



PREMIER FOODS PLC

**INTERIM MANAGEMENT STATEMENT FOR THE THREE MONTHS ENDED
31 MARCH 2011**

27 April 2011

- **Group sales down 3.1%, volumes down 3.8%.**
- **Further gains in branded volume market share.**
- **Q1 market value down 2.8%¹, market volumes down 7.1%¹.**
- **Q1 market performance reflects impact of strong consumer purchases in December followed by a weak January and February. In March, the market volume decline slowed to 1.6%, nearer to the 2010 average levels.**
- **Raw material inflation year on year is running at a percentage rate in the low teens. We have achieved all the re-pricing required to cover the inflation we have seen up to the end of Q1; further price rises are being negotiated to cover further inflation which we can foresee.**
- **Although cautious about the consumer environment, guidance to make progress in 2011 and to generate £80m of recurring cashflow is reiterated.**

Robert Schofield, Chief Executive, said:

“During a difficult Q1 trading period, we have continued to execute our strategy. With improved efficiency, we are in a good position to compete in an increasingly competitive marketplace. We have also continued to take volume market share during the quarter albeit value share has lagged.

“We have also made good progress on pricing. Our priority has been to obtain price rises to recover raw material inflation. I am pleased to report that we have achieved the price rises we sought with all customers and these cover most of the raw materials inflation. However, inflation remains an issue and we will continue to seek price rises to cover this.”

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Our Markets

Q1 saw year on year market sales by value and by volume decline by 2.8% and 7.1% respectively although within the quarter the greatest declines were early in the period following strong volume increases in December. By March, volumes, although still down 1.6%, had returned to levels we have seen in 2010. We see this as a more reasonable guide to where trends will continue for the year given the difficult consumer environment.

Promotional intensity in the market fell to 33.2%² from the 34.3% recorded in Q4 last year but ahead of the 31.2% seen in Q1 2010. The trend will only start to become clearer during Q2 which has shown an increase on Q1 in each of the last three years.

Raw Material Price Inflation

Raw material costs continue to rise and remain volatile. Premier Foods' raw materials and packaging costs showed a year on year percentage increase in the low teens. We have achieved all the re-pricing we sought which covers inflation we have seen up to the end of Q1. This comes into effect in late Q1 and Q2. We see further inflation coming and further price rises are being negotiated to cover this balance. This second round of pricing is smaller. In aggregate it is likely to amount to around a quarter of that sought and achieved to date. We therefore believe we have successfully addressed the vast majority of the inflation issue.

Q1 Trading

While the market trends have been reflected in Q1 trading, we expect that a better performance in March is more representative of the year ahead than the weaker trading in January and February. Premier Foods' promotional spend reflected market trends in the quarter and the promotional programme was devoted primarily to the Cake category.

In line with our strategy, Drive brands continued to grow, up 0.7% year on year in value despite a 1.3% decline in volume. Loyd Grossman and Ambrosia sales were down owing to a strong promotional programme in the prior year. The other drive brands all grew.

Core brands had a difficult quarter with all, other than Cadbury Cakes, registering lower volume and value reflecting lower promotional spend year on year and competitor trends.

Defend brands reflected the lower promotional programme for this category with volume decreases ahead of the market. McDougalls flour sales were up owing to a more competitive pricing strategy. Lyons cakes were down as a result of lost distribution. Sales in Ireland were down as a result of less distribution and a tough market.

Non-branded sales increased by 1.6%. Volumes declined by 3.9%, ahead of market declines. In Grocery, non-branded sales were down 3.4%. In Hovis, bakery sales were down 16.5% reflecting a fall in the market and contract losses. Brookes Avana sales were up 2.7% and we were successful with our re-pricing with Marks and Spencer. We are in discussions with them regarding product ranges and the future of certain supply arrangements.

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Brand Analysis (ongoing business)

	Q1 2011 Sales		Q1 2011 v Q1 2010	
	£	Value %	Volume %	Market Volume %
Drive	174	0.7	(1.3)	(5.9)
Core	67	(11.9)	(6.4)	(2.8)
Defend	63	(13.4)	(8.7)	(10.9)
Total branded	304	(5.5)	(3.6)	(6.8)
Non branded	170	1.6	(3.9)	(8.0)
Total Sales	474	(3.1)	(3.8)	(7.1)

Divisional Analysis

	Q1 2011 Sales			Q1 2011 v Q1 2010		
	Branded	Non branded	Total	Branded	Non branded	Total
	£m	£m	£m	%	%	%
Grocery	208	45	253	(8.7)	(3.4)	(7.8)
Bakery	90	34	124	1.6	(16.5)	(4.0)
Milling	6	43	49	15.2	29.0	27.3
Hovis	96	77	173	2.3	4.1	3.1
Brookes Avana	0	48	48	0	2.7	2.7
Total ongoing	304	170	474	(5.5)	1.6	(3.1)
Canning	34	45	79	(7.9)	(4.6)	(6.1)
Meat-free	21	0	21	(34.8)	0.0	(34.8)
Total	359	215	574	(8.2)	0.2	(5.2)

Note: Meat free sales are for 2 months in 2011 and 3 months in 2010

Financial Position

As previously announced, the Meat-free disposal was completed on 15 March 2011. The sale of our East Anglian Canned Grocery operations has received the necessary shareholder and bank approvals. Completion will follow competition authority approval which is expected around June 2011.

Following our obtaining a credit rating, it remains our intention to access the debt capital markets. We have been discussing with our banks and pension fund trustees the terms under which a bond could be issued and security shared with bond holders. The timing of a bond issue will be dependent on market conditions in the second half of 2011.

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Outlook

At the time of our Preliminary results, we said that we expected that the combination of growing branded market share and increasing efficiency would result in progress in 2011 subject to there being no further deterioration in the consumer environment.

Markets in 2011 have clearly got off to a slow start but the March market data suggests that the trend in 2011 may be closer to that seen in 2010 than Q1 in total would suggest.

Promotional activity has reduced from Q4 2010 levels but still represents an increase on Q1, 2010. We do not anticipate further increases in the levels of promotional activity during 2011 but, again, that will become clearer in Q2.

Raw material costs continue to see upward pressure. In total, inflation is at a percentage rate in the low teens. We have agreed pricing for movements seen up to Q1 2011. This pricing comes into effect in March and April. First half gross profit will thus reflect the timing gap between cost increases and pricing coming into effect.

The consumer environment has clearly become more difficult in Q1. Despite this, and taking into account the seasonally more important second half, we continue to anticipate making progress in 2011, but due to the pricing lag and the slow start to the year, the profit delivery will be more weighted to the second half in 2011 than in 2010. Subject to achieving this progress in trading profit, we remain on target to generate our target of £80m of recurring cash flow.

Conference Call

A conference call for analysts and investors will be held today at 8:00am.

Telephone number +44 20 3003 2666

Password Premier Foods

1. Source: Symphony IRI Group, Total Grocery Outlets, 12 weeks ending 19 March 2011
2. Source: Kantar Worldpanel, Grocery market, 12 weeks ending 20 March 2011
3. All sales data for Premier Foods is for the 3 months to 31 March 2011 or 31 March 2010 as appropriate. All data excludes Meat-free and Canning unless otherwise indicated

Notes for editors

Premier Foods is the UK's largest food producer, which manufactures, sells and distributes a wide range of branded and retailer branded foods. We supply a broad range of customers including the major multiple retailers, wholesalers, foodservice providers and other food manufacturers. Premier Foods owns iconic British brands such as Hovis, Mr Kipling, Batchelors, Bisto, Ambrosia, Sharwood's, Branston, Oxo, Hartley's and many more. The business employs around 15,000 people and operates from over 60 sites across the UK and Ireland.

For high resolution images, please go to
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