

Premier Foods plc (“Premier”)

13 January 2009

**Trading update for the year ended 31 December 2008<sup>1</sup>**

- **Full year Group sales up 9%**
- **Second half Group sales ahead 10%**
- **Full year Trading profit<sup>2,3</sup> anticipated to be between £315m and £320m**
- **Full year Adjusted profit before tax<sup>3,4</sup> anticipated to be between £185m and £190m**
- **Hovis relaunch delivering healthy market share gains**
- **Manufacturing rationalisation programme completed**
- **RHM and Campbell’s synergies continue to develop in line with plan**
- **Firm offer received for Le Pain Croustillant and Sofrapain**
- **Capital structure discussions ongoing**

Robert Schofield, Chief Executive, said:

*“We are pleased by the progress we have made in 2008 against the backdrop of an increasingly tough environment for the UK consumer. Trading in the second half of the year has been good across a number of our Grocery categories with volume growth of both branded and retailer branded products. The Hovis relaunch has been very well received: improvements in quality, a new award-winning advertising campaign and packaging redesign have driven increased sales and market share.*

*“The manufacturing phase of our transformation programme is now complete – a fantastic achievement by a first class project team, resulting in significant improvements in operational efficiency across our supply chain. The completion of the manufacturing programme now enables us to move our focus on to new product development and innovation.*

*“Our review of our capital structure is progressing well, discussions with stakeholders are constructive and we will provide a further update with our preliminary results.*

*“The significant momentum we have generated in the second half of 2008 in both our Grocery and Hovis divisions and the enhanced efficiency of our manufacturing base give us confidence that Premier is well positioned to meet the challenges of the current economic downturn. We look forward to making further progress in 2009.”*

**Premier Foods plc**

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## **Introduction**

Premier Foods is pleased to announce that it expects to report Group sales for the year to 31 December 2008 approximately 9% ahead of 2007 with sales in the second half of the year growing approximately 10% compared to the second half of 2007. Over the last four months we have seen volume growth across a number of our Grocery categories, and the relaunch of *Hovis* is progressing well resulting in increased market share and year on year volume growth.

Progress on the integration of RHM and Campbell's in 2008 has been excellent with 9 manufacturing sites closed since November 2007 and core modules of SAP implemented smoothly. We anticipate Group Trading profit for 2008 will be between £315m and £320m, reflecting a stronger second half performance. The full year increase has been driven by integration synergies partly offset by the delayed recovery of cost inflation and lower *Hovis* volumes in the first half of the year, and the additional investment behind the relaunch of *Hovis*.

## **Grocery**

Sales in the Grocery division are expected to be approximately 7% ahead of 2007 with the second half of 2008 especially strong with sales expected to be up by approximately 11% on the previous year. The growth in the second half reflects higher prices to recover cost inflation and, since September, positive volume growth across many of our categories as consumers are being attracted to our broad portfolio of branded and retailer brand staple food products in the tough economic environment. Following completion of our manufacturing rationalisation programme, we have gained momentum in the second half of 2008, and we will focus on our strong brand building and innovation plans in 2009.

## **Hovis**

Hovis sales in 2008 are expected to have increased by approximately 13% compared to 2007. We are delighted by the response to the relaunch of *Hovis* which has benefited from an award winning advertising campaign, quality improvements, new packaging and range extensions. *Hovis*' market share is now in year on year growth having reached a value share of 24.3% for the 4 weeks to 27 December 2008, an increase of 2.0 percentage points since August 2008<sup>5</sup>, further cementing its number two position in the market. Whilst Trading profit for the division for 2008 will be lower than in 2007 due to our investment behind the relaunch of *Hovis* and the lower volumes seen in the first half of 2008, we believe we have built a platform for sustainable future profit development.

## **Chilled & Ireland**

Divisional sales for Chilled and Ireland are expected to be approximately 5% ahead compared to 2007. The Meat-free business had a strong year, with a double digit sales increase. Although the chilled retailer brand business benefited from additional contracts, its performance was below expectations over the Christmas period with ready meal sales affected by the economic downturn. In an increasingly tough market, the Ireland business delivered a satisfactory trading performance and profit growth as synergies from the Ireland integration programme continue to flow through.

## **Transformation Programme**

The transformation of Premier Foods continued at significant pace throughout 2008. We completed the manufacturing rationalisation programme in November with the closure of the last of the nine planned factory closures. The integration of RHM and Campbell's remains on track to deliver £113m of annual cost synergies from 2010 with a substantial proportion of the associated expenditure now incurred. The remaining elements of the integration programme, which we expect to complete in 2009, include the roll out of SAP to the Manor Bakeries cake business, the opening of a new group-wide shared service centre in Manchester, a platform which will enable the full benefits of the SAP ERP system to be realised, the final reorganisation of our Grocery logistics network and the realisation of additional procurement synergies.

## **Disposal**

Premier has received a firm offer for its Le Pain Croustillant ("LPC")<sup>6</sup> and Sofrapain SAS ("Sofrapain")<sup>6</sup> businesses from Nutrixo SAS, for a cash consideration of approximately £8m on a cash-free and debt-free basis. LPC and Sofrapain are well positioned businesses but require significant capital expenditure to maintain their positions in the UK and French market places. Premier considers that the terms of this offer are acceptable in principle and has therefore started consultations with employees and their representatives about this proposed transaction. This disposal is consistent with Premier's strategy of investing behind its UK branded portfolio.

Premier continues to review the strategic options for Martine Spécialités SAS, the remaining business in its Speciality Bakery Group in France. Premier is in discussions regarding a proposed sale of the business although no firm offer has yet been received.

## **Financial Position**

As previously announced, Premier is reviewing a range of options to accelerate the reduction of Group debt and we are working towards establishing a more appropriate long term capital structure, which addresses liquidity and covenant considerations, by 31 March 2009. We will provide a further update with the preliminary results. As part of the constructive discussions with our lending banks, following the expiry of the £125m working capital facility put in place in March 2008, we have arranged a £60m working capital facility to provide additional working capital headroom over the first quarter of 2009.

Net debt at 31 December 2008 was approximately £1,780m reflecting a number of factors including higher commissioning costs on the new factory network, working capital movements and financing fees. The regular interest charge for 2008, comprising cash interest and regular debt amortisation charges will be approximately £130m as a consequence of the higher level of debt during the second half of the year.

As a consequence of the company's decision not to adopt hedge accounting under IAS 39, the recent unprecedented fall in interest rates will result in a non cash interest charge from marking to market our portfolio of interest rate swaps. The size of the charge will reflect the market's current very low long term interest rate expectations and the potentially long term duration of our swaps.

## 2009 Outlook

The significant momentum we have generated in the second half of 2008 in both our Grocery and Hovis divisions and the enhanced efficiency of our manufacturing base give us confidence that Premier is well positioned to meet the challenges of the current economic downturn. We look forward to making further progress in 2009.

A conference call will be held for analysts and investors today at 9:30am.

Conference call details:

Telephone number +44 20 8322 3331

No pin number

1. All comparisons to 2007 are made to pro forma sales and Trading profit for the Group which represent the sales and Trading profit of the Group as if all acquisitions and disposals made since 1 January 2007 had been made on that date. For these purposes LPC and Sofrapain are not considered to have yet been disposed.

2. Trading profit is defined as operating profit from continuing operations before exceptional items, amortisation 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. Trading profit is not a measure of profitability defined under IFRS and may not be comparable from one company to another.

3. Including the results of LPC and Sofrapain.

4. Adjusted profit before tax is defined as Trading profit after charging regular cash interest costs and regular amortisation of debt issuance costs. Adjusted profit before tax is not a measure of profitability defined under IFRS and may not be comparable from one company to another.

5. Market share data is for Prepacked loaves Value share for Total Grocery Outlets for the 4 weeks ended 27 December 2008 sourced from IRI.

6. LPC and Sofrapain are part of Premier's Speciality Bakery Group and produce retailer branded part baked frozen bakery products at 3 locations in France and 1 in the UK, primarily for the major multiple retailers in the UK and France. In the year to 31 December 2007, net sales of LPC and Sofrapain were £109m and the businesses covered by the proposed transaction employ approximately 1,030 people.

Certain statements in this trading update 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.

## **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 18,000 people and operates from approximately 70 sites across the UK and Ireland.***