CRANSWICK plc

25 November 2013

# CRANSWICK plc: INTERIM RESULTS

## A robust performance

Cranswick plc ("Cranswick" or "the Company" or "the Group"), a leading UK supplier of pork products, announces its unaudited results for the six months ended 30 September 2013.

**Financial highlights:**

| **Statutory results** | **2013** | **2012** | **Movement** |
|---|---|---|---|
| Reported revenue | £483.5m | £418.6m | +15% |
| Underlying revenue [1] | £474.9m | £418.6m | +13% |
| Profit before tax | £26.1m | £22.4m | +16% |
| Earnings per share | 43.5p | 35.7p | +22% |
| Dividend per share | 10.0p | 9.4p | +6% |
| Net debt | £37.2m | £32.2m | +15% |

| **Adjusted results** | **2013** | **2012** | **Movement** |
|---|---|---|---|
| Reported revenue | £483.5m | £418.6m | +15% |
| Underlying revenue [1] | £474.9m | £418.6m | +13% |
| Adjusted profit before tax [2] | £23.2m | £22.4m | +4% |
| Adjusted earnings per share [2] | 38.3p | 35.7p | +7% |
| Dividend per share | 10.0p | 9.4p | +6% |
| Net debt | £37.2m | £32.2m | +15% |

[1] excluding contribution from acquisitions
[2] adjusted profit before tax and adjusted earnings per share exclude release of contingent consideration and net IAS 41 valuation movement on biological assets. These are the measures used by the Board to assess the Group's underlying performance.

Cranswick's Chairman, Martin Davey, said: "The first half of the year has overall been quite a positive period for the Company.

Continued growth in sales, significant investment in the asset base, most notably the commissioning of the new pastry facility, along with the strategic development of the Company's pig breeding and rearing activities were all positive features of the six months trading. The increase in sales is especially encouraging.

The pastry business is making progress and the impact of higher pig prices has been partially mitigated by on-going efficiency improvements, sales volume growth, acquisitions and through constructive discussions with customers.

The Board anticipates that the full year performance will be in line with its expectations.

With experienced management at all levels of the Group, a strong range of products, a well invested asset base and a robust financial position, the Board remains confident in the continued long term success and development of the business."

-ends-

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Note to Editors:
Cranswick was formed in the early 1970s by farmers in East Yorkshire to produce animal feed and has since evolved into a business focused on the supply of food products to the UK food retail and food service sectors. Well known for the production of gourmet sausages the Company is involved in the breeding and rearing of premium British pigs and also supplies fresh pork, cooked meats, air-dried bacon, charcuterie, sandwiches and pastry products. Products are sold primarily under retailers own labels including Sainsbury's 'Taste The Difference' and Tesco's 'Finest' as well as under a number of brands such as 'Simply Sausages', 'The Black Farmer', 'Weightwatchers' and 'Red Lion Foods'. Sales in the year to March 2013 were £875 million and have grown more than 370 per cent over ten years.

# Chairman's statement

The first half of the year has overall been quite a positive period for the Company.

Continued growth in sales, significant investment in the asset base, most notably the commissioning of the new pastry facility, along with the strategic development of the Company's pig breeding and rearing activities were all positive features of the six months trading. As previously reported the business had to contend with the challenge of rising input costs as pig prices reached record highs.

Both total and underlying sales for the period were significantly ahead of the comparable period a year ago. Total sales at £484 million were 15 per cent higher whilst underlying sales were 13 per cent ahead.

The increase in sales is especially encouraging. It further develops the sales growth achieved in recent years, evidences the success of the investment in new product development and underlines pork's health attributes, versatility and pricing credentials compared to other proteins. There was particularly strong growth in sales of fresh pork and bacon and this along with other trading highlights is covered in the Chief Executive's Review of activities.

Statutory profit before taxation increased 16 per cent to £26.1 million from £22.4 million and associated basic earnings per share rose 22 per cent to 43.5 pence compared to 35.7 pence in the same period last year.

Adjusting the current period figures for the impact of contingent consideration and IAS 41 credits, profit before taxation was 4% higher than a year ago at £23.2 million and earnings per share 7 per cent higher at 38.3 pence.

Adjusted operating margin was lower than that achieved a year ago due to the impact of the rise in pig prices to historical highs and the absorption of start-up costs at the new pastry facility.

The impact of higher pig prices has been partially mitigated by on-going efficiency improvements, sales volume growth, acquisitions and through constructive discussions with customers. Prices have continued at historical highs and, as previously reported, are expected to remain so through to the end of the calendar year at least.

A key factor in driving the pig price higher has been the increased focus on British meat from customers during the year. To satisfy this demand and to secure the supply of product going forward the Company has made a strategic investment in its pig breeding and rearing activities. The total number of pigs produced internally is now 15 to 20 per cent of weekly requirements and in addition this will offset some of the impact of higher input costs.

The pastry business is making progress and, working closely with its customer base, has recently seen a number of successful new product launches supported by a high profile promotional campaign. Consumer response to these products has been very favourable. The factory has substantial capacity to meet management's future sales aspirations and expectations are for this category to develop in a similar way to other comparable areas of the Group.

Operating cash inflow in the period improved to £23.8 million from £18.1 million in the same period previously. Interest was covered 56 times and at the end of the period net debt stood at £37.2 million. The pension deficit continues at a low level amounting to £3.3 million at 30 September. The Company is in a very sound financial position and further details are provided in the Financial Review.

The interim dividend is being increased to 10.0 pence per share from 9.4 pence previously and will be paid on 24 January 2014 to Shareholders on the register at the close of business on 6 December 2013. Shareholders will again have the option to receive the dividend by way of scrip issue.

The Board anticipates that the full year performance will be in line with its expectations.

The continued successful performance of Cranswick would not be possible without truly committed individuals throughout the business. On behalf of the Board I express sincere thanks and appreciation to all of our colleagues for their unstinting efforts, enthusiasm and talents in driving the business forward.

The Company is totally focused on working closely with its customers to deliver quality food for the consumer from a supply base that has production facilities of the highest standard and relationships with suppliers that have integrity at their core. With experienced management at all levels of the Group, a strong range of products, a well invested asset base and a robust financial position, the Board remains confident in the continued long term success and development of the business.

**Martin Davey**
Chairman

25 November 2013

# Review of activities

The business delivered a robust performance during the first half of the current financial year, with total revenues ahead by 15 per cent. Underlying sales increased by 13 per cent driven by a combination of new products and new customers, underpinned by market growth in the Group's core categories as the UK consumer continues to appreciate the attractiveness, versatility and low relative pricing of pork compared to other proteins, particularly beef and lamb.

As expected, pig prices increased during the first quarter of the financial year. Prices increased further during July to a new record high and remained at this level throughout the second quarter. UK pig prices are likely to remain at historical highs at least through to the end of the calendar year. On-going efficiency improvements and the strong volumes being processed through the Group's facilities provided some mitigation, but the extent of and time lag in recovering these higher input costs, together with the pastry start-up costs meant that adjusted operating margins were lower than those reported in the same period last year and below those of the last financial year as a whole.

As reported on 20 May 2013, the Group acquired East Anglian Pigs Limited (now renamed Wayland Farms Limited) on 29 April 2013. This was followed by the acquisition of two additional breeding units from Dent Limited on 13 September 2013, which are now operating under the Wold Farms banner. Cranswick now has a herd of 15,000 breeding sows, capable of producing 7,000 outdoor-reared pigs each week for use in Cranswick's premium range products and gives Cranswick greater control over a robust and integrated supply chain, with a clear focus on premium British ingredients. This focus has been central to supporting the move to an all British fresh pork offering by one of the Group's largest retail customers.

Fresh pork sales grew strongly by 26 per cent compared to the same period last year. The recent development of the new Riverside retail packing facility in Hull, which is dedicated to one of the Group's retail customers, has supported this growth and enabled more efficient utilisation of the retail packing operations at the Hull and Norfolk primary processing facilities. Further investment into both the Hull and Norfolk facilities is continuing as new chilling technology is introduced to improve carcass quality. The Group's three fresh pork facilities are amongst the most advanced processing operations in Europe and leave Cranswick well positioned to continue its expansion in both the UK and overseas markets. Export sales grew by 30 per cent in the period and the business will continue to develop further its presence in Far Eastern markets as evidenced by supply commencing recently to Thailand and Vietnam.

Sausage sales increased by 4 per cent, helped by the improved summer weather in 2013 which generated more barbecue opportunities. July saw a record sales week for the Lazenby's facility for a non-Christmas period. The premium sausage category continues its impressive resilience of recent years as consumers recognise the quality proposition that high end products offer. The artisan nature of Cranswick's products and the skills employed, have been transferred to a range of premium beef burgers and growth in these products has been particularly impressive with sales improving by 34 per cent. The increased raw material cost has had a particular impact on the sausage category; however this has been partially mitigated by a continued focus on new product development with redevelopment of existing ranges and the introduction of new ones. New listings in this category have been agreed with one of the Group's existing premium retail customers for the key Christmas trading period. With traceability high on the customer and consumer agenda, the Group's integrated supply and sourcing policy offers the UK consumer further assurance as to the provenance and quality of Cranswick's products and provides the Company's customers with a real point of difference.

Bacon sales improved by 18 per cent in the period. This growth underlines the trend of trading up to the premium bacon category, as the quality of Cranswick's hand cured, air dried products continues to be appreciated. Sales growth was also supported by the introduction of new speciality cures and smoked products and by the continued development of ready to cook ranges which are now being produced across the fresh pork, bacon and sausage categories. The Christmas period is particularly important for this category and so it is pleasing to be able to report that a number of significant contracts for both gammon steaks and joints have been secured for the festive season.

Cooked meats sales increased by 13 per cent compared with the corresponding period last year. This was against a backdrop of increasing raw material prices and discussions are on-going with customers to mitigate this impact. Further new product development in premium ham products is helping to drive sales and the close collaboration with other sites in the group, offers the customer an integrated approach in this area. To support further growth and development of the cooked meats category investment is taking place at the Milton Keynes facility to substantially increase capacity and introduce advanced cooking and slicing technology to deliver significant efficiency gains. Total capital expenditure across the Group's four cooked meat facilities is expected to be £11 million in the current financial year reflecting the Company's growth aspirations in this category.

Pastry sales grew strongly following the move into the Group's new gourmet pastry facility in Malton, North Yorkshire which was commissioned during the period and officially opened on 8 November. Start-up costs were higher than had been anticipated as the business focused on the successful launch of several new product ranges for the Group's key retail customer in this category. It is pleasing to be able to report that costs are now running at anticipated levels and the focus is on achieving the forecast returns from the investment. The period under review has been particularly busy, with the launch of a new range of premium hand lined quiches for the summer season, followed by a premium savoury pie range which was launched in early October with sales outstripping already strong forecasts. A strong relationship has been developed with the lead retail customer in this category and an exciting Christmas range has been developed in anticipation of the 2013 festive season.

Sales of continental products were 3 per cent lower than in the same period last year. This is a pleasing achievement given the loss of business with one of the Group's retail customers during the first quarter, as this customer continued its strategy of moving to an in-house sourcing strategy. Sales recovered strongly in the second quarter and were in fact 15 per cent above the equivalent period last year. The expectation is that this positive trend should continue through the second half of the year, following the launch of more than 45 new products in the period, with significant growth in olives and antipasti and the addition of new retail contracts. With on-going development of the Group's customer profile, there is continued optimism for the further successful growth of this category.

Sandwiches sales were 5 per cent lower following a conscious decision to rationalise the core product range and develop a more focused customer strategy. These initiatives, driven by a new management team, together with a renewed focus on operational efficiencies have seen the business perform strongly during the first half of the year. The introduction of new product lines including the "&Made" brand has had a significant beneficial impact. There is a real opportunity to give food service customers a wider product offering utilising selected products from the Group's broad category base and in particular the new pastry ranges. With 25 per cent of all breakfast menu offerings including bacon, the business is ideally placed to satisfy a number of food service customer requirements in this area. Also, given the consolidation that has taken place in the UK sandwich category in the last two years, the business is confident that there will be opportunities to develop a stronger presence in the retail sector, with discussions currently on-going on several fronts.

The continued successful development of Cranswick is testament to quality and unstinting dedication of the teams across each of the Group's businesses. The Company remains highly cash generative enabling both attractive returns to shareholders and continued investment in the Group's infrastructure. As a result, Cranswick's facilities are amongst the very best in the industry and the resolve to invest further both in existing and new facilities and the most talented people demonstrates the Group's optimism and drive for further growth.

**Adam Couch**
Chief Executive

25 November 2013

# Financial review

The Group is presenting its interim financial information for the six months to 30 September 2013 with comparative information for the six months to 30 September 2012 and the year to 31 March 2013, restated for the impact of IAS 19 (Revised).

## Reported results

Following the investment in pig breeding and rearing activities during the period as referred to in more detail below, the Group now monitors performance principally through the adjusted profit measures which exclude certain non-cash items including the net IAS 41 valuation credit of £1.8 million on biological assets and the release of the £1.1 million provision for contingent consideration payable to the previous owners of Kingston Foods which reflects the Directors' current expectations of the anticipated performance of the business over the three year period from acquisition. The statutory results, including these items, show a 16 per cent increase in profit before tax to £26.1 million (2012: £22.4 million) and a 22 per cent increase in earnings per share to 43.5 pence (2012: 35.7 pence).

## Revenue

Revenue increased by 15 per cent from £418.6 million to £483.5 million. Adjusting for the contributions from Kingston Foods Limited which was acquired on 29 June 2012 and Wayland Farms which was acquired on 29 April 2013, underlying sales increased by 13 per cent.

## Adjusted Group operating profit

Adjusted Group Operating profit increased by 4 per cent to £23.6 million (2012: £22.8 million). Adjusted Group operating margin at 4.9 per cent of sales was lower than the 5.5 per cent delivered in the same period last year and the 5.7 per cent reported for the last financial year as a whole. The lower operating margin in the period reflected substantially higher input costs compared to those of the same period last year and start-up costs at the new gourmet pastry facility at Malton, North Yorkshire, which was commissioned during the period, partly offset by strong sales volume growth, operational efficiencies and the positive contribution from Wayland Farms in the period following acquisition.

## Finance costs

Net financing costs at £0.5 million were similar to those reported in the first half of the prior year.

## Adjusted profit before tax

Adjusted profit before tax was 4 per cent higher at £23.2 million (2012: £22.4 million).

## Taxation

The tax charge as a percentage of profit before tax was 18.9 per cent (2012: 23.3 per cent). The standard rate of corporation tax was 23 per cent (2012: 24 per cent). The charge for the current period benefited from a £0.8 million (2012: £0.3 million) deferred tax credit following a 2 per cent enacted reduction in the UK corporation tax rate from April 2014 and a further 1 per cent reduction from April 2015 (2012: 1 per cent reduction from April 2013). In addition the £1.1 million contingent consideration provision release was not chargeable to tax. Adjusting for these items the underlying effective rate was 22.8 per cent (2012: 24.6 per cent).

## Earnings per share

Adjusted earnings per share rose by 7 per cent to 38.3 pence (2012: 35.7 pence) in the six months to 30 September 2013 due in part to the lower tax charge (note 5). The average number of shares in issue was 48,631,000 (2012: 48,115,000).

## Acquisitions

On 29 April 2013 the Group acquired 100 per cent of the issued share capital of East Anglian Pigs Limited (now renamed Wayland Farms Limited) for a net cash consideration of £10.9 million. Wayland Farms made a positive contribution to Cranswick's activities during the period. On 13 September 2013 the Group made further investment in its pig rearing and breeding activities by acquiring certain assets and livestock from Dent Limited for £2.0 million. Further detail on both transactions is set out in note 8.

The pig herd was valued on initial recognition at £12.0 million and at 30 September 2013 at £13.8 million in accordance with the provisions of IAS 41 Biological assets. The valuation gain between initial recognition and the period end of £1.8 million has been disclosed separately on the face of the income statement.

## Cash flow and net debt

The net cash inflow from operating activities in the period increased to £23.8 million (2012: £18.1 million) reflecting a modest £2.0 million working capital increase (2012: £6.9 million increase). Net debt increased in the six month period by £17.1 million to £37.2 million, but was only £5.0 million above the previous half year end level, notwithstanding the £12.9 million outflow on acquisitions and £16.9 million of capital expenditure. Net debt was just 13 per cent of shareholders' funds (2012: 13 per cent) as the Group's balance sheet continues to be conservatively managed. The Group's current bank facility of £100 million extends to July 2015 and provides the business with generous headroom and medium term funding to meet its objectives.

## Pensions

The Group operates a number of defined contribution pension schemes whereby contributions are made to schemes operated by major insurance companies. Contributions to these schemes are determined as a percentage of employees' earnings. The Group also operates a defined benefit pension scheme which has been closed to further benefit accrual since 2004. The deficit on this scheme at 30 September 2013 was £3.3 million which compared to £3.4 million at 31 March 2013. Cash contributions to the scheme during the period, as part of the programme to reduce the deficit, were £0.6 million. The present value of funded obligations was £21.1 million and the fair value of plan assets was £17.8 million.

The valuation of the defined benefit pension liability is dependent upon market conditions and actuarial methods and assumptions (including mortality assumptions). Such changes in actuarial assumptions and the performance of the funds may result in changes to amounts charged or released through the income statement and the Group may be required to pay increased pension contributions in the future. The Board will regularly review its pension strategy with reference to the value of assets and liabilities under the pension scheme as well as the potential impact of changes in actuarial assumptions.

### *Restatement*

Following the amendment to IAS 19, which came into effect for the Group from 1 April 2013, interest on pension scheme assets is now calculated by reference to the liability discount rate rather than the expected long-term yield on the assets, as was the case previously. Comparative information has been restated accordingly and further details, including the impact on the Group's profit before tax, are set out in note 2.

## Principal risks and uncertainties

There are a number of risks and uncertainties facing the business in the second half of the financial year. The Board considers, with the exception of the risks associated with the acquisition of pig rearing and breeding operations as detailed below, these risks and uncertainties to be the same as those described in the Report & Accounts for the year ended 31 March 2013, dated 20 May 2013, a copy of which is available on the Group's website at www.cranswick.co.uk. The principal risks and uncertainties which are set out in detail on pages 11 to 16 of the Report & Accounts for the year ended 31 March 2013 are:

Industry risks

- State of the economy
- Competition, customer retention and reliance on key customers
- Raw material price fluctuations
- Environmental matters
- Food scares and product contamination
- Supplier standards

Operational risks

- Food safety
- Business continuity
- Legislation
- Overseas markets
- Technology
- Business integration

Human resource risks

- Health & Safety
- Ethical management
- Staff recruitment and retention
- Access to workforce

Financial risks

- Interest rate, currency, liquidity and credit risk
- Granting of credit and recoverability of debt
- Business acquisitions

Additional risks

As a result of the acquisition of pig rearing and breeding operations, as detailed in note 8, the Board considers that the Group now faces the following additional principal risks and uncertainties:

| Risk area | Nature of risk and potential impact | Risk mitigation |
| --- | --- | --- |
| Pig herd infection and disease | Infection or disease outbreak results in the loss of livestock, or the inability to move animals freely, impacting on the supply of raw materials to the Group's abattoirs and secondary processors as well as Group profitability | The Group's farming facilities have a broad geographical spread to avoid over reliance on a single production area<br>The Group vaccinates its pig herds against common porcine diseases<br>The Group's farms employ formal bio-security standards featuring movement controls and veterinary inspections |
| Purchasing of pig feed | The volatility of commodity pricing on pig feed impacts on the operating costs of the Group's livestock business | The Group protects against its exposure to pig feed price fluctuations through the use of forward pricing agreements to fix future input prices, where appropriate |

## Forward looking information

This interim report contains certain forward looking statements. These statements are made by the Directors in good faith based on the information available to them at the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward looking information.

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the 'Review of activities'. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described above. The Group has considerable financial resources together with strong trading relationships with its key customers and suppliers. As a consequence, the Directors believe that the Group is well placed to manage its business risk successfully, despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the condensed consolidated interim financial statements.

**Mark Bottomley**
Finance Director

25 November 2013

# Cranswick plc: Group income statement (unaudited)

for the six months ended 30 September 2013

| | | Half year | | Year to |
|---|---|---|---|---|
| | | **2013** | 2012 | 31 March 2013 |
| | *Notes* | **£'000** | £'000 | £'000 |
| | | | (Restated) | (Restated) |
| **Revenue** | | **483,521** | 418,645 | 875,171 |
| **Adjusted Group operating profit** | | **23,640** | 22,834 | 50,041 |
| Impairment of property, plant and equipment | | **-** | - | (1,836) |
| Release of contingent consideration | | **1,086** | - | - |
| Net IAS 41 valuation movement on biological assets | | **1,795** | - | - |
| **Group operating profit** | *4* | **26,521** | 22,834 | 48,205 |
| Finance revenue | | **22** | 39 | 62 |
| Finance costs | | **(492)** | (488) | (963) |
| **Profit before tax** | | **26,051** | 22,385 | 47,304 |
| Taxation | *5* | **(4,920)** | (5,222) | (11,165) |
| **Profit for the period** | | **21,131** | 17,163 | 36,139 |

| | | | | |
|---|---|---|---|---|
| **Earnings per share (pence)** | | | | |
| **On profit for the period:** | | | | |
| Basic | *6* | **43.5p** | 35.7p | 74.9p |
| Diluted | *6* | **43.3p** | 35.6p | 74.7p |

| | | | | |
|---|---|---|---|---|
| **On adjusted profit for the period:** | | | | |
| Basic | *6* | **38.3p** | 35.7p | 78.7p |
| Diluted | *6* | **38.1p** | 35.6p | 78.5p |

# Cranswick plc: Group statement of comprehensive income (unaudited)

for the six months ended 30 September 2013

| | Half year | | Year to 31 March |
|---|---|---|---|
| | **2013** | 2012 | 2013 |
| | **£'000** | £'000 | £'000 |
| | | (Restated) | (Restated) |
| **Profit for the period** | **21,131** | 17,163 | 36,139 |
| **Other comprehensive income** | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | |
| Cash flow hedges | | | |
| Losses arising in the period | **(78)** | (15) | (4) |
| Reclassification adjustments for losses included in the income statement | **4** | 69 | 69 |
| Income tax effect | **15** | (12) | (15) |
| **Net other comprehensive income to be reclassified to profit or loss in subsequent periods** | **(59)** | 42 | 50 |
| *Items not to be reclassified to profit or loss in subsequent periods:* | | | |
| Actuarial (losses)/ gains on defined benefit pension scheme | **(475)** | (831) | 1,077 |
| Income tax effect | **9** | 191 | (293) |
| **Net other comprehensive income not being reclassified to profit or loss in subsequent periods** | **(466)** | (640) | 784 |
| **Other comprehensive income, net of tax** | **(525)** | (598) | 834 |
| **Total comprehensive income, net of tax** | **20,606** | 16,565 | 36,973 |

# Cranswick plc: Group balance sheet (unaudited)

at 30 September 2013

| | Half year | | As at 31 March |
|---|---|---|---|
| | **2013** | 2012 | 2013 |
| | **£'000** | £'000 | £'000 |
| **Non-current assets** | | | |
| Intangible assets | **130,517** | 130,382 | 129,003 |
| Property, plant and equipment | **155,782** | 138,003 | 147,386 |
| Biological assets | **1,337** | - | - |
| Financial assets | **104** | 1,050 | 702 |
| **Total non-current assets** | **287,740** | 269,435 | 277,091 |
| **Current assets** | | | |
| Biological assets | **12,416** | - | - |
| Inventories | **54,961** | 44,311 | 48,463 |
| Trade and other receivables | **92,249** | 91,161 | 93,097 |
| Financial assets | **696** | 696 | 696 |
| Cash and short-term deposits | **19,453** | 10,705 | 7,633 |
| **Total current assets** | **179,775** | 146,873 | 149,889 |
| **Total assets** | **467,515** | 416,308 | 426,980 |
| **Current liabilities** | | | |
| Trade and other payables | **(107,126)** | (94,572) | (106,109) |
| Financial liabilities | **(380)** | (326) | (608) |
| Income tax payable | **(5,868)** | (6,015) | (7,123) |
| Provisions | **-** | (189) | - |
| **Total current liabilities** | **(113,374)** | (101,102) | (113,840) |
| **Non-current liabilities** | | | |
| Other payables | **(445)** | (434) | (410) |
| Financial liabilities | **(57,167)** | (46,741) | (29,572) |
| Deferred tax liabilities | **(5,798)** | (6,446) | (5,947) |
| Provisions | **(342)** | (188) | (190) |
| Defined benefit pension scheme deficit | **(3,334)** | (5,725) | (3,357) |
| **Total non-current liabilities** | **(67,086)** | (59,534) | (39,476) |
| **Total liabilities** | **(180,460)** | (160,636) | (153,316) |
| **Net assets** | **287,055** | 255,672 | 273,664 |
| **Equity** | | | |
| Called-up share capital | **4,878** | 4,833 | 4,853 |
| Share premium account | **62,886** | 60,221 | 61,603 |
| Share-based payments | **7,853** | 6,579 | 6,765 |
| Hedging reserve | **(63)** | (15) | (4) |
| Retained earnings | **211,501** | 184,054 | 200,447 |
| **Equity attributable to owners of the parent** | **287,055** | 255,672 | 273,664 |

# Cranswick plc: Group statement of cash flows (unaudited)

for the six months ended 30 September 2013

| | Note | Half year 2013 £'000 | Half year 2012 £'000 (Restated) | Year to 31 March 2013 £'000 (Restated) |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Profit for the period | | **21,131** | 17,163 | 36,139 |
| ***Adjustments to reconcile Group profit for the period to net cash inflows from operating activities:*** | | | | |
| Income tax expense | | **4,920** | 5,222 | 11,165 |
| Net finance costs | | **470** | 449 | 901 |
| Gain on sale of property, plant and equipment | | **(51)** | (32) | (237) |
| Depreciation of property, plant and equipment | | **8,485** | 7,579 | 15,486 |
| Impairment of property, plant and equipment | | **-** | - | 1,786 |
| Amortisation of intangibles | | **79** | 40 | 119 |
| Share-based payments | | **1,088** | 976 | 1,162 |
| Difference between pension contributions paid and amounts recognised in the income statement | | **(497)** | (448) | (908) |
| Release of government grants | | **(49)** | (32) | (61) |
| Release of contingent consideration | | **(1,086)** | - | - |
| Net IAS 41 valuation movement on biological assets | | **(1,795)** | - | - |
| Increase in inventories | | **(6,068)** | (5,362) | (9,514) |
| Decrease/ (increase) in trade and other receivables | | **2,341** | (3,758) | (5,568) |
| Increase in trade and other payables | | **1,718** | 2,193 | 10,561 |
| Cash generated from operations | | **30,686** | 23,990 | 61,031 |
| Tax paid | | **(6,880)** | (5,937) | (11,219) |
| **Net cash from operating activities** | | **23,806** | 18,053 | 49,812 |
| **Cash flows from investing activities** | | | | |
| Interest received | | **12** | 39 | 62 |
| Principal amounts received in relation to loans advanced | | **598** | 348 | 696 |
| Acquisition of subsidiary, net of cash acquired | *8* | **(12,944)** | (5,986) | (5,986) |
| Purchase of property, plant and equipment | | **(16,857)** | (14,596) | (30,809) |
| Receipt of government grants | | **100** | 4 | - |
| Proceeds from sale of property, plant and equipment | | **90** | 48 | 318 |
| Proceeds from sale of investment classified as held for sale | | **-** | 221 | 221 |
| **Net cash used in investing activities** | | **(29,001)** | (19,922) | (35,498) |
| **Cash flows from financing activities** | | | | |
| Interest paid | | **(431)** | (455) | (862) |
| Proceeds from issue of share capital | | **27** | 56 | 491 |
| Proceeds from borrowings | | **27,000** | 2,000 | - |
| Repayment of borrowings | | **-** | - | (14,000) |
| Dividends paid | | **(8,744)** | (7,828) | (11,404) |
| Repayment of capital element of finance leases | | **(288)** | (183) | (243) |
| **Net cash from/ (used in) financing activities** | | **17,564** | (6,410) | (26,018) |
| Net increase/ (decrease) in cash and cash equivalents | | **12,369** | (8,279) | (11,704) |
| Cash and cash equivalents at beginning of period | | **7,084** | 18,788 | 18,788 |
| **Cash and cash equivalents at end of period** | | **19,453** | 10,509 | 7,084 |

# Cranswick plc: Group statement of changes in equity (unaudited)

for the six months ended 30 September 2013

| | Share capital £'000 | Share premium £'000 | Share-based payments £'000 | Hedging reserve £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|
| At 1 April 2013 | 4,853 | 61,603 | 6,765 | (4) | 200,447 | 273,664 |
| Profit for the period | - | - | - | - | 21,131 | 21,131 |
| Other comprehensive income | - | - | - | (59) | (466) | (525) |
| Total comprehensive income | - | - | - | (59) | 20,665 | 20,606 |
| Share-based payments | - | - | 1,088 | - | - | 1,088 |
| Scrip dividend | 11 | 1,270 | - | - | - | 1,281 |
| Share options exercised | 14 | 13 | - | - | - | 27 |
| Dividends | - | - | - | - | (10,025) | (10,025) |
| Deferred tax relating to changes in equity | - | - | - | - | 212 | 212 |
| Corporation tax relating to changes in equity | - | - | - | - | 202 | 202 |
| **At 30 September 2013** | **4,878** | **62,886** | **7,853** | **(63)** | **211,501** | **287,055** |
| (Restated) | | | | | | |
| At 1 April 2012 | 4,803 | 58,642 | 5,603 | (69) | 176,953 | 245,932 |
| Profit for the period | - | - | - | - | 17,163 | 17,163 |
| Other comprehensive income | - | - | - | 54 | (652) | (598) |
| Total comprehensive income | - | - | - | 54 | 16,511 | 16,565 |
| Share-based payments | - | - | 976 | - | - | 976 |
| Scrip dividend | 19 | 1,534 | - | - | - | 1,553 |
| Share options exercised | 11 | 45 | - | - | - | 56 |
| Dividends | - | - | - | - | (9,381) | (9,381) |
| Deferred tax relating to changes in equity | - | - | - | - | (68) | (68) |
| Corporation tax relating to changes in equity | - | - | - | - | 39 | 39 |
| At 30 September 2012 | 4,833 | 60,221 | 6,579 | (15) | 184,054 | 255,672 |
| (Restated) | | | | | | |
| At 1 April 2012 | 4,803 | 58,642 | 5,603 | (69) | 176,953 | 245,932 |
| Profit for the year | - | - | - | - | 36,139 | 36,139 |
| Other comprehensive income | - | - | - | 65 | 769 | 834 |
| Total comprehensive income | - | - | - | 65 | 36,908 | 36,973 |
| Share-based payments | - | - | 1,162 | - | - | 1,162 |
| Scrip dividend | 31 | 2,489 | - | - | - | 2,520 |
| Share options exercised | 19 | 472 | - | - | - | 491 |
| Dividends | - | - | - | - | (13,924) | (13,924) |
| Deferred tax relating to changes in equity | - | - | - | - | 370 | 370 |
| Corporation tax relating to changes in equity | - | - | - | - | 140 | 140 |
| At 31 March 2013 | 4,853 | 61,603 | 6,765 | (4) | 200,447 | 273,664 |

# Responsibility statement

The Directors confirm that to the best of their knowledge the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* and includes a fair review of the information required by DTR 4.2.7R (an indication of important events during the first six months and a description of the principle risks and uncertainties for the remaining six months of the year) and by DTR 4.2.8R (a disclosure of related party transactions and changes therein) of the *Disclosure and Transparency Rules*.

On behalf of the Board

| **Martin Davey** | **Mark Bottomley** |
|---|---|
| Chairman | Finance Director |

25 November 2013

# Notes to the interim accounts

## 1. Basis of preparation

This interim report was approved by the Directors on 25 November 2013 and has been prepared in accordance with the Disclosure and Transparency Rules of the UK's Financial Services Authority and the requirements of IAS 34 *Interim Financial Reporting* as adopted by the European Union. The information does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The statutory accounts for the year ended 31 March 2013 prepared under IFRS as adopted by the European Union have been filed with the Registrar of Companies. The report of the auditors on the statutory accounts was not qualified and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006. The interim report has not been reviewed pursuant to the Auditing Practices Board guidance on 'Review of Interim Financial Information' and does not include all of the information required for full annual financial statements.

## 2. Accounting policies

The accounting policies applied by the Group in this interim report are the same as those applied by the Group in the financial statements for the year ended 31 March 2013. Except as follows:

During the period the Group acquired East Anglian Pigs Limited (renamed Wayland Farms Limited) the principal activities of which are pig breeding, rearing and finishing. Subsequently, the Group also acquired certain trade and assets of another business with similar activities. Both transactions included the acquisition of biological assets in the form of breeding sows (classified as non-current assets) and their progeny for processing within the Group and externally (classified as current assets). On initial recognition and at the balance sheet date biological assets have been measured at their fair value less costs to sell, in line with IAS 41. Gains and losses in relation to the fair value of biological assets are recognised in the income statement, within 'cost of sales', in the period in which they arise.

In addition, during the period, the Group has amended its income statement presentation to present cost of sales, selling and distribution costs, administrative expenses and gross profit within the notes to the financial statements rather than on the face of the income statement as was the case previously. The Directors consider it appropriate to amend the income statement presentation in this way to facilitate a more meaningful comparison with prior and future periods following the acquisitions in the current period which introduce valuation movements on biological assets into the income statement.

*Non-GAAP measures – Adjusted Group operating profit, adjusted profit before tax and adjusted earnings per share*
Adjusted Group operating profit, adjusted profit before tax and adjusted earnings per share are defined before net IAS 41 valuation movement on biological assets, impairment charges and other significant non-trading items (being release of contingent consideration in the current period). These additional non-GAAP measures of performance are included as the Directors believe that they provide a useful alternative measure for shareholders of the trading performance of the Group. The reconciliation between Group operating profit and adjusted Group operating profit is shown on the face of the Group income statement.

The following accounting standards and interpretations became effective, and were adopted by the Group, for the current reporting period:

| ***International Accounting Standards (IAS / IFRSs)*** | | ***Effective date*** |
|---|---|---|
| IFRS 7 | Financial Instruments: Disclosures | 1 January 2013 |
| IFRS 13 | Fair Value Measurement | 1 January 2013 |
| IAS 1 | Presentation of Items of Other Comprehensive Income (Amendment) | 1 July 2012 |
| IAS 19 (revised) | Employee Benefits | 1 January 2013 |
| IFRS | May 2012 Annual Improvements | 1 January 2013 |

*IAS 1 Presentation of Items of Other Comprehensive Income (Amendment)*
The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time now have to be presented separately from items that will never be reclassified. The amendment affected presentation only, and had no impact on the Group's financial position or performance.

*IAS 19 (revised) Employee Benefits*
IAS 19 (revised) includes a number of amendments to the accounting for defined benefit pension schemes. The principal impact on the Group of the application of this standard is that interest on pension scheme assets is now calculated by reference to the liability discount rate rather than the expected long-term yield on the assets, as was the case previously. The impact of the amendment on profit before tax for the 6 month period to 30 September 2013 was to increase finance costs by £50,000 (2012: £68,000 and year to 31 March 2013: £135,000). There was no impact on the reported pension liabilities for each period as the impact on the income statement is mitigated by an offsetting adjustment in the calculation of actuarial gains and losses in the statement of comprehensive income.

The application of the other standards has not had a material effect on the net assets, results and disclosures of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## 3. Segmental analysis

IFRS 8 requires operating segments to be identified on the basis of the internal financial information reported to the Chief Operating Decision Maker ('CODM'). The Group's CODM is deemed to be the Executive Directors on the Board, who are primarily responsible for the allocation of resources to segments and the assessment of performance of the segments.

The CODM assesses profit performance using adjusted profit before taxation measured on a basis consistent with the disclosure in the Group accounts.

The Group reported on just one reportable segment during the period and the preceding financial year. The revenues of the Group are not significantly impacted by seasonality.

Additions to property, plant and equipment during the period totalled £12.9 million (2012: £14.1 million). Future capital expenditure under contract at 30 September 2013 was £5.6 million (2012: £5.0 million).

## 4. Group operating profit

Group operating costs comprise:

| | **Half year** | | Year to 31 March |
|---|---|---|---|
| | **2013** | 2012 | 2013 |
| | **£'000** | £'000 | £'000 |
| Cost of sales excluding net IAS 41 valuation movement on biological assets | **429,806** | 367,649 | 768,633 |
| Net IAS 41 valuation movement on biological assets | **(1,795)** | - | - |
| Cost of sales | **428,011** | 367,649 | 768,633 |
| *Gross profit* | ***55,510*** | *50,996* | *106,538* |
| Selling and distribution costs | **18,184** | 16,699 | 34,627 |
| Administrative expenses excluding impairment and release of contingent consideration | **11,891** | 11,463 | 21,870 |
| Impairment of property, plant and equipment | **-** | - | 1,836 |
| Release of contingent consideration | **(1,086)** | - | - |
| Administrative expenses | **10,805** | 11,463 | 23,706 |
| **Total operating costs** | **457,000** | 395,811 | 826,966 |

## 5. Taxation

The tax charge for the period was £4.9 million (2012: £5.2 million) and represents a rate of 18.9 per cent (2012: 23.3 per cent). The tax charge for the period benefited from a £0.8 million deferred tax credit reflecting the enacted reduction in the UK corporation tax rate to 20 per cent by 1 April 2015. In addition the £1.1 million contingent consideration provision release was not chargeable to tax. Adjusting for these items, the overall effective rate was 22.8 per cent.

## 6. Earnings per share

Basic earnings per share are based on profit for the period attributable to shareholders and on the weighted average number of shares in issue during the period of 48,631,199 (2012: 48,115,168). The calculation of diluted earnings per share is based on 48,837,327 shares (2012: 48,236,454).

**Adjusted earnings per share**

During the period the Group released contingent consideration in relation to the acquisition of Kingston Foods Limited. In addition, the Group acquired Wayland Farms Limited (note 8), and subsequently recognised a profit on the IAS 41 valuation movement on biological assets acquired. In the prior year the Group impaired freehold property, plant and equipment to their fair value at its mothballed production facility in East Lancashire.

As the release of contingent consideration and the impairment of property, plant and equipment do not form part of the on-going business of the Group and due to the volatility of the valuation of biological assets the Directors consider it appropriate to present an adjusted measure of earnings per share on the face of the income statement which excludes the effects of these items to facilitate a more meaningful comparison with prior and future periods. Adjusted earnings per share are calculated using the weighted average number of shares for both basic and diluted amounts as detailed above.

Adjusted profit for the period is derived as follows:

| | Half year | | Year to 31 March |
|---|---|---|---|
| | **2013** | 2012 | 2013 |
| | **£'000** | £'000 | £'000 |
| | | (Restated) | (Restated) |
| Profit for the period | **21,131** | 17,163 | 36,139 |
| Impairment of property, plant and equipment | **-** | - | 1,836 |
| Release of contingent consideration | **(1,086)** | - | - |
| Net IAS 41 valuation movement on biological assets | **(1,795)** | - | - |
| Tax on net IAS 41 valuation movement on biological assets | **359** | - | - |
| **Adjusted profit for the period** | **18,609** | 17,163 | 37,975 |

## 7. Dividends – half year ended 30 September

| | Half year | | Year to 31 March |
|---|---|---|---|
| | **2013** | 2012 | 2013 |
| | **£'000** | £'000 | £'000 |
| Interim dividend for year ended 31 March 2013 of 9.4p per share | **-** | - | 4,543 |
| Final dividend for year ended 31 March 2013 of 20.6p (2012: 19.5p) per share | **10,025** | 9,381 | 9,381 |
| | **10,025** | 9,381 | 13,924 |

The interim dividend for the year ending 31 March 2014 of 10.0p per share was approved by the Board on 25 November 2013 for payment to shareholders on 24 January 2014 and therefore has not been included as a liability as at 30 September 2013.

## 8. Acquisitions

On 29 April 2013, the Group acquired 100 per cent of the issued share capital of East Anglian Pigs Limited (renamed Wayland Farms Limited) for a total consideration of £13.5 million. On 20 August 2013, the Group incorporated a new company; Wold Farms Limited and subsequently, on 13 September 2013, Wold Farms Limited acquired certain trade and assets of Dent Limited for a total consideration of £2.0 million. The principal activities of both Wayland Farms Limited and Wold Farms Limited are pig breeding, rearing and finishing. The acquisitions give the Group greater control over its supply chain.

Fair values of the net assets at the date of acquisition were as follows:

| | Provisional fair values | | |
|---|---|---|---|
| | Wayland Farms Limited | Wold Farms Limited | Total |
| | £'000 | £'000 | £'000 |
| Net assets acquired: | | | |
| Property, plant and equipment | 3,828 | 272 | 4,100 |
| Biological assets | 10,550 | 1,425 | 11,975 |
| Inventories | 398 | 15 | 413 |
| Trade receivables | 1,368 | - | 1,368 |
| Bank and cash balances | 2,540 | - | 2,540 |
| Trade payables | (3,258) | - | (3,258) |
| Provisions | (150) | - | (150) |
| Financial liabilities | (1,500) | - | (1,500) |
| Finance lease obligations | (603) | - | (603) |
| Corporation tax liability | (148) | - | (148) |
| Deferred tax liability | (905) | 59 | (846) |
| | 12,120 | 1,771 | 13,891 |
| Goodwill arising on acquisition | 1,355 | 238 | 1,593 |
| Total consideration | 13,475 | 2,009 | 15,484 |
| Satisfied by: | | | |
| Cash | 13,475 | 2,009 | 15,484 |
| Net cash outflow arising on acquisition: | | | |
| Cash consideration paid | 13,475 | 2,009 | 15,484 |
| Cash and cash equivalents acquired | (2,540) | - | (2,540) |
| | 10,935 | 2,009 | 12,944 |

The fair values on acquisition are provisional due to the timing of the transactions and will be finalised within twelve months of the respective acquisition dates.

From the date of acquisition, the external revenues of Wayland Farms Limited were £4.9 million and the company contributed a net profit after tax (excluding the IAS 41 valuation movement on biological assets) of £0.9 million to the Group. If the Wayland Farms Limited combination had taken place at the beginning of the period, the Group's profit after tax for the period would have been unchanged at £21.1 million and revenues would have been £484.3 million.

## 8. Acquisitions (continued)

In the period since acquisition, the external revenues of Wold Farms Limited were £nil and the company contributed a net profit after tax of £nil to the Group. Due to the nature of the transaction, with only a proportion of the trade and assets of Dent Limited being acquired, the Directors consider it impracticable to assess the impact of Wold Farms Limited on the revenues and profit after tax of the Group had the combination taken place at the beginning of the period.

Included in the £1,593,000 of goodwill recognised, are certain intangible assets that cannot be individually separated from the acquirees and reliably measured due to their nature. These items include the expected value of synergies, the assembled workforces and the strategic benefits of vertical integration including security of supply.

Transaction costs of £145,000 and £60,000 have been expensed in relation to Wayland Farms Limited and Wold Farms Limited respectively, and are included in administrative expenses.

## 9. Analysis of Group net debt

| | At 31 March 2013 £'000 | Cash flow £'000 | Non-cash movements £'000 | **At 30 September 2013 £'000** |
|---|---|---|---|---|
| Cash and short-term deposits | 7,633 | 11,820 | - | **19,453** |
| Overdrafts | (549) | 549 | - | **-** |
| Net cash and cash equivalents | 7,084 | 12,369 | - | **19,453** |
| Other financial assets | 1,398 | (598) | - | **800** |
| | 8,482 | 11,771 | - | **20,253** |
| Revolving credit | (28,498) | (27,000) | (1,625) | **(57,123)** |
| Finance leases | (55) | 313 | (603) | **(345)** |
| **Net debt** | (20,071) | (14,916) | (2,228) | **(37,215)** |

Net debt is defined as cash and cash equivalents, loans receivable and interest rate swaps at fair value less interest bearing liabilities (net of unamortised issue costs).

## 10. Related party transactions

During the period the Group entered into transactions, in the ordinary course of business, with its subsidiaries which are related parties. Balances and transactions with subsidiaries are eliminated on consolidation.