PREMIER FOODS PLC

INTERIM MANAGEMENT STATEMENT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2010

28 October 2010

- **Branded sales volumes up 4.6%, value down 0.5%**
- **Increasingly challenging environment with grocery market volumes down 3.2%, value down 2.3%**
- **Continued branded volume market share growth, up 0.7 ppts to 23.0%, value share down 0.3 ppts to 24.0%**
- **Drive brand sales volumes up 7.9%, value up 3.9%**
- **Total Group sales down 4.2% owing to reduction in non-branded sales**
- **Extended licensing agreement signed with Kraft for *Cadbury Cakes***
- **Repricing completed recovering sharp rise in wheat raw material costs**
- **Successfully restructured swap portfolio substantially reducing risk**
- **Efficiency programmes continue to make progress**
- **On track to deliver £100m of recurring cash flow for the full year**
- **Group continues to aim to make progress in 2010 but the slowdown in Q3 means this is likely to be more modest and is, as always, dependent on Christmas trading**

Robert Schofield, Chief Executive, said:

“We are making good progress on our stated strategic objectives, despite an increasingly challenging trading environment. Our brands continued to grow by 4.6% in volume over the period. This is against a background of our categories declining by an average of 3.2% for the quarter and represents robust market share gain. Although Group sales have fallen as a result of ceding own label contracts in bread, and the general decline of the own label markets.

“Following constructive discussions with leading retailers, we have completed our repricing, in both Grocery and Hovis to recover the sharp rise in wheat prices. Our Grocery, Hovis and Meat-free businesses are trading well, taking market share and we expect each to match or increase Trading profit for the year. Profit in our non-branded chilled business, however, will be lower given competitive pressures and higher input costs.

“We continue to reduce net debt and remain on track to generate at least £100m of recurring cashflow for the year as a whole. In line with our declared financial strategy, we have secured an important restructuring deal which reduces financial risk in our swap portfolio and which opens the way to diversifying sources of funding.

“We still aim to make progress in the full year but the slowdown in Q3 means this is likely to be more modest and is, as always, dependent on Christmas trading.”

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Introduction

The consumer environment has become markedly tougher in the third quarter with market declines in our categories of 3.2% in volume. This represents a significant slowdown from the 1.0% volume decline recorded in the first half of the year. In addition, our markets have also seen value declines of 2.3%. This is the first time in many years we have seen value decline and reflects the volume market trend, promotional activity across all grocery categories and prior year commodity cost declines.

We view these trends as a temporary feature in markets which, in aggregate, should grow modestly in value and volume in the medium-term.

Against this backdrop, our brands have traded well. Branded sales by value in the third quarter were down 0.5% while branded volumes were up 4.6%, helped by an 9.5% increase in *Hovis* brand volumes. In line with our strategic focus, our Drive brands continued to grow strongly, up 3.9% year on year in value and 7.9% in volume.

Non-branded sales declined by 10.4% in value and 6.4% in volume. The value decline includes the effect of prior year flour deflation which is equivalent to around a 2.5% reduction in sales revenue. The quarter 3 performance is an improvement on the 12.7% value decline seen in the first half and much of the decline relates to market trends. Across our categories, non-branded market volumes declined by 6.5% compared to the third quarter in 2009. In addition, during 2009, we switched production of own label bread output towards the *Hovis* brand and resigned some contracts to preserve profitability. We have lost no more material contracts in 2010 and these effects will thus largely fall out of the comparatives in the fourth quarter.

Branded sales as a proportion of total sales increased to 65.5% in the third quarter, an increase of 2.3ppts from 63.2% in Q3 2009.

The third quarter is our smallest trading period and the outturn of the year will, as always, be influenced far more by the fourth quarter which in 2009 accounted for 30% of the year's sales.

Brand Analysis

	Q3 2010 Sales	**Q3 2010 v Q3 2009**	
	£	**Value %**	**Volume %**
Drive	214	3.9	7.9
Core	87	(7.0)	(11.1)
Defend	96	(3.5)	7.7
Total branded	**397**	**(0.5)**	**4.6**
Non branded	209	(10.4)	(6.4)
Total sales	**606**	**(4.2)**	**(1.6)**

Premier Foods plc

Divisional Analysis

	Q3 2010 Sales			Q3 2010 v Q3 2009		
	Branded £m	Non branded £m	Total £m	Branded %	Non branded %	Total %
Grocery	**264**	**93**	**357**	**(1.5)**	**(8.1)**	**(3.3)**
Bakery	95	32	127	1.1	(21.4)	(5.6)
Milling	6	37	43	3.9	(15.7)	(13.4)
Hovis	**101**	**69**	**170**	**1.2**	**(18.4)**	**(7.7)**
Meat-free	32	0	32	1.6	-	1.6
Brookes Avana	0	47	47	-	(1.3)	(1.3)
Chilled	**32**	**47**	**79**	**1.6**	**(1.3)**	**0.0**
Total	**397**	**209**	**606**	**(0.5)**	**(10.4)**	**(4.2)**

Brand Analysis - YTD

	YTD 2010 Sales £	YTD 2010 v YTD 2009 Value %	Volume %
Drive	631	3.3	6.1
Core	268	(1.4)	(1.4)
Defend	288	(5.2)	2.7
Total branded	**1,187**	**0.0**	**3.9**
Non branded	630	(11.9)	(8.7)
Total sales	**1,817**	**(4.4)**	**(3.3)**

Divisional Analysis - YTD

	YTD 2010 Sales			YTD 2010 v YTD 2009		
	Branded £m	Non branded £m	Total £m	Branded %	Non branded %	Total %
Grocery	**795**	**281**	**1,076**	**0.1**	**(6.4)**	**(1.7)**
Bakery	278	106	384	0.8	(24.1)	(7.6)
Milling	16	107	123	(5.2)	(18.0)	(16.5)
Hovis	**294**	**213**	**507**	**0.4**	**(21.1)**	**(9.9)**
Meat-free	98	0	98	(2.1)	-	(2.1)
Brookes Avana	0	136	136	-	(5.9)	(5.9)
Chilled	**98**	**136**	**234**	**(2.1)**	**(5.9)**	**(4.2)**
Total	**1,187**	**630**	**1,817**	**0.0**	**(11.9)**	**(4.4)**

Grocery

Within Grocery, our Drive brands grew sales value by 5.8% and sales volume by 4.1% with strong performances from *Sharwoods, Hartley's* and *Loyd Grossman* owing to promotional phasing and new product introduction. During the quarter we launched *Loyd For One* pouches which have been received positively and contributed to brand growth of 24.0% in Q3. We are performing ahead of the market in both value and volume in our Drive categories.

Grocery's Core brand sales declined by 7.0%. Amongst the Core brands, *Oxo* and *Branston* beans recorded lower sales as a result of reduced promotional activity compared to the prior year. During the quarter, we agreed with Kraft an extension to our *Cadbury* licensing agreement in the Cake market until mid 2013 which guarantees the continuation of the current *Cadbury* cakes business. Defend brand sales were down 3.1% owing to lower sales of *McDougalls* flour, *Lyons* cakes, *Atora* and *Bird's*. These declines were partially offset by increases in *Crosse & Blackwell* beans and *Homepride* sauces.

Total branded sales value decreased by 1.5% in the quarter leaving year to date sales up only 0.1%. Value market share is 21.9%, down 0.2 percentage points year on year.

Total branded sales volumes were down 0.2% in the third quarter versus up 4.3% in the first half. This change in volume trend between Q3 and H1 was driven by *Branston* beans and *Crosse & Blackwell* beans which were up 18.5% in H1 and down 18.1% in Q3 owing to promotional programme phasing. Other branded volumes were up 2.1% in Q3 and up 2.7% in H1.

Volumes for the categories in which we operate were down 1.9% in Q3 versus up 0.1% in H1. We have thus continued to take market share during Q3. Volume market share is 19.7%, up 0.3 percentage points year on year.

The level of promotional activity across the market has increased year on year. Our promotional spend has increased but by less than the market and it has been directed toward our Drive brands.

Non–branded sales fell by 8.1%. This is a steeper decline than the 6.0% seen in the first half of 2010, reflecting further market declines. In the third quarter, the non-branded market volume decline has accelerated from 3.8% in H1 to 5.0% primarily due to a high level of promotional spend by branded competitors in canned foods. Our sales reflect this market decline and the impact of exiting retailer brand contracts in 2009. As previously indicated, the anniversary of these contract exits was largely seen in Q3 leaving the run rate out of the quarter slightly ahead of the rate of market decline.

We have succeeded in repricing our flour and cake ranges to recover the recent increase in wheat costs. Gross profit margins continue to increase as a result of manufacturing and procurement efficiencies and cost savings have been found to fund increased marketing. For the full year, we continue to target a performance which exceeds the £255m Trading profit recorded in 2009. The extent of the outperformance will depend on the health of our category markets over the Christmas period.

Hovis

The *Hovis* brand continues its progress with year on year sales value growth of 1.8% and volume growth of 9.5%, supported by promotional activity, increased distribution outside of the major multiple retailers and sales of our new *'Hearty Oats'* loaf. The *Hovis* value market share of pre-packed loaves in the quarter was 25.5%, up 0.1 percentage points on the same period last year. Total branded sales increased by 1.2% in the third quarter with *Hovis* and *Elephant Atta* gains partly offset by declines in smaller Defend brands in bakery.

Non-branded sales declined 18.4% in the third quarter, reflecting continued decline in the retailer brand bread market, bulk flour deflation in 2009 and the impact of exiting low margin contracts in 2009. We expect this decline to continue to slow in the fourth quarter as we lap the contract exits in 2009 and as wheat prices increase.

Our strategy has been to drive *Hovis* volumes by a mixture of innovation, advertising and promotional intensity. This has been successful with *Hovis* brand growth offsetting other branded and non-branded declines. In total, our bread volumes are up 1.9% year on year.

During the third quarter, wheat prices increased by more than 50%. Accordingly we have repriced our entire bread and flour range. This exercise is complete and the pricing covers the input cost inflation. The result is slightly negative to Trading profit in 2010 as there is a stagger between when commodity costs increase and when new pricing comes into effect. Nevertheless, we expect the Hovis division at least to match the £31m Trading profit recorded in 2009.

Chilled

Branded sales were 1.6% higher in the third quarter. As anticipated, this reflects a return to growth in Meat Free following a 2.9% reduction in sales in the first half. The improvement was achieved despite the UK market for Meat-free products being down 9.1% in the third quarter as consumers economised.

The Brookes Avana business experienced a year on year decline in sales in the third quarter of 1.3%. This is an improvement on the first half as we have lapped contract exits in 2009. Increased costs of raw materials have, in the short-term, reduced margins as the business largely works with fixed price contracts. This together with a competitive environment in chilled ready meals has led to a significant reduction in margins in the business.

The reduction in Brookes Avana margins is likely to outweigh Trading profit growth in the Meat-free business and we expect Trading profit for the Chilled segment for the year to be down from the £23m recorded in 2009.

Financial Position

In the Half Year financial statements announced in August, the Group indicated the following financial strategy:

- to reduce average debt / EBITDA to below 3.25 over the medium term;
- to reduce the financial risks from swaps and pensions; and
- to diversify the sources and maturities of financing.

The Group is making progress in implementing this strategy. We remain on track to deliver the planned £100m year on year of recurring cash generation which will reduce the leverage ratio.

We are open-minded about disposals if they can accelerate our deleveraging and contribute to shareholder value. As we confirmed on 4 October 2010, we are in discussion with a number of parties with a view to selling our Meat-free business. These discussions are continuing and we will make an announcement as and when appropriate.

As announced on 19 October, the Group has reached agreement with its lending banks to fix the non economic hedging element of its swap portfolio. This has the effect of providing certainty over the amount that will be payable in future on these instruments and opens the way to being able to diversify our sources of funding. To facilitate this diversification, the Group has begun the process of seeking a formal credit rating.

On pensions, we intend to close our final salary pension scheme in 2011. Detailed proposals have now been drawn up to provide a market competitive replacement scheme which will offer a money purchase pension to new starters and a career average pension to existing pension fund members. Formal consultations are due to start shortly.

Outlook

Category market trends, promotional intensity and commodity cost inflation have all continued to worsen. Nevertheless, we still aim to make progress in the full year but the slowdown in Q3 means this is likely to be more modest and is, as always, dependent on Christmas trading which is by far our largest sales period.

Conference Call

A conference call for analysts and investors will be held today at 9:00am.

Telephone number +44 20 3003 2666

1. Source: Symphony IRI Group, Total Grocery Outlets, 12 weeks ending 2 October 2010
2. Trading profit is defined as operating profit before exceptional items (but after charging restructuring costs), amortisation of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS 39 and pension credits or charges in relation to the difference between expected return on pension assets, administration costs and interest costs on pension liabilities.
3. All sales data for Premier Foods is for the 3 months to 30 September 2010 or 30 September 2009 as appropriate.

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 owns iconic British brands such as Hovis, Mr Kipling, Batchelor's, Quorn, Bisto, Ambrosia, Sharwood's, Branston, Oxo, Hartley's and many more. The business employs around 16,000 people and operates from over 60 sites across the UK and Ireland.

For high resolution images, please go to
www.premierfoods.co.uk/media/image-gallery/