

# Review of business operations

*"Through our baking academies, centres of excellence, product seminars and daily interaction with customers, our people demonstrate their creativity and their passion for our products, our customers and our business."*

Dear shareholders,

2006 has been a successful year for IAWS Group, plc. Since 1997, when the Group undertook a strategic repositioning into the lifestyle food market, we have invested over €795m in this business. The benefits of this investment can now clearly be seen with the continued, strong performance of the Food division. The Agribusiness division delivered an improved performance this year in a challenging industry.

## Results

Group revenue increased by 10.6 per cent to €1,557m compared with €1,408m in 2005. The Food division continued to grow satisfactorily, increasing revenue by 15.4 per cent year on year to €975.4m. Underlying sales in Food Europe increased by 6.7 per cent, while Food North America (excluding the joint venture) delivered underlying sales growth of 26.1 per cent year on year. Agribusiness revenue rose by 3.4 per cent to €581.9m, while the division's operating profit\* increased by 5.4 per cent to €24.0m compared with €22.8m in 2005, a solid performance overall.

Group operating profit\* was up 14.5 per cent to €137.5m compared with €120.1m in 2005. The Food division accounted for 81 per cent of the Group's operating profit\* (including associates and joint venture) in the year, at €111.8m. This compares with €95.2m in the previous year, and represents an increase of 17.4 per cent. Food Europe benefited from a first full year contribution from Groupe Hubert which put in an excellent performance.

Our associates and joint venture operations delivered another strong result in 2006. Profits from these businesses increased by 19.2 per cent to €25.7m from €21.5m in





**Owen Killian**  
Chief Executive Officer

2005. The Group spent €35.1m in the year, increasing its shareholding in Hiestand Holding AG from 22 per cent to 32 per cent, with a consequent increase in contribution.

Free cash flow for the year (excluding disposals) increased by 20.5 per cent to €100.7m, confirming the continuing cash generative nature of the Group, with net borrowings decreasing to €216.5m from €219.9m in 2005.

Diluted earnings per share\* have increased by 13.5 per cent to 81.60 cent while pre tax profits\* are up 14.6 per cent at €123.5m compared with €107.8m in 2005.

#### Capital investment

The Group spent €68m through its capital investment programme in the year. The largest individual components of this were the investment in increased manufacturing capacity at La Brea Bakery's New Jersey facility and investment in the implementation of the Food division's Enterprise Resource Planning system in the UK Food business.

#### IAWS technology

IAWS has developed unique systems and know-how associated with the specialised food business segment we serve. To ensure we proactively develop this knowledge and brand investment, we have established IAWS Technology & Global Services Ltd (\*TGS\*). The future development of TGS ensures knowledge management throughout the Group, which is a fundamental part of the Group's continued success.



\*EPS, pre-tax profit and operating profit are stated here before intangible amortisation and exceptional items.

## Review of business operations (continued)

*“Through IAWS Technology and Global Services Ltd we are driving innovation and efficiency by pooling Group knowledge, technology and management talent. This is allowing us to maximise the benefit of our proven technologies, logistical networks and customer partnership models across our markets...”*

### People

Our business is dependent on the commitment, enthusiasm and talent of the people who work throughout IAWS. A key strength of our business has been our capacity to work in partnership with our customers, to develop products and solutions that enhance the quality of our offering to consumers. Through our baking academies, centres of excellence, product seminars and daily interaction with customers, our people demonstrate their creativity and their passion for our products, our customers and our business.

We operate in a number of markets that are culturally diverse, and our proven capacity to nurture and retain talented people in all of these regions over time is evidence of both the Group's commitment to its people, and the loyalty of our staff across our business.

We continue to invest strongly in the development of all employees to reflect our belief in the benefits of personal development, and I would like to join the Chairman in

expressing my appreciation for the efforts and dedication of my colleagues throughout the Group.

### Group focus and outlook

Our Lifestyle Food business continues to be the main driver of growth for IAWS Group, plc. We have positioned ourselves to benefit from growth in both the retail and foodservice customer channels in our key markets. Across our business, we are seeking to differentiate our offerings through innovation, developing products and service that will ensure the delivery of ever higher levels of convenience and quality to our customers. This degree of differentiation is becoming more important in an increasingly competitive landscape.

We are enhancing geographic and customer diversity within our Food division, which provides the opportunity to develop new product and service ideas and exploit new opportunities. It also creates a natural defence against unforeseen negative commercial, competitive or macroeconomic developments. We are continuing to monitor new and organic investment opportunities to further enhance these attributes.



We have strong divisional and regional management teams in all of our businesses with excellent local market expertise. Through IAWS Technology and Global Services Ltd, we are driving innovation and efficiency by pooling Group knowledge, technology and management talent. This is allowing us to maximise the benefit of our proven technologies, logistical networks and customer partnership models across our markets, to deliver efficiencies and open up new opportunities for growth.

As a Group with a significant production and logistics network we, like most food businesses, are faced with the challenge of managing rising commodity, fuel and utility costs. This will continue to be a significant feature of our business environment into 2007.

In our Agribusiness division, we have strategic assets and market positions which will evolve as market changes emerge and as opportunities present themselves. We recognise these developments and are investing in divisional management autonomy and focus. We have a separate team managing the Food and Agri businesses, with the clear objective of unlocking and maximising shareholder value.

As a result of all of these developments, I believe that IAWS Group, plc is now well positioned to deliver into 2007 and beyond.

