

BEIG – HALF YEAR UPDATE

BEIG has maintained the momentum we started in 2007:

- Sales Growth is positive, driven by the UK and Germany. The Frozen Food market is positive everywhere: Birds Eye is enjoying record household penetration - over 8 out of 10 UK households buy our products.
- Margin improvement has been achieved across the portfolio.
- Iglo France is now profitable.
- Separation from Unilever is all but completed following the successful phase 1 implementation of our SAP rollout IT project, Pioneer.
- We continue to invest in production capacity, the highlight being the opening of the new fish finger line in Bremerhaven and the commissioning of the new pea processing facility in Hull – both executed on time and on budget.
- Germany and Austria have successfully entered into a new market segment – seafood.

Not all of this progress will flow through into our reported results due to two significant external factors: currency movements and inflation.

Currency

Taking currency first. We are a Euro denominated business and yet 50% of our sales and over 50% of our profits are in UK pounds. This has the effect of artificially depressing our total company reported sales growth. Additionally as a result of having consolidated fish production in Germany and the UK's other exposure to Euro denominated input prices, the transactional impact of currency on our UK P&L has been strongly negative.

Inflation

Commodity price inflation is hardly news but we have suffered along with the rest of the food industry. Total input costs have risen an unprecedented 9% YoY. The drivers of this have been beef, poultry, cooking oil, wheat (we are big users of wheat on our fish finger coatings) and fish. We have sought to pass this inflation to our consumers and thanks to the strength of our brands have been, thus far, successful, and we continue to look at ways to reduce our total costs so that we can minimise the extent of price increases, but we remain committed to keeping levels of A&P high enough to drive demand and market share.

Balance of Year outlook

It is clear that consumer spending is under pressure across all of our markets. This is manifesting itself in a shift to the Discounter channel and Private Label, but also, in the UK, accelerating growth of Frozen Food as consumers seek to shop more thriftily and avoid waste.

We can't tell how the economic slowdown will ultimately affect us but if we stay focussed on costs and can effectively communicate our product quality we will remain competitive and so retain control of our own destiny. I am determined to ensure that we do this.

Martin Glenn
CEO September 2008