

INVESTING FOR THE FUTURE: STRONG FINANCES MAINTAINED

Iceland Foods today announces the results of its holding company Iceland Topco Limited for the 52 weeks ended 26 March 2016 (2015: 52 weeks ended 27 March 2015).

HIGHLIGHTS

- **Sales £2.675 billion (2015: £2.697 billion)**
- **Like-for-like sales decline moderated to 2.7% (2015: 4.4%)**
- **Adjusted EBITDA* £150.5m (2015: £150.2m)**
- **Major capex programme including new EPOS system, LED store lighting and manufacturing facility upgrade**
- **Year-end cash balances increased to £164.9m (2015: £163.6m)**
- **Iceland brand benefits from biggest-ever product development programme**
- **Frozen food expertise underlined by new “Power of Frozen” marketing**
- **Exclusive Slimming World range grown into UK’s top healthy eating brand**
- **The Food Warehouse chain doubled in size to 12 stores**
- **Strong growth in online sales: voted the UK’s best online store**
- **Unique retail coalition launched to raise funds for dementia research**

OUTLOOK

- **“Power of Frozen” marketing campaign continues**
- **Senior buying team strengthened**
- **State-of-the-art product development centre under construction**
- **25 new UK stores planned for The Food Warehouse this year**
- **Eight new Iceland stores planned in the Republic of Ireland**
- **Continued moderation of pressure on like-for-like sales**

* EBITDA from continuing operations excluding amortisation of goodwill and loan fees and exceptional items

Iceland Chairman & Chief Executive Malcolm Walker CBE commented:

We have achieved good progress with a range of strategic initiatives designed to differentiate our business, and stabilise our financial performance, in what remains an extremely challenging UK market place. Our “Power of Frozen” marketing campaign is successfully re-emphasising our long-established credentials as the

UK's leading frozen food specialist. It is also helping to improve public perceptions of frozen food by underlining the real advantages only it can offer to consumers in quality, authenticity, freshness, choice, convenience and waste reduction as well as in providing consistently good value. This new marketing approach has been combined with our biggest-ever programme of product development and enhancement, bringing many new distinctive and exclusive frozen lines into our stores, including the Slimming World™ range which was launched in February 2015 and has already grown into the UK's number one healthy eating brand. We have also benefited from a comprehensive upgrade and re-presentation of our fresh produce range, which has helped to build consumer confidence in the quality of our offer as a whole. The Iceland proposition has been further enhanced by improvements in our own brand packaging and in-store point of sale presentation.

Building on our 20 years of expertise in home delivery, we have developed a fast-growing online business that has been recognised in an independent survey as offering the best customer service in the UK. We have also begun an accelerated roll-out of our larger store concept, The Food Warehouse, operating on retail parks where footfall is currently growing faster than on traditional high street locations.

Together these initiatives have delivered a moderation of the decline in our like-for-like sales, the planned stabilisation of our EBITDA and continued strong cash generation.

Results

Turnover for the period was £2,674.7m (2015: £2,696.6m), a reduction of 0.8%. Like-for-like sales were 2.7% negative over the year as a whole, following a decline of 4.4% in the prior year. Our like-for-like performance principally reflected a reduction in total customer transactions, partly offset by an increase in our average basket values. We benefited from sales generated by the nine net new stores opened during the year, and by the net 28 new stores opened in the previous financial year.

EBITDA (excluding exceptional items) was £150.5m (2015: £150.2m), a slight improvement year on year driven primarily by a strengthening of the gross margin and control of operating costs.

Finances

The business has remained highly cash generative, with net cash inflow from operations during the year of £148.8m (2015: £189.3m). Cash balances at 26 March 2016 were £1.3m higher than at the same point last year at £164.9m (2015: £163.6m).

By the end of the financial year we had purchased and redeemed a nominal total of £25.0m of bonds at a discount of £3.1m.

Capital expenditure during the year totalled £63.5m (2015: £28.9m) with the increase reflecting substantial investments in a new EPOS system, the roll out of new LED lighting across all our stores, the modernisation of our Iceland

Manufacturing facility in Manchester, as well as in new store developments and refits.

The UK Market Place

The UK food retail market remained exceptionally challenging throughout the year, due to the combination of intense competition, food price deflation and changing consumer shopping patterns. The “Big Four” UK food retailers have continued to be impacted by an array of competitors including limited assortment discounters, pound shops, convenience stores, more upmarket specialists and online retailers. Iceland has been affected by the decline in high street footfall and a reduction in smaller basket sales because of the wide range of alternative outlets now offering everyday top-up shopping lines at deeply discounted prices.

Products, pricing and marketing

Against this background, we have maintained our focus on highly competitive pricing and also sought to give consumers even more reasons to shop at Iceland through a major programme of new product development, coupled with our “Power of Frozen” marketing campaign. One of our most successful initiatives has been a major expansion of our frozen fish and seafood range beyond the traditional British staples of cod and haddock to include lines such as sea bass, scallops, lobsters, Dover sole, red mullet, monkfish and red snapper. The quality and value that we can deliver by freezing fish at sea ensures that we can consistently outclass purportedly “fresh” fish offered by our competitors, much of which has in any case been previously frozen and defrosted for sale. All our new lines have been well received by customers across all demographics and in every part of the UK.

We have also achieved great success with the Slimming World™ range of prepared meals, soups and sauces, developed in conjunction with Slimming World™ and produced in our own facility in Manchester. Since the launch of the first lines in February 2015 this has become the UK’s fastest-growing prepared meal range and by far the country’s biggest healthy eating brand.

New ranges of Iceland frozen premium prepared meals, superfoods, soups and gourmet pizzas launched during the year have also performed well, while our new Luxury range of starters, main courses, accompaniments and desserts helped to deliver a strong performance in frozen food over the key Christmas trading period.

Our fresh produce business has also shown good growth, benefiting from strengthening of our buying team, the broadening of our range, improved presentation and a relentless focus on product quality.

We have continued to win a range of accolades for the quality of our food, gaining more than 30 awards and commendations during year at the British Frozen Food Awards, Christmas SuperMeat & Fish Awards, Quality Food Awards and Olive Magazine Supermarket Awards. We have also maintained our traditional reputation for outstanding value, being named by Good Housekeeping magazine as the country’s cheapest one-stop shop for Christmas essentials for the second year in succession.

In February 2016 we announced a further major investment in our new product development with the appointment of two leading industry figures as our Head of Product Development and Development Chef. Both began their careers as restaurant chefs before working for other leading retailers, where they developed strong reputations for outstanding product and brand development.

Throughout the year we have supported our brand with a substantially increased investment in marketing and public relations. The “Power of Frozen” campaign has embraced national TV advertising, billboards, press advertising and door drops, promoting the unique advantages of frozen food. Because it’s frozen, we are able to bring our customers top quality food from around the world at truly amazing prices: food that not only tastes good but also has authentic provenance, such as our genuine Italian pizzas and gelato. Freezing minimises the need for artificial additives and preservatives, helping our customers to eat more naturally and healthily. It also substantially reduces the amount of food that households waste, which is good for the environment as well as saving money.

Stores

During the period the Group opened 16 new stores in the UK (including six larger stores under The Food Warehouse fascia) and closed eleven stores, giving us a net addition of five and a total of 864 (2015: 859) UK stores (including 12 Food Warehouse stores) at the year-end. In our International business we opened two new stores in the Republic of Ireland and one new store in the Czech Republic, giving us a net addition of nine stores across the Group as a whole, and a Group total of 881 stores (2015: 872) at the year-end.

The Food Warehouse

We doubled the size of The Food Warehouse chain from six to 12 stores during the year. The Food Warehouse is based on a 10,000 sq ft store concept (more than twice the size of the average Iceland store) trading on retail parks, and designed to operate at a substantially lower cost to sell than the traditional Iceland store model. As well as the full Iceland range of frozen and chilled products, it offers extended ranges of luxury and speciality frozen food, chilled meat and fresh produce, and a wide selection of value bulk packs of grocery products. We have also successfully trialled a larger 15,000 sq ft store carrying a wider range of general merchandise. All the stores are trading successfully and the concept has also proved a valuable test-bed for initiatives in ranging and store operation that have then been successfully applied across the Iceland core estate.

Delivered sales – in-store and online

Iceland can boast industry-leading expertise in delivered sales, based on two decades of experience: we launched our unique free home delivery service for in-store purchases of £25 or more as long ago as 1996. Our complementary online shopping service, relaunched in 2013, showed very strong growth throughout the year, helped in the final quarter by a national TV advertising campaign. Our total delivered sales (of both in-store and online purchases) regularly exceed 200,000 deliveries per week.

Customers

We have continued to win recognition for the quality of our customer service as well as our products. The annual Which? survey of customer satisfaction with supermarkets, published in February 2016, named Iceland as Britain's top online store with a customer score of 77% and five star ratings for value for money, offers and convenient delivery slots. This placed Iceland ahead of Waitrose, Ocado, Morrisons, Tesco, Sainsbury's and Asda. In the same survey Iceland was also ranked ahead of all the Big Four supermarkets for in-store shopping, with a customer score of 66%.

We have continued to increase the number of customers registered for our Iceland Bonus Card, which provides access to the unique home delivery service and the opportunity to make savings and win prizes throughout the year.

International

The Iceland business in the Republic of Ireland has continued to trade successfully and now operates in 10 locations following two new store openings during the year. We continue to explore the potential for the Iceland concept in eastern Europe through our trials in the Czech Republic, where a fifth store opened during the year. There are also two stores in Iceland, the country. We continue to supply 32 franchised stores principally in Spain, Portugal, the Channel Islands and the Isle of Man, as well as successfully exporting Iceland brand products to more than 40 other countries and territories around the world.

Manufacturing

Our Iceland Manufacturing facility in Manchester is now dedicated exclusively to the production of frozen prepared meals, soups and sauces under the Slimming World™ brand. During the year we undertook a major capital project designed to provide additional capacity and substantially increased efficiency through investment in automated production.

People

The Group employed an average of 22,327 people during the period. Industry leading engagement figures continue to put Iceland significantly ahead of the retail benchmark; the 2016 Straight Talk survey of employees returned an overall satisfaction score of 87% on a response rate of 91%.

In February 2016 Iceland received a special Ten Year Achievement Award at the Sunday Times Best Companies Awards, having become one of only three companies to be ranked among the "Best Big Companies to Work For In the UK" in every one of the last ten years.

We remain committed to rewarding our people as well as we can, and all our front line retail colleagues benefited from a 2% pay increase in October 2015. Since the beginning of the current financial year we have also made a further 2% pay award

in April 2016, ensuring that our rates of pay remain competitive and ahead of the new National Living Wage.

Corporate social responsibility

Iceland continues to make a great contribution to the wider community through the active involvement of our people in charitable activities and our commitment to a range of important good causes. During the year we raised a total of £3.3m for good causes through the Iceland Foods Charitable Foundation, the principal beneficiaries of which included the Children's Food Trust, NYAS (National Youth Advocacy Service), When You Wish Upon A Star, Prostate Cancer UK and the Defence & National Rehabilitation Centre.

On the launch of the charge for single-use carrier bags in England in October 2015 we formed a unique coalition of retailers, including Asda, Waitrose and Morrisons, pledging funds to UCL Dementia Research to help construct a new, world class Dementia Research Institute at University College London. Further retailers including HSS Hire, Booths, WH Smith, Poundland and Farm Foods have since joined this coalition. Iceland has committed all its proceeds from the sale of single-use carrier bags in Great Britain for the next three years to this cause, and we have also named UCL Dementia Research as the charity partner on which the fundraising efforts of our own people will be focused during 2016/17.

Outlook

We see the future of the Group in three principal, distinct and complementary business streams: our traditional Iceland stores and home delivery service; our growing online channel; and The Food Warehouse.

All three businesses will continue to benefit from our investment in the "Power of Frozen" marketing campaign and new product development. We have begun construction of a state-of-the-art product development kitchen and test centre at our head office in Deeside to enhance our capabilities in this area. Since the beginning of the new financial year we have also made a number of senior appointments to strengthen our buying team, particularly in chilled food and grocery, where we are looking to replicate the stronger performances we have already achieved in frozen food and produce.

While we remain determined to improve consumer understanding of the quality of the Iceland brand, we have also adopted a number of tactical marketing initiatives to remind the public that we remain outstandingly competitive.

In the traditional Iceland business, we will continue to invest in store refurbishments and improvements to ensure that we offer an appealing shopping environment for our customers. However, in the UK we will only open additional new Iceland stores in exceptionally strong trading locations. Our home delivery service for in-store purchases will remain a key point of difference, and we will build on our recent trial of lowering the minimum purchase for free delivery from £25 to £20, which has proven successful in reactivating a significant number of lapsed customers.

Our online business will continue to expand, helped by positive customer feedback and marketing support. We have received an encouraging response to our more flexible model which continues to offer free delivery on all online orders of £35 or more, and now also allows customers to place orders of as little as £25, subject to a small delivery charge.

We have already opened four new stores under The Food Warehouse fascia since the beginning of the new financial year and aim to open 25 new stores in total by the next year-end, while continuing to drive like-for-like sales growth in established stores.

Internationally, our main focus will be on almost doubling the size of our business in the Republic of Ireland with the opening of eight new Iceland stores across the country.

Our store opening and refurbishment programmes, together with significant investment in our IT systems and continued investment in our new EPOS system, will make 2016/17 another year of substantial capital expenditure for the Group.

Trading in the year to date shows a continued moderation of the pressure on like-for-like sales, and gives us confidence in meeting our internal targets for both EBITDA and cash generation.

Iceland is a business that invests and plans for the long term. We remain confident that our unique products, outstanding people, stable capital structure and strong cash generating capability will enable us to deliver profitable growth for the benefit of all our stakeholders in the future.

ENQUIRIES:

Keith Hann, PR adviser

07831 521870 / kh@keithhann.com

For more information on Iceland Foods, please visit www.iceland.co.uk