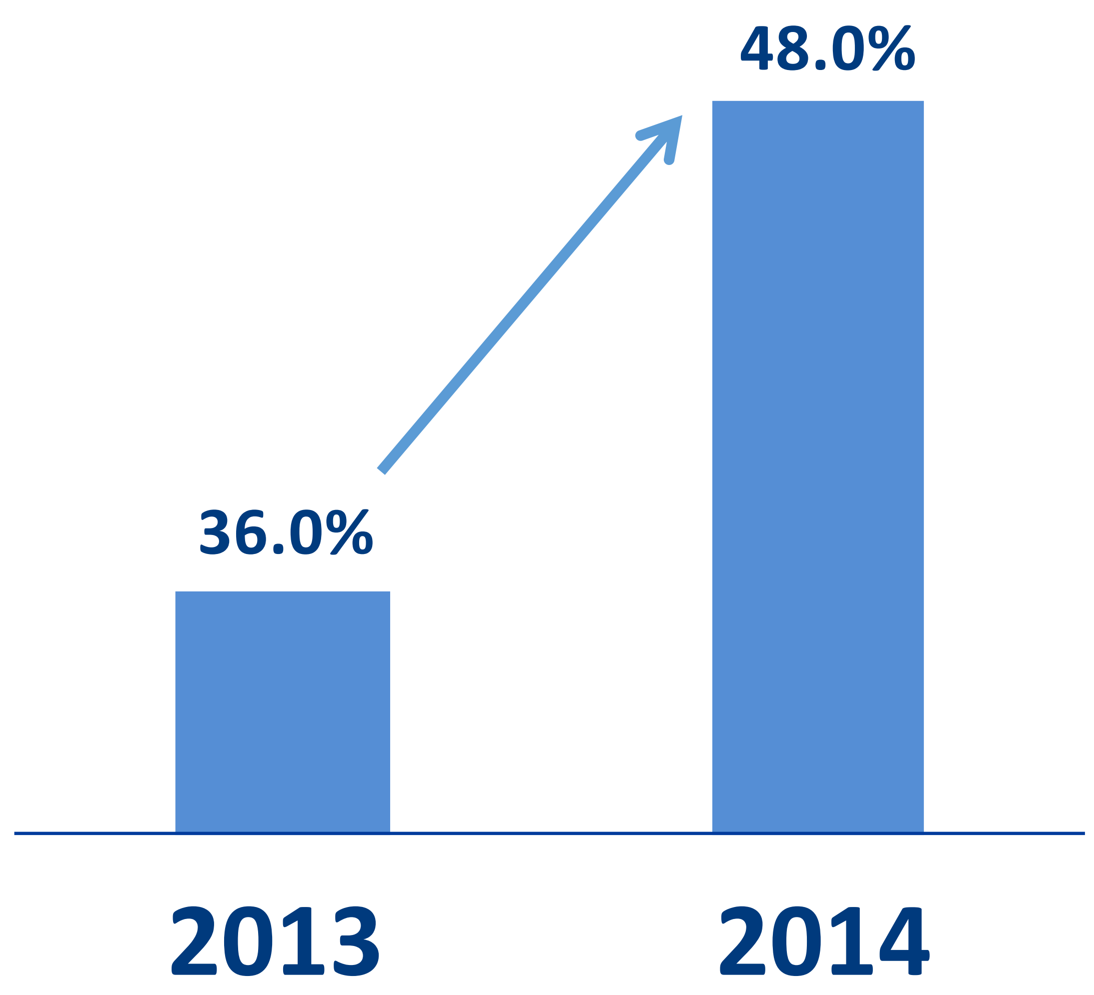
Source: Kantar Worldpanel, 52 w/e 22 June 2014

A MORE DISCIPLINED APPROACH TO PROMOTIONAL ACTIVITY AND NET PRICING MAINTAINED

Typical Promotional Metrics
2014 vs 2013 YTD



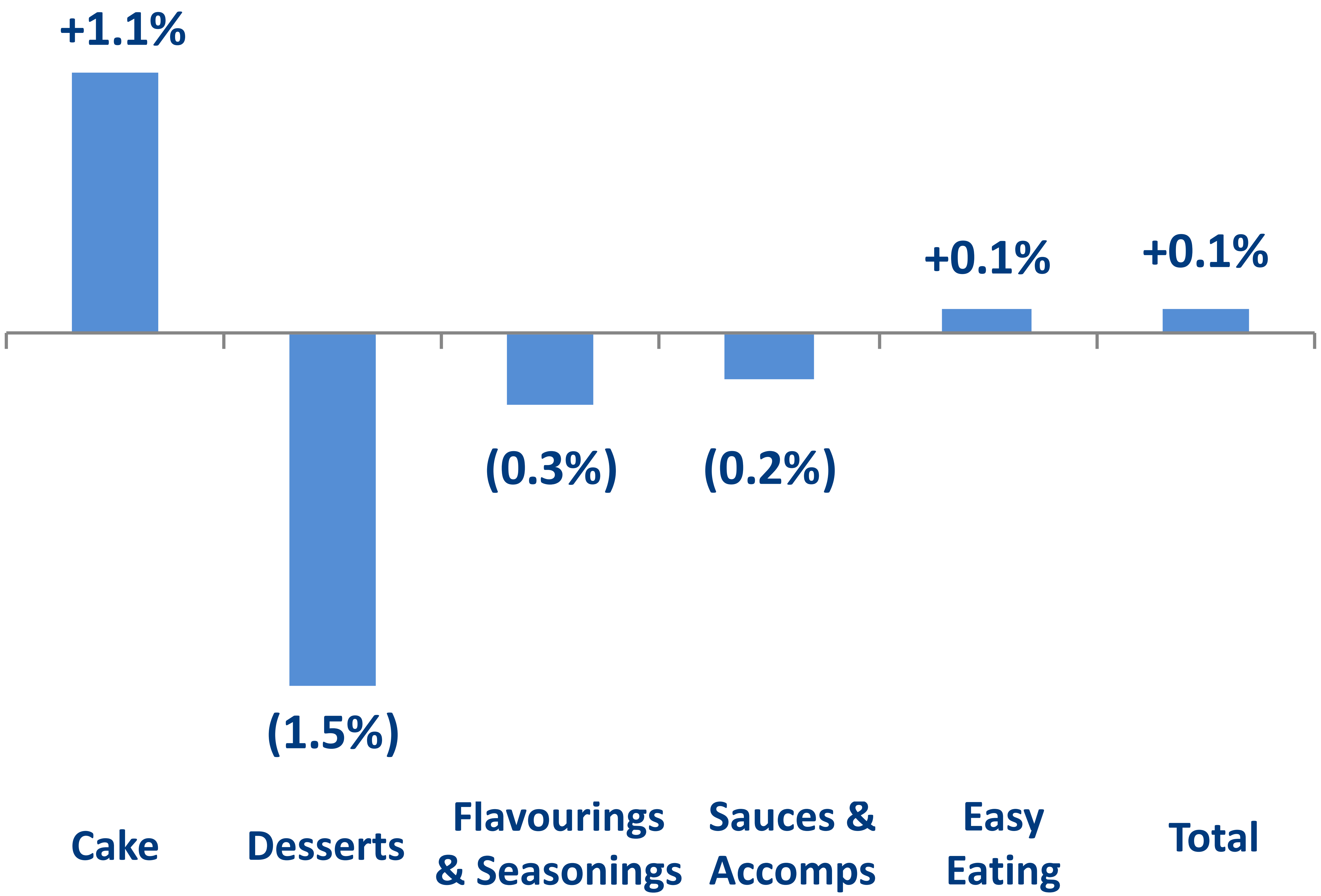
Promotions ROI %
2014 vs 2013 YTD



Average Realised Pricing
2014 YTD

- Lower depth of promotional deals in 2014
- Consequential lower volumes and sales but enhanced returns
- Net pricing with customers maintained

OVERALL, OWN LABEL IS BROADLY FLAT IN OUR CATEGORIES



- Own label remains a relatively small part of the Flavourings & Seasonings and Easy Eating categories
- Group's branded mix is close to 90%

Source: IRI Grocery outlets, 14 June 2014, Own label share point gain/(loss)

WHY DO WE LOOK FORWARD TO AN IMPROVED SECOND HALF?

- Normal weather patterns
- Increased investment in consumer marketing
- Major re-launch of Mr. Kipling
- Strong innovation programme
- Continued progress in cost reduction and business simplification
- Investing in people and capabilities to drive future growth

WE HAVE PREVIOUSLY TRAILED RE-JUVENATING OUR BIGGEST BRAND

Consumers consumption of cake and their regard for Mr Kipling represents a strong platform to build category and brand growth

MR. KIPLING'S NEW CAMPAIGN WILL DRIVE MODERNITY AND RELEVANCE

Social Media

TV Advertising

Packaging Re-design

Media Partnerships

NEW PACKAGING DEMONSTRATES STEP CHANGE

Old

New

AN INTEGRATED MEDIA CAMPAIGN WITH STRONG CREATIVE AND DIGITALLY LED

FLAVOURINGS & SEASONINGS NEW PRODUCT DEVELOPMENT FOR H2

BISTO
SIMPLY RECIPE PASTES

- Concentrate casserole pastes
- "Real ingredients are wet"
- TV/Multi-media campaign

BISTO
RICH GRAVY PASTES

- Premium tier gravy
- "Real food" trend
- Special roast occasion

OXO
HERBS & MORE

- Gel pot technology
- Easy flavour transformer
- TV/Multi-media campaign

FURTHER SECOND HALF NEW PRODUCT DEVELOPMENT

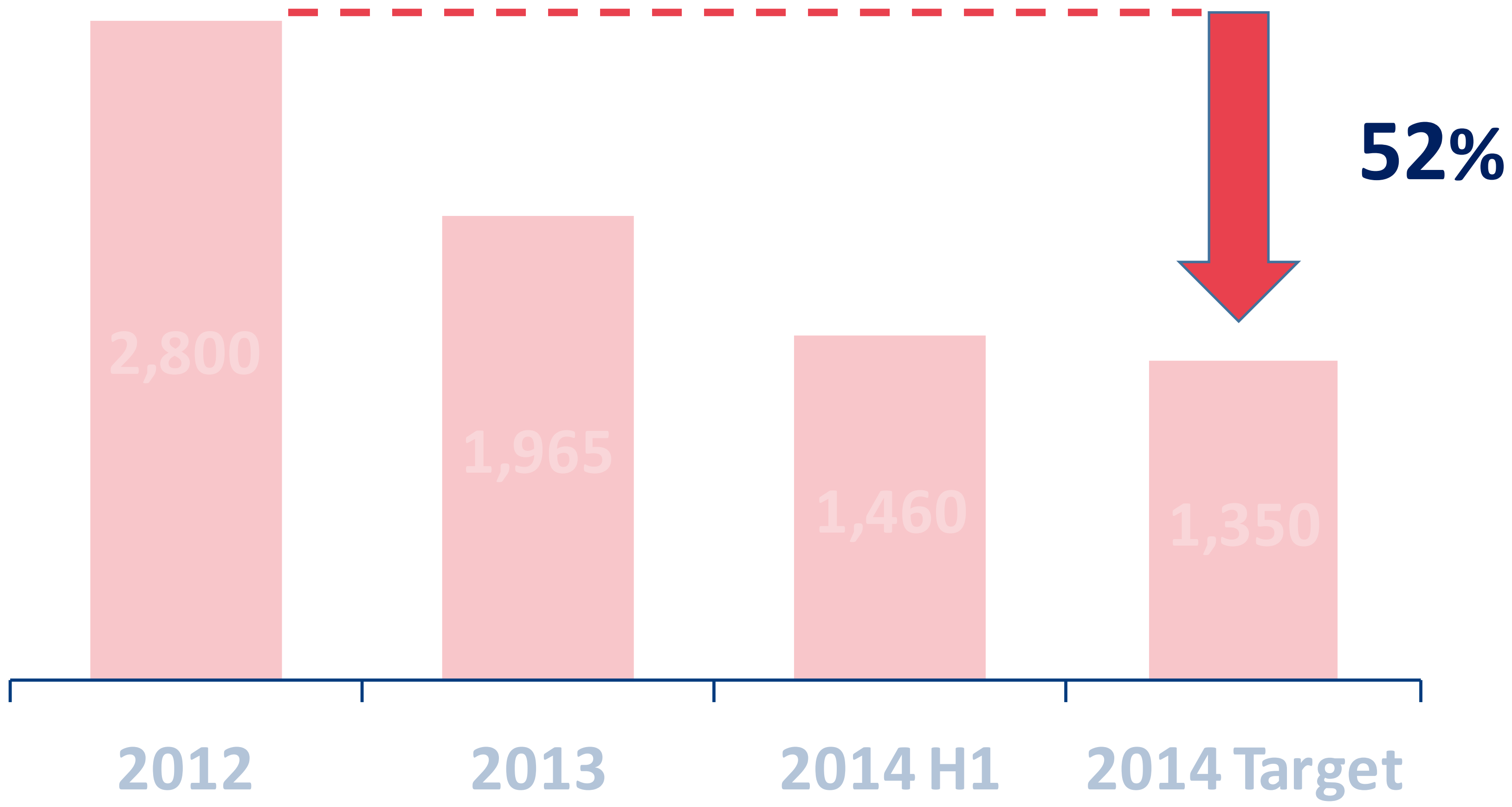
- Cous Cous builds on success of Deli Box range

- Sharwood’s Mini sharing Poppadoms

- Five new exciting Homepride flavours
- 1st TV advertising campaign in 10 years

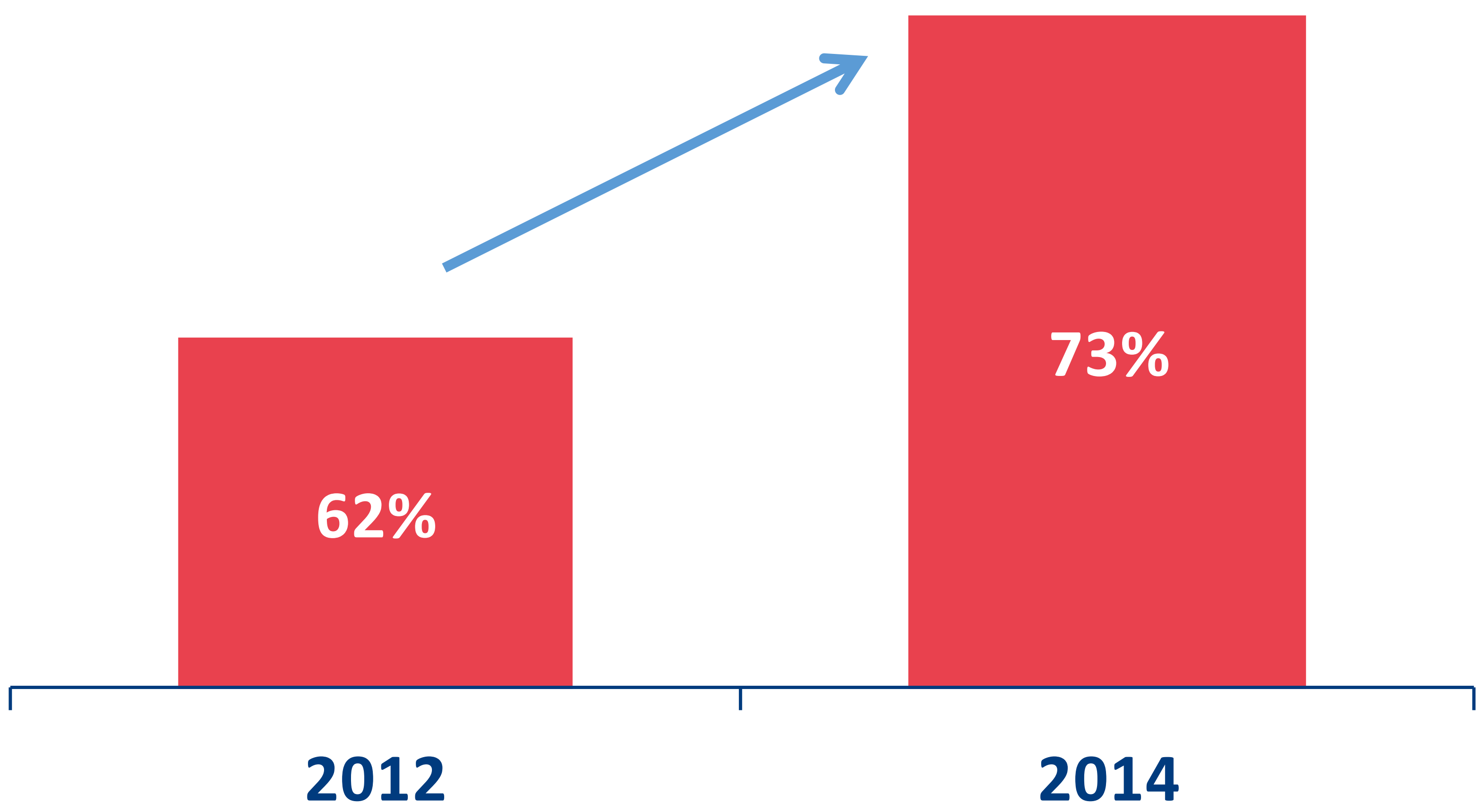
- Cadbury extension into ambient desserts for Q4 launch

CONTINUED PROGRESS ON BUSINESS SIMPLIFICATION



Supplier Reductions

- Over 95% of the way to achieving FY14 target
- 2014 target now increased to a 52% reduction from 2012 position



% of spend with Top 100 suppliers

- Savings through greater economies of scale
- Strategic relationships to support innovation

GOOD PAYBACK PROJECTS IN THE PIPELINE

AUTO PALLETISER - MORETON

REPLACEMENT FRYER - WORKSOP

- Business previously deferred some good quality payback projects
- Anticipated returns will deliver cost benefits in the supply chain over the medium-term
- Capex expected to be £40-£45m in FY14

KNIGHTON JOINT VENTURE – WHAT THIS SOLUTION BRINGS

✓	**Joint expertise with Specialty Powders to drive future growth**
✓	**Increases Group's branded focus**
✓	**Good news for 200 skilled employees**
✓	**Improved efficiencies for Ashford site**
✓	**Increased utilisation at Knighton**

- 2014 EBITDA impact positive
- Cash restructuring costs in 2014 c.£4m, capex c.£1m
- Assets entering JV c.£15m
- Transaction completed end June

SUCCESSES IN OUR SUPPLY CHAIN

‘The Grocer’ Gold awards logistics supplier of the year for improved efficiency and sustainability of transport operations

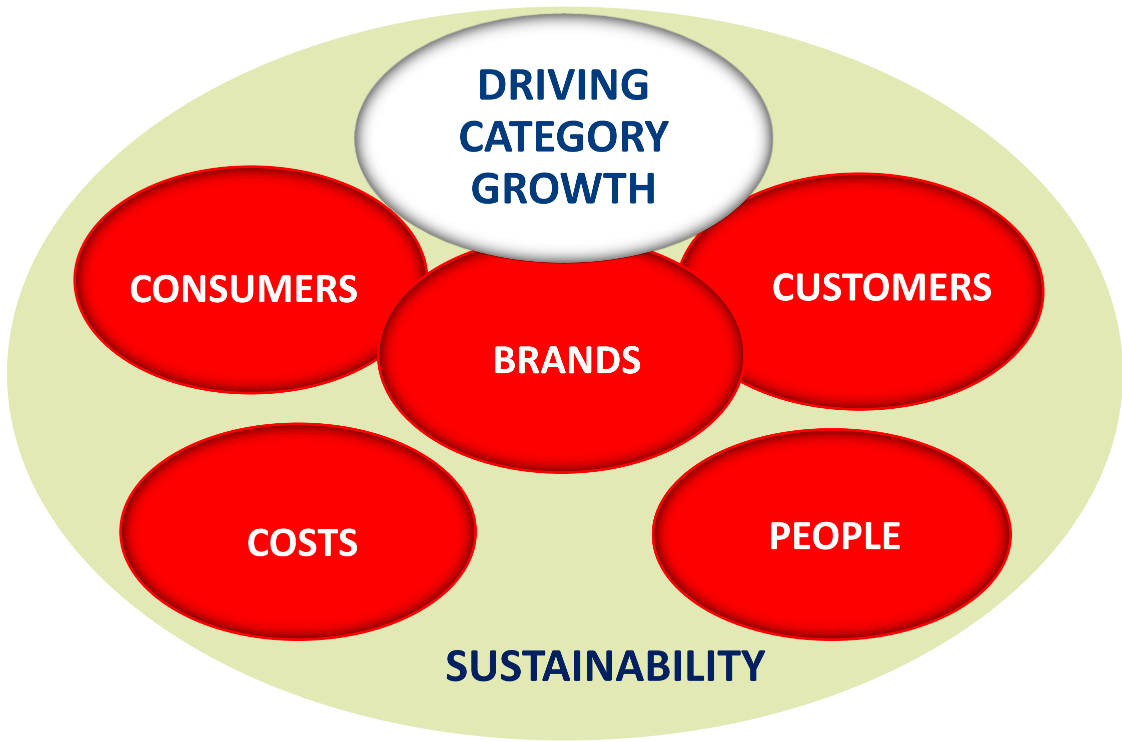
British retail Consortium A+ audit achievement at Worksop site

SAP Implementation at 2 sites in 2014 H1, last 2 sites to follow in H2

All manufacturing sites now operate on a ‘Zero To Landfill’ basis

INVESTING IN PEOPLE AND CAPABILITIES TO DRIVE FUTURE GROWTH

Category Management



- Category insights inform consumer trends
- Enhance customer partnerships

Innovation

- Innovation core to delivering growth
- Upweighted resource aids speed to market

International

- Creation of strategic business unit
- Opportunities in USA, Australia, China, Canada

2014 OUTLOOK

- Consumer environment to remain challenging for remainder of 2014
- Expect an improvement in sales trend in H2 due to consumer marketing, innovation and an assumed return to average temperatures
- Continue to channel investment in supply chain capability, our people, consumer marketing and innovation
- Trading profit expectations for the full year are unchanged
- Medium term leverage target of 2.5x Net debt/EBITDA unchanged


NEW 1.25kg
McDougalls
Sharwood's
MEDIUM
STOCK MELTS
CHICKEN
BISTO
with REAL MEAT JUICES
PAXO
CUP a SOUP
with CROUTONS
Bird's
KIPLING
Cadbury
Ambrosia
NEW
Shake & Flavour
GROSSMAN
TOMATO & BASIL
Korma
NOODLES
CHICKEN
Devon Custard

4 Q&A

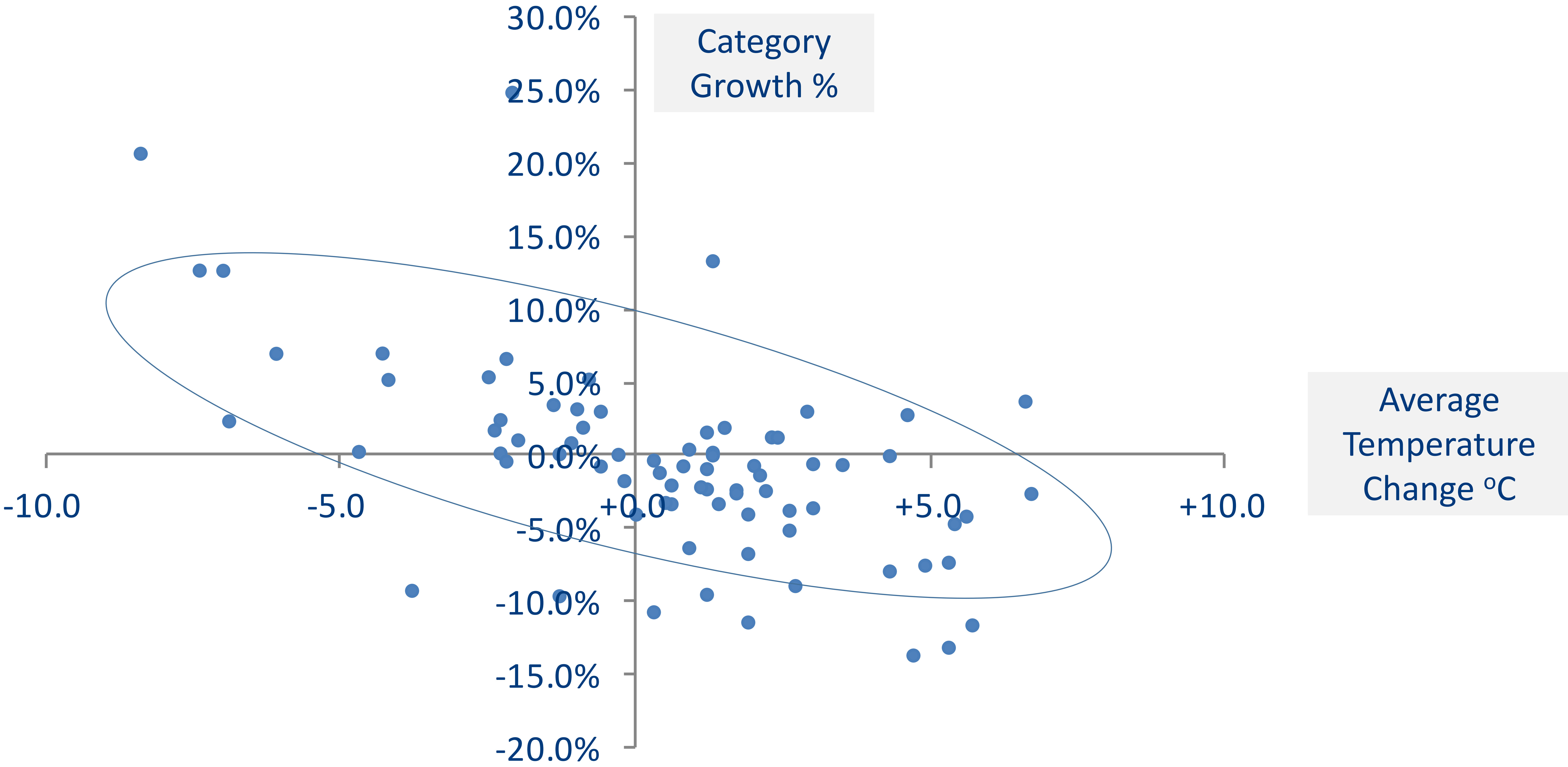
Appendix

NEW 1.25kg
McDougalls
since 1864
PAXO
Sharwood's
MEDIUM
STOCK MELTS
CHICKEN
with REAL MEAT JUICES
BISTO
Batchelors
CUPa SOUP
with CROUTONS
KIPLING
6 ANGEL
Ambrosia
NEW
Shake & Flavour
LOYD GROSSMAN
TOMATO & BASIL
4 Sachets
Sharwood's
Korma
Batchelors
NOODLES
CHICKEN
60%
Ambrosia
Devon Custard
Cadbury

DEFINITIONS

- Results for the Half Year ended 30 June 2014 are presented on an **'Underlying business'** basis, unless otherwise stated. 'Underlying business' excludes the results of all previously completed business disposals
- Trading profit is defined as operating profit before re-financing costs, restructuring costs, profits and losses associated with divestment activity, amortisation and impairment of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS 39, profits and losses from associate companies and pension administration costs and net interest on the net defined benefit liability.
- 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 a notional tax charge of 21.5% (2013: 23.25%) divided by the weighted average of the number of shares of 574.3 million. Net regular interest is defined as total net interest excluding non-cash items such as write-off of financing costs, fair value adjustments on interest rate financial instruments and other interest.

OUR CATEGORIES ARE PARTICULARLY SENSITIVE TO TEMPERATURE FLUCTUATIONS



- Clear relationship between category growth and temperature movements
- Flavourings & Seasonings, Easy Eating and Desserts (custard) particularly sensitive

PRO FORMA BRANDED SALES MIX NOW 89% FOLLOWING KNIGHTON JOINT VENTURE

Retained Grocery business P&L		
£m	**2012 FY**	**2013 FY**
Power brands sales	533	544
Support brands sales	205	194
Total branded sales	738	738
Non-branded sales	111	94
Total sales	**849**	**832**
Branded sales mix	*87.0%*	*88.7%*
Trading profit	**132**	**140**
EBITDA	150	156

Retained Grocery business includes Charnwood Foods and Retained Flour Business and excludes Knighton Joint Venture

CASH TAX EXPECTED TO BE NIL TO MEDIUM TERM

- Group has significant brought forward losses available
- Capital allowances in excess of depreciation
- Pension deficit contributions also allowable for tax
- Deferred tax asset £70m
- Notional corporation tax rates:
  - 2014: 21.5%
  - 2015: 20.25%
  - 2016: 20.0%
- Significant potential for further tax relief

PENSIONS – COMBINED UK SCHEMES

Key IAS 19 assumptions	30 June 2014	31 Dec 2013
Discount rate	4.20%	4.40%
Inflation rate (RPI/CPI)	3.25%/2.15%	3.35%/2.35%
Mortality assumptions	LTI +1.0%	LTI +1.0%

IAS19 Pension deficit (£m)		
Assets	3,365	3,219
Liabilities	(3,901)	(3,822)
Gross deficit	**(536)**	**(603)**
Deficit net of deferred tax	**(421)**	**(463)**

Scheme Assets (£m)	30 June 2014	31 Dec 2013
Equities	308	300
Government bonds	397	516
Corporate bonds	315	384
Property	169	182
Absolute/Target return	1,217	1,268
Swaps	(17)	(116)
Cash	356	192
Other	620	493
Total	**3,365**	**3,219**

- Actuarial valuation at 5 April 2013 - £1,062m[1] , assumes discount rate of gilts + 1%

1- Includes approximate valuation of £21m in respect of Ireland pension scheme

BALANCE SHEET

£m	2014 H1	2013 H1
Fixed Assets – Property, plant & equipment	172	366
Fixed Assets – Intangibles / Goodwill	1,267	1,373
Fixed Assets - Investments	43	-
Fixed Assets – Deferred tax	70	62
Total Fixed Assets	**1,552**	**1,801**
Working Capital		
Stock	73	114
Debtors	134	260
Creditors	(245)	(343)
Total Working Capital	**(38)**	**31**
Net debt		
Gross debt	(641)	(958)
Cash	69	68
Total Net debt	**(572)**	**(890)**
Pension liabilities	(536)	(395)
Other net liabilities	(86)	(94)
Net Assets	320	453
Share capital & premium	1,489	1,149
Reserves	(1,169)	(696)
Total equity	320	453